Unicharm Corporation

ANNUAL REPORT 2008

Year Ended March 31, 2008

Fiscal 2008 Highlights

1. Overseas sales reached ¥119.4 billion and as a percentage of net sales expanded to 35.4%.

   *Note: Sales to outside customers by overseas subsidiaries.

2. In Asia, earnings increased and operating income ratio rose 11.7 percentage point, compared with an 8.1 percentage point increase for all overseas markets.

3. In the Pet Care Business, sales increased 17.9% year on year while operating income jumped 29.3%, showing a continued high rate of growth.

4. In domestic markets, the Baby and Child Care Business and the Feminine Care Business contributed to increased earnings.

Contents

Aiming for Global Expansion

The Personal Care Business and Pet Care Business experienced significant sales and operating income growth overseas.

Financial Highlights

Unicharm Corporation and Subsidiaries

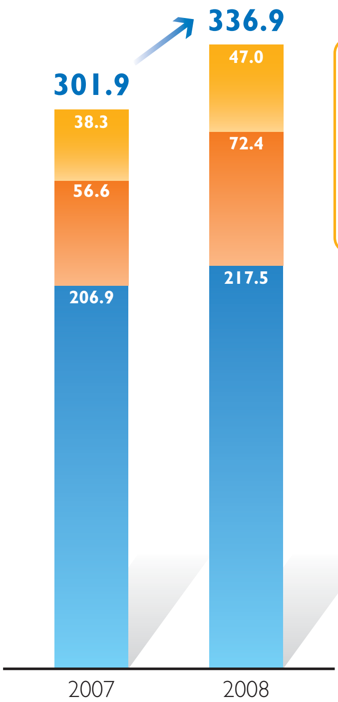
Years Ended March 31	Millions of yen 2008	Millions of yen 2007	Thousands of U.S. dollars 2008
FOR THE PERIOD:			
Net sales	¥336,864	¥301,880	$3,368,642
Operating income	33,731	29,930	337,313
Net income	16,683	15,059	166,836
Capital expenditure	17,370	21,307	173,704
Depreciation and amortization	15,022	13,185	150,222
R&D expenditure	4,505	4,332	45,048
AT YEAR-END:			
Total net assets	¥179,171	¥177,049	$1,791,708
Total assets	275,436	268,763	2,754,360

PER SHARE DATA:	Yen 2008	Yen 2007	U.S. dollars 2008
Net income	¥259.39	¥232.31	$2.59
Cash dividends	46.00	44.00	0.46

Note: U.S.dollar amounts are translated from yen at the rate of ¥100=U.S.$1, the approximate rate on the Tokyo Foreign Exchange Market on March 31, 2008.

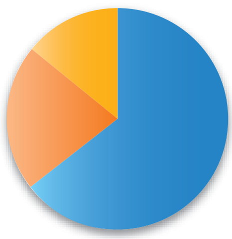
Increase in Net Sales by Geographic Segment

(¥ Billion)



YoY Growth Rate	(%)
Japan	+5.1
Asia	+27.9
Europe / Middle East	+22.5
Total overseas sales	+25.7

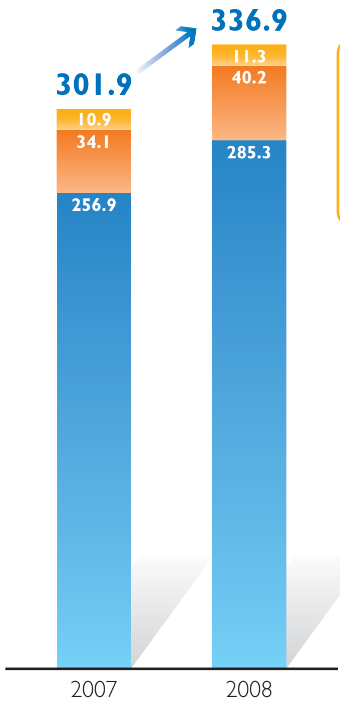
Net Sales Breakdown by Region



	(%)
Japan	64.6
Asia	21.5
Europe / Middle East	13.9

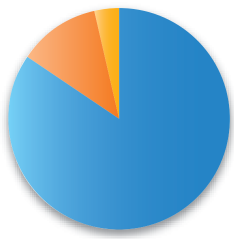
Increase in Net Sales by Business Segment

(¥ Billion)



YoY Growth Rate	(%)
Personal Care*	+11.1
Pet Care	+17.9
Other	+3.8

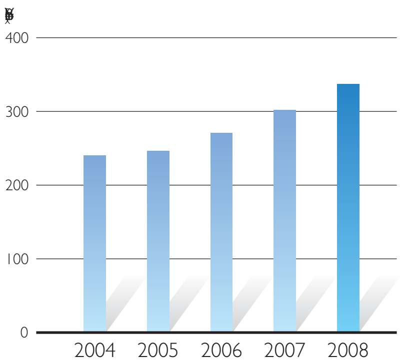
Net Sales Breakdown by Business Segment



	(%)
Personal Care*	84.7
Pet Care	11.9
Other	3.4

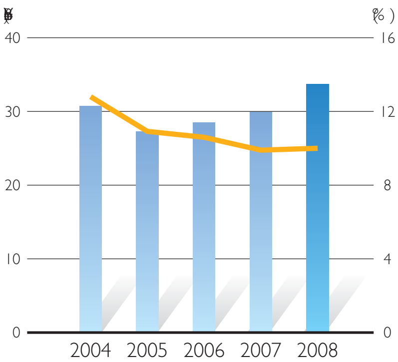
* Includes baby and child care, feminine hygiene and elderly care.

Net Sales



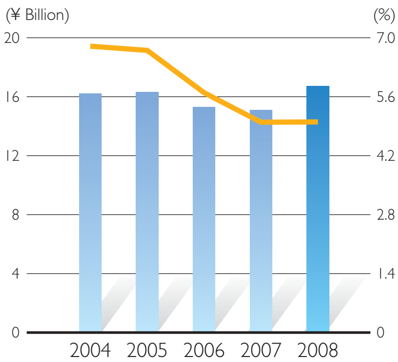
2004	2005	2006	2007	2008
240.1	246.1	270.4	301.9	336.9

Operating Income / Operating Margin



	2004	2005	2006	2007	2008
	30.7	27.3	28.5	29.9	33.7
	12.8	11.1	10.6	9.9	10.0

Net Income / Net Income to Net Sales Ratio

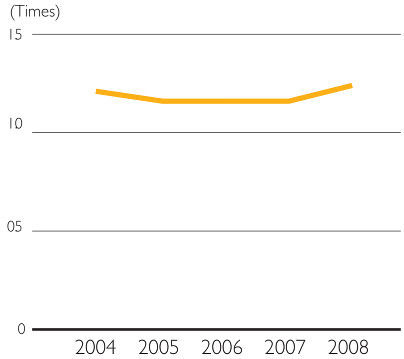


	2004	2005	2006	2007	2008
	16.2	16.4	15.3	15.1	16.7
	6.8	6.7	5.7	5.0	5.0

ROE • ROA

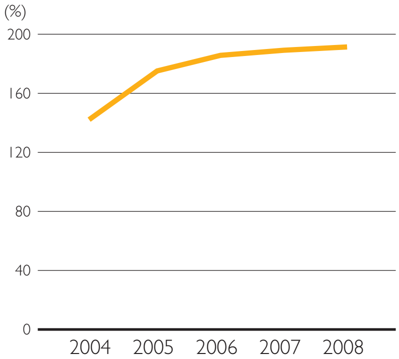
	2004	2005	2006	2007	2008
	13.7	12.5	10.6	9.6	10.3
	7.8	7.7	6.6	5.8	6.1

Total Asset Turnover



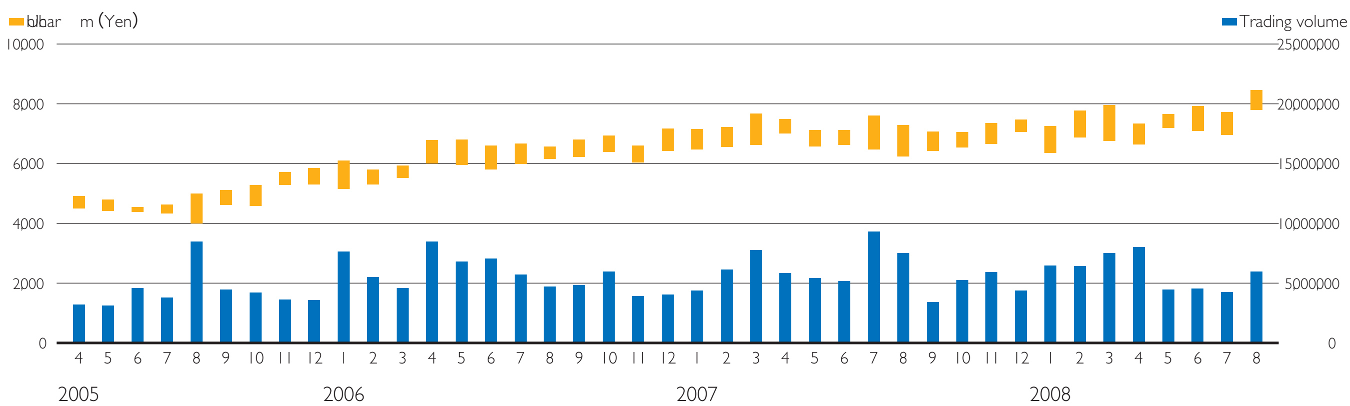
2004	2005	2006	2007	2008
1.21	1.16	1.16	1.16	1.24

Current Ratio



2004	2005	2006	2007	2008
141.4	175.2	185.8	189.2	191.4

StockPrice P erformance /iT ading Volume



In Japan and Asia as well as the rest of the world, Unicharm aims to become a leading company in the absorbent products industry.

In fiscal 2008, ended March 31, 2008, Unicharm Corporation's sales increased ¥35.0 billion compared with the previous fiscal year, to a record ¥336.9 billion. In Japan, we released high value-added products and products that generated new demand in both the personal care and pet care businesses as we strove to improve profitability through market rejuvenation. As a result, the feminine care, health care, clean & fresh and pet care business registered steady rises in sales, with sales in Japan increasing ¥10.6 billion year on year to ¥217.5 billion.

Overseas, sales in the baby and child care business and the feminine care business rose substantially. In Asia, significant growth occurred in China and Indonesia, and sales increased ¥15.8 billion to ¥72.4 billion from the previous fiscal year. In other regions, there was steady growth in the sales of adult incontinence products and pants-type disposable diapers for infants in Europe as well as pants-type disposable diapers for infants in the Middle East and North Africa. Sales to outside customers by overseas subsidiaries totaled ¥119.4 billion, accounting for 35.4% of consolidated net sales.

Unicharm's medium-term goal is to become the "Number One" company in Asia's lifestyle support industry by providing products and services that create help consumers lead comfortable, happy and exciting lives. In April 2008, we initiated Global 10, a new Medium-Term Management Plan, under which we are aiming to capture a 10% share of the global absorbent products market.

From a global standpoint, Unicharm is striving towards sustainable growth in corporate value through the optimal allocation of management resources and the development of new product lines.

In closing, I wish to thank all our shareholders for their steadfast support and understanding.

July 2008
Takahisa Takahara
President and CEO

Our vision is to become the "Number One" company in the world.

Takahisa Takahara
President and CEO

Unicharm aims to bring comfortable daily lives to people throughout the world by providing high quality products and services.

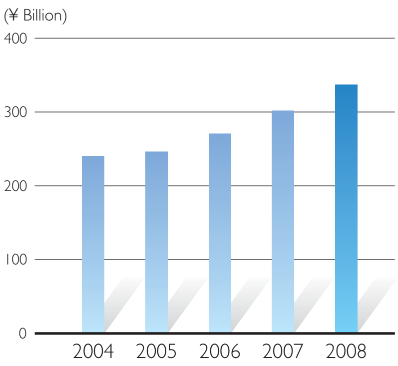
In addition to building on existing structures for producing our differentiated products, we are undertaking Groupwide initiatives improve the quality of products while lowering costs and to deliver these products to an even greater number of people.

The 6th Medium-Term Management Plan: SAPS* Plan

Q1 The fiscal year ended March 31, 2008, was the last year of the Schedule-Action-Performance-Spiral (SAPS) Plan. Over the four years of this Sixth Medium-Term Management Plan, what did Unicharm achieve?

A1 In line with the SAPS Plan, we undertook initiatives in three key strategic areas: accelerating growth in Asian markets, the creation of new markets by strengthening product development; and the improvement of cost-competiveness through the restructuring of the supply chain. The success of these efforts and steady growth resulted in an 12% increase in net sales to ¥336.9 billion compared with the previous fiscal year and a record 13% rise in operating income to ¥33.7 billion.

Net Sales



2004	2005	2006	2007	2008
240.1	246.1	270.4	301.9	336.9

Unicharm was one of the first companies to recognize that the domestic market had matured and, in the second half of the 1990s, began concentrating the investment of its management resources on East Asian markets with the aim of fostering business growth through the creation and expansion of new markets. A regional assessment of performance shows significant expansion overseas boosted business performance in both revenues and earnings for the entire Group. Consequently, overseas sales and operating income as a percentage of consolidated net sales and operating income have increased from 20% to more than 35% and from 12% to 29%, respectively, over the last four years.

Regarding the first strategic area, accelerating growth in Asian markets, initiatives in such expanding markets as China, Thailand, Indonesia and Malaysia are proceeding according to plan, resulting in steady growth in both sales and operating income. In mature markets, strengthened initiatives with regional partners have yielded significant gains in South Korea and Singapore while revitalizing performance in Taiwan.

In the next strategic area, the creation of new markets by strengthening product development, Unicharm is developing its business with technology related to the molding and processing of nonwoven fabrics and absorbent materials, the source of the Company's competitiveness. Paying close attention to market and consumer behavior, we have expanded our product lineup to meet consumer needs and undertaken initiatives to create and expand markets. Consequently, in the health care business, the introduction of the *Unicharm Superdimensional Masks* and *Lifree Absorbent Slimwear* resulted in rejuvenation of the surgical mask market and development of the absorbent underwear market. Overseas, we strove to develop the entire market, focusing on the creation of low cost baby and child care products to match individual market characteristics. In addition, *"Mamy Poko Pants Standar,"* new pants-type diapers were introduced to the Indonesian market during the fiscal year under review.

In the third strategic area, the improvement of cost-competiveness through the restructuring of the supply chain, Unicharm focused on asset efficiency. From the perspective of financial stability, we have maintained shareholders' equity and current

ratios at high levels. In addition, raw material price increases, which surpassed ¥10.0 billion over the four-year period, have been absorbed by efforts to reduce costs undertaken throughout the Group.

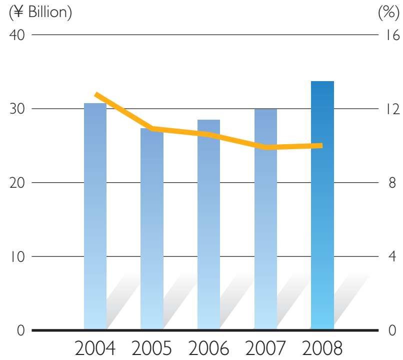
* Through the SAPS strategy, we are aiming to achieve an operational speed by concentrating time and measures on prioritized issues.

Q 2 Please outline any issues remaining to be addressed in the aftermath of the Sixth Medium-Term Management Plan.

A 2 In Japan, we are contending with issues related to achieving stable prices and promoting cost reductions for improve earnings. Overseas, increasing both revenues and earnings remains an issue, particularly in Asia.

Due to intensifying, competition resulting from declining birthrates and an aging population, as well as ongoing deflation and soaring raw material prices, the profitability of baby and child care and feminine care products in Japan has weakened. In addition, competition among global competitors overseas is intensifying. To counter these trends, it is imperative that we transcend conventional ideas and develop revolutionary new products that offer both "differentiation" and "standardization," consolidate production technology to achieve this, and bolster product and cost-competiveness to compete globally.

Operating Income / Operating Margin



	2004	2005	2006	2007	2008
Operating Income (¥ Billion)	30.7	27.3	28.5	29.9	33.7
Operating Margin (%)	12.8	11.1	10.6	9.9	10.0

The 7th Medium-Term Management Plan: Global 10

Q 3 Global 10, Unicharm's new Medium-Term Management plan began in April 2008. Under this plan, what direction does Unicharm aim to take?

A 3 Under Global 10, Unicharm is aiming to attain the "Number One" position in Asia and a 10% share of the global market for nonwoven fabrics and absorbent products.

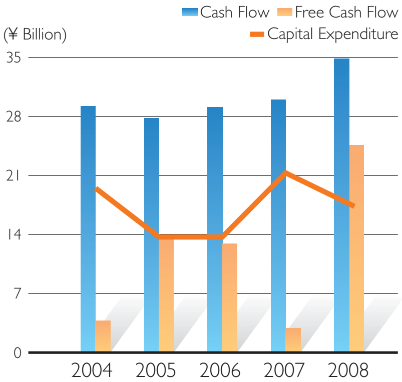
At present, the global absorbent materials market, including disposable diapers and feminine care products, is worth approximately ¥3,400 billion annually and is expected to be valued at ¥4,100 billion by 2010.

When a country's average per capita GDP surpasses US$1,000, market demand for feminine care products increases; when it exceeds US$3,000, market demand for disposable baby diapers increases. Based on this, Unicharm is working to maintain its number one share of the absorbent products market in Asia. We expect the Asian market to account for 30% of the global market by 2010. In other words, if Asia's share of the world market expands to 30%, Unicharm's current 6% global share will expand to 10% by 2010. As a result, we will be positioned to compete on a global scale in the absorbent products business.

Q 4 Both in Japan and overseas, Unicharm develops high-value-added products that meet the needs of different regions. Also it has entered premium markets. Please outline your key strategies for achieving the goals of Global 10.

A 4 In order to compete successfully against global competitors, we are establishing global product lines that combine the concepts of "differentiation" and "standardization," while undertaking initiatives to expand the scope of production and strengthen earnings power.

Cash Flows/Capital Expenditure



	2004	2005	2006	2007	2008
Cash Flow	29.2	27.8	29.1	30.0	34.8
Free Cash Flow	3.8	13.8	12.9	2.9	24.6
Capital Expenditure	19.5	13.7	13.7	21.3	17.4

In emerging markets, including developing countries, there is a steadily broadening base of customers who prefer Unicharm products. Although we continue to customize products to each region's unique living environment, such as climate, economic standards, consumer needs and social characteristics, we must respond with even greater agility, given that the target zone for market growth is changing by the minute.

It is the social mission of Unicharm to provide comfortable daily lives to people throughout the world. In addition to building on existing structures that produce our differentiated high-value-added products, there is a need to create structures to improve the quality of products while lowering cost and to deliver these products to an even greater number of people. To that end, we have announced the "Global Products Line"— a development and manufacturing structure that optimally balances the two opposite concepts of "differentiation" and "standardization" —in line with Global 10 based on this structure, we are accelerating product development, reducing manufacturing costs and improving equipment turnover rates to boost our earnings power. As outlined in the Global 10 plan, we will invest overseas to upgrade factory production equipment in such countries as Thailand, China and Indonesia as well as to accelerate capital expenditures in the Middle East and North Africa, which has a population of 300 million.

Q 5 What are Unicharm's plans with regard to domestic operations?

A 5 We are aiming to increase our profitability by introducing functional, high-value-added products.

In the core baby and child care business, the problems we are currently experiencing include declining profitability stemming from ongoing raw materials price increases and price competition. In order to address these problems, we must first bolster marketing policies. This includes steadily implementing such strategies as developing marketing opportunities by working together with the wholesale and retail industries to bring about stable prices and the development of high-value-added, premium products.

At the same time, we need to make products more functional. For example, thanks to innovations in absorbency technologies, the thickness of absorbent material used in *Moonyman Slim Pants* diapers, which were launched in March 2008, has been reduced by half. Such innovations are a key factor in the creation of premium products.

In the feminine care business, Unicharm is making effective use of the premium *Center-In* brand, acquired from Shiseido Company, Limited in June 2006. We are reducing costs through bulk purchasing and the common usage of raw materials. At the same time, as customers of *Sofy* sanitary napkins increase, we are seeking to accelerate growth and establish greater market presence in this segment. We are also improving earnings through the *Sofy Bodyfit* and *Sofy Wide-Guard* high-value-added product segments while introducing new product lines. In the health care business, where Unicharm already has the largest market share domestically, "absorbent underwear" is becoming a driver for further growth as the majority of the Baby Boom Generation approaches retirement age. We are planning for the further expansion of the light incontinence products market by bolstering the *Lifree Kyusui Shitagi Slimwear* brand, which provides an effective response to incontinence needs and feels just like regular underwear. In addition, we are taking steps to further enhance earnings by upgrading pants-type disposable diapers for adults.

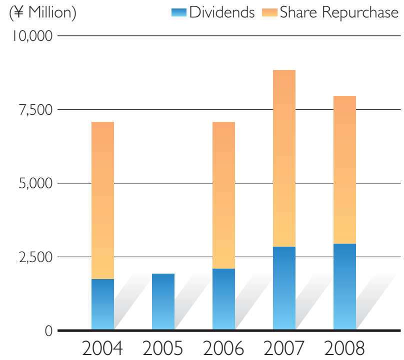
In the pet care business, with the emergence of a "pet boom" in Japan this high-profit, high-growth market is poised to expand even further in the areas of both pet food and toiletries. Based on this, we are aiming to decisively achieve the top domestic market share in this business.

Q 6 What are your policies regarding returns to shareholders?

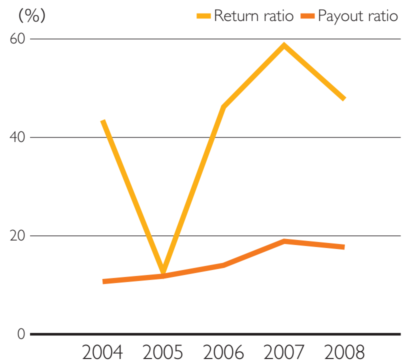
A 6 Unicharm considers the paying of dividends to shareholders to be its most important management policy and, for this reason works to increase corporate value through the generation of cash flow. In order to improve its earnings potential, the Company constantly works to strengthen its business structure and proactively expand its operations, while adhering to a policy of consistent increases and stable dividend distribution.

Unicharm maintains a basic policy of providing stable shareholder returns equivalent to 50% of net income. Between February 1 and March 21, 2008, Unicharm repurchased 690,000 of its own shares through public offerings (total acquisition cost: ¥4,999 million). In fiscal 2008, full-year dividends rose ¥2.00, to ¥46 per share. For fiscal 2009, we plan an increase of ¥8, for a year-end dividend of ¥54 per share.

Returns to Shareholders

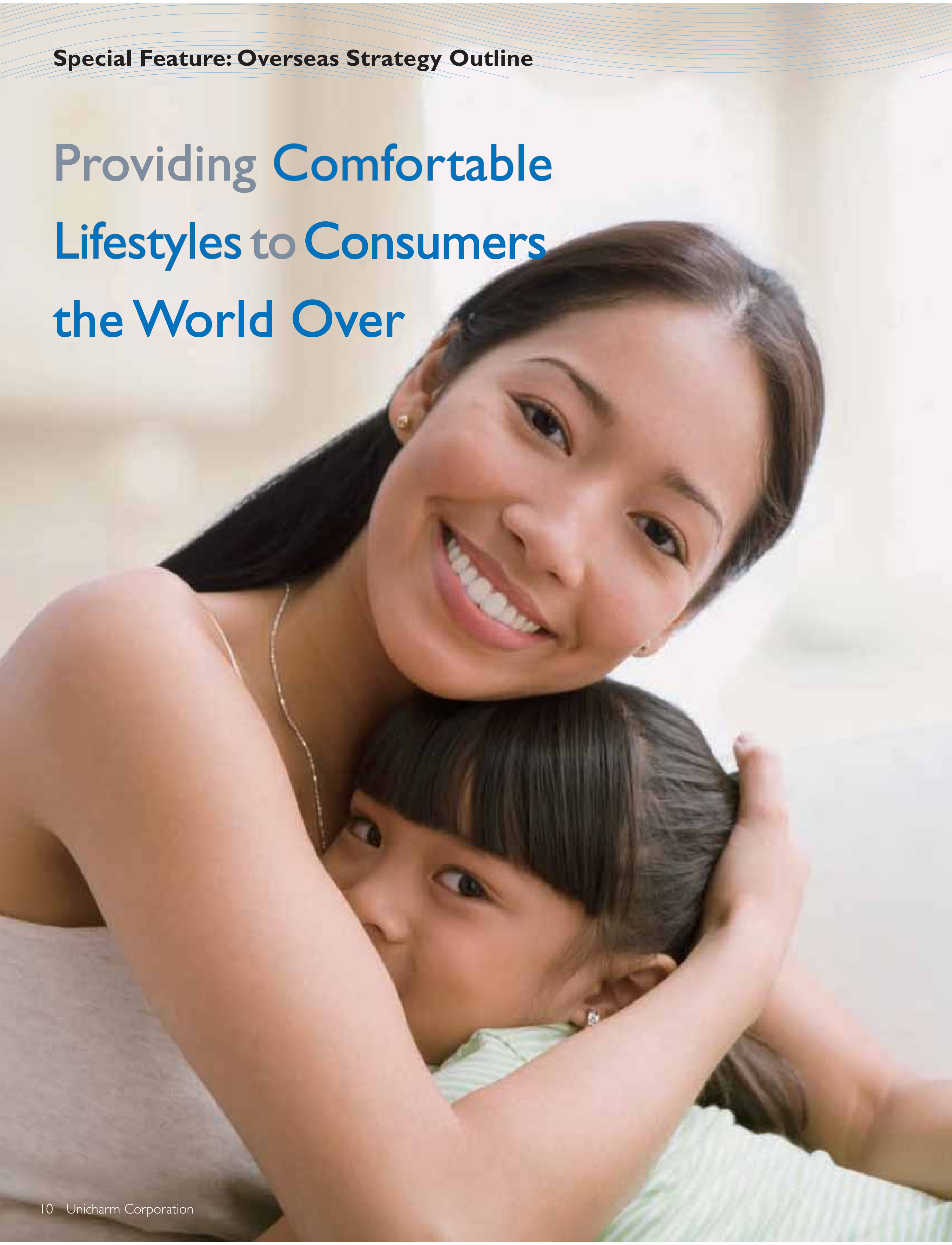


	2004	2005	2006	2007	2008
Dividends	1,740	1,927	2,092	2,834	2,947
Share Repurchase	5,324	0	4,973	5,999	4,999



	2004	2005	2006	2007	2008
Return ratio	43.5	11.8	46.2	58.7	47.7
Payout ratio	10.7	11.8	14.0	18.9	17.7

Providing Comfortable Lifestyles to Consumers the World Over



The Baby and Child Care and Feminine Care Businesses
—Twin Drivers of Unicharm's Global Growth Strategy—

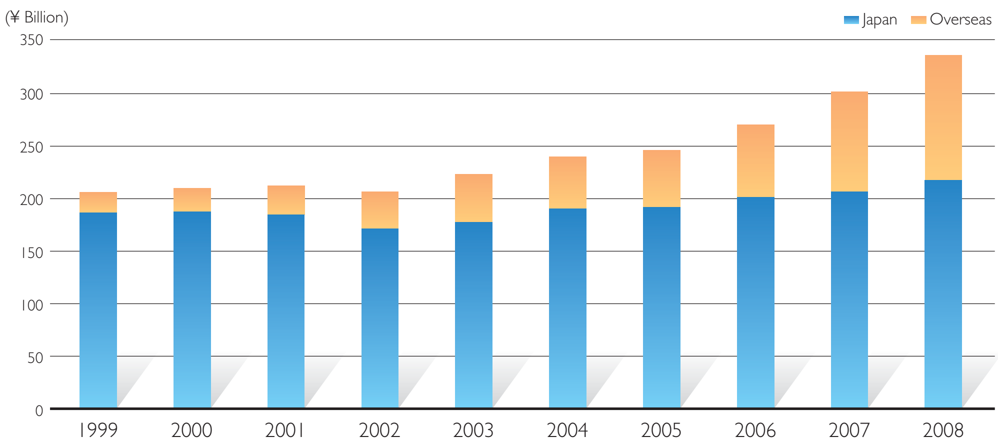
Unicharm currently stands on the threshold of a new growth phase. Having commenced sales of sanitary napkins in 1963, Unicharm expanded its business into disposable diapers for infants in the early 1980s. Subsequently, primarily in the Japanese market Unicharm launched a series of innovative products that included ultrathin sanitary napkins in keeping with the evolving lifestyle needs of Japanese women; disposable diapers for adults in response to an aging society; and the *Unicharm Superdimensional Mask* to protect the body from cold viruses and hay-fever.

Fiscal 2008 was Unicharm's sixth consecutive year of sales growth, and the Company also recorded its highest-ever operating income. Accelerated overseas business development is currently driving Unicharm's growth. In the year under review, the Company's sales in Japan grew 5.1% while in Asia they showed a notable 27.9% rise, with total overseas sales expanding 25.7%. There have been two main factors behind this growth. The first was Unicharm's 1984 decision to not confine itself to the Japanese market but to look to developing overseas markets, focusing on contributing to people's quality of life, especially that of babies and women, and concentrating its efforts on Asia. The second factor has involved shifting into top gear the process of expanding Unicharm's business portfolio through the establishment of local subsidiaries and M&A activities.

Commencing with the establishment of a subsidiary in Taiwan in 1984, Unicharm made further inroads into Southeast Asia, launching operations in Thailand in 1987 and Indonesia in 1997. In addition, Unicharm established a foothold in China in 1995, acquired a company in Saudi Arabia in 2005 and entered into a joint venture with LG Household & Healthcare Ltd. in South Korea in 2006. Each of these companies uses detailed strategies based on Unicharm's corporate philosophy of "Always Delivering Comfort to People through Excellent Products and Services" to develop products in the growth-driving baby and child care and feminine care businesses—products that display an understanding of the climates, cultures and social values of the regions in which they are sold and that are tailored to people's lifestyle needs.

The results of this philosophy and strategy speak for themselves. Last year, Unicharm launched *Mamy Poko Pants Standar*—a product for which the Company has high hopes—to a warm reception in Indonesia, where many people still consider disposable diapers a luxury.

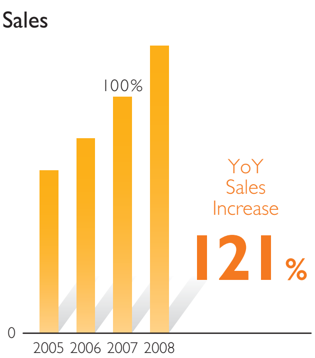
Unicharm's Global Sales Growth



Performance and Strategies

Overseas Sales Reach ¥119.4 billion, Ratio to Net Sales Expands to 35.4%

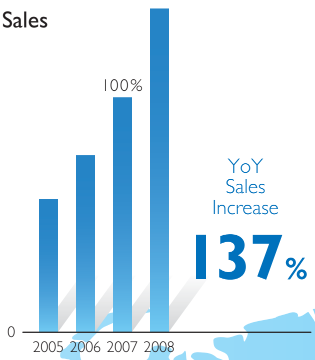
Europe



● **Current-year strategy**

Through collaborative efforts with its partner, Swedish Cellulose Company SCA, Unicharm will reinforce the European market development of disposable diapers for infants and adult incontinence products.

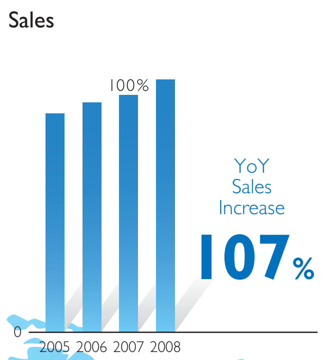
China



● **Current-year strategy**

In addition to strengthening manufacturing capabilities for disposable diapers for infants and sanitary napkins, Unicharm will expand sales to include provincial cities and aim for business expansion to improve market growth.

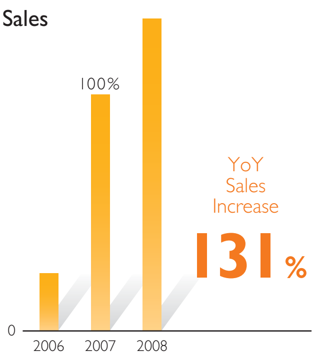
Taiwan



● **Current-year strategy**

Unicharm will emphasize the high functionality of disposable diapers for infants and sanitary napkins, enhance sales of disposable diapers for adults and reinforce its revenue base

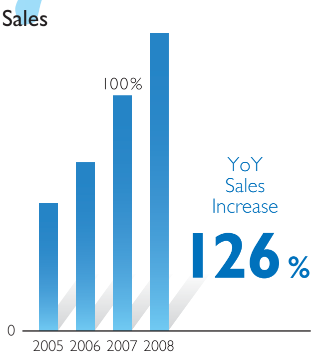
Middle East, North Africa



● **Current-year strategy**

Unicharm is aiming to accelerate the widespread use of its products and expand the market development in the region by launching new disposable diapers for infants and sanitary napkins onto these markets and by enhancing its production capabilities.

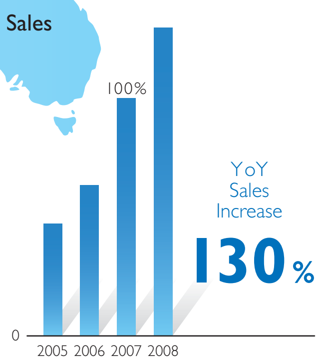
Thailand



● **Current-year strategy**

With the aim of expanding business in Thailand, Unicharm is increasing its share of the markets for disposable diapers for infants and sanitary napkins by extending its sales network while increasing customer awareness of pants-type disposable diapers for adults.

Indonesia



● **Current-year strategy**

As it aims the greater market penetration of *Mamy Poko Pants Standar* disposable diapers for infants, Unicharm is planning to expand its sales region and increase the number of stores that stock its products.

Unicharm's Overseas Expansion

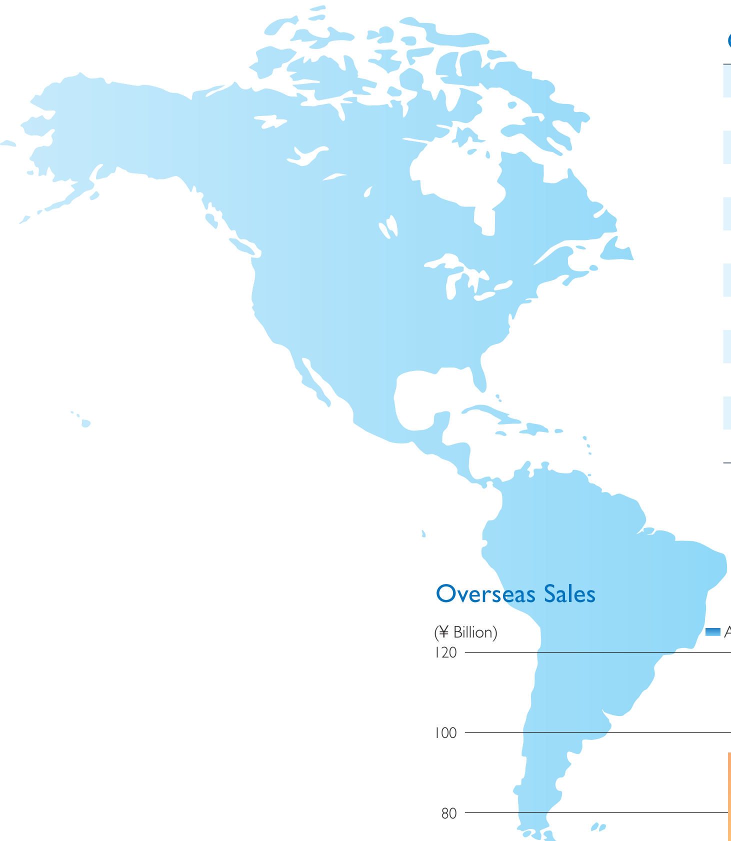
Since the 1984 inauguration of its local subsidiary in Taiwan, Unicharm has established local bases in Thailand, Indonesia, Malaysia, Singapore, the Philippines and Vietnam in Southeast Asia as well as in Taiwan, China and Korea in East Asia.

In addition to maintaining a particular focus on China, Thailand, Indonesia and Taiwan, Unicharm has ambitiously injected management resources with its sights firmly set on business expansion in Asia and gaining the "Number One" position in terms of market share in the region. The Company's market share remains on a growth track.

Today, Unicharm holds the "Number One" share in the feminine care markets in Taiwan and Thailand and also in the baby and child care markets in Thailand, Indonesia and Singapore.

Outside Asia, Unicharm has local bases in the Netherlands and Saudi Arabia and has gained strategic footholds in both the Middle Eastern and North African markets, where growth is expected.

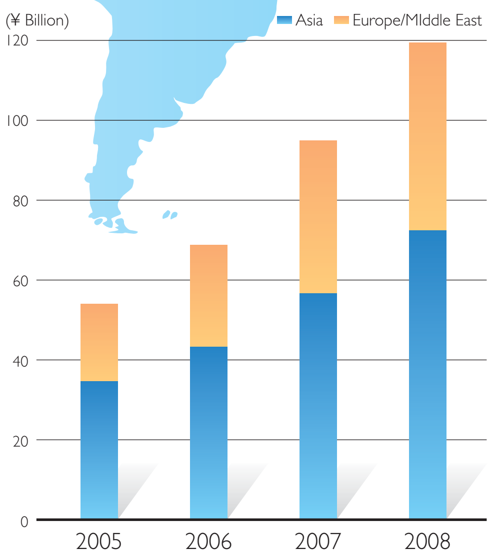
Unicharm's overseas sales have reached ¥119.4 billion in the three-year period ended March 2008 and the ratio of overseas sales to total net sales has risen from 24% to 35%.



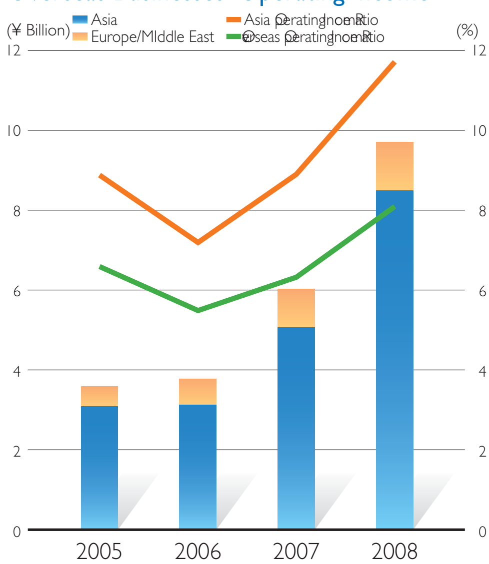
Overseas Expansion

1984	Taiwan	Established joint ventures
1987	Thailand	Established joint ventures
1993	Saudi Arabia	Alliance with Gulf Hygienic Industries
1993	Netherlands	Established joint ventures in the Netherlands
1994	South Korea	Established joint ventures
1995	China	Established joint ventures
1997	Indonesia	Established joint ventures
1997	Malaysia	Established a subsidiary
2002	Philippines	Established joint ventures
2005	Saudi Arabia	Acquired Gulf Hygienic Industries
2006	South Korea	Established LG Uni-Charm Co., Ltd.
2007	Vietnam	Established a subsidiary

Overseas Sales



Overseas Businesses' Operating Income

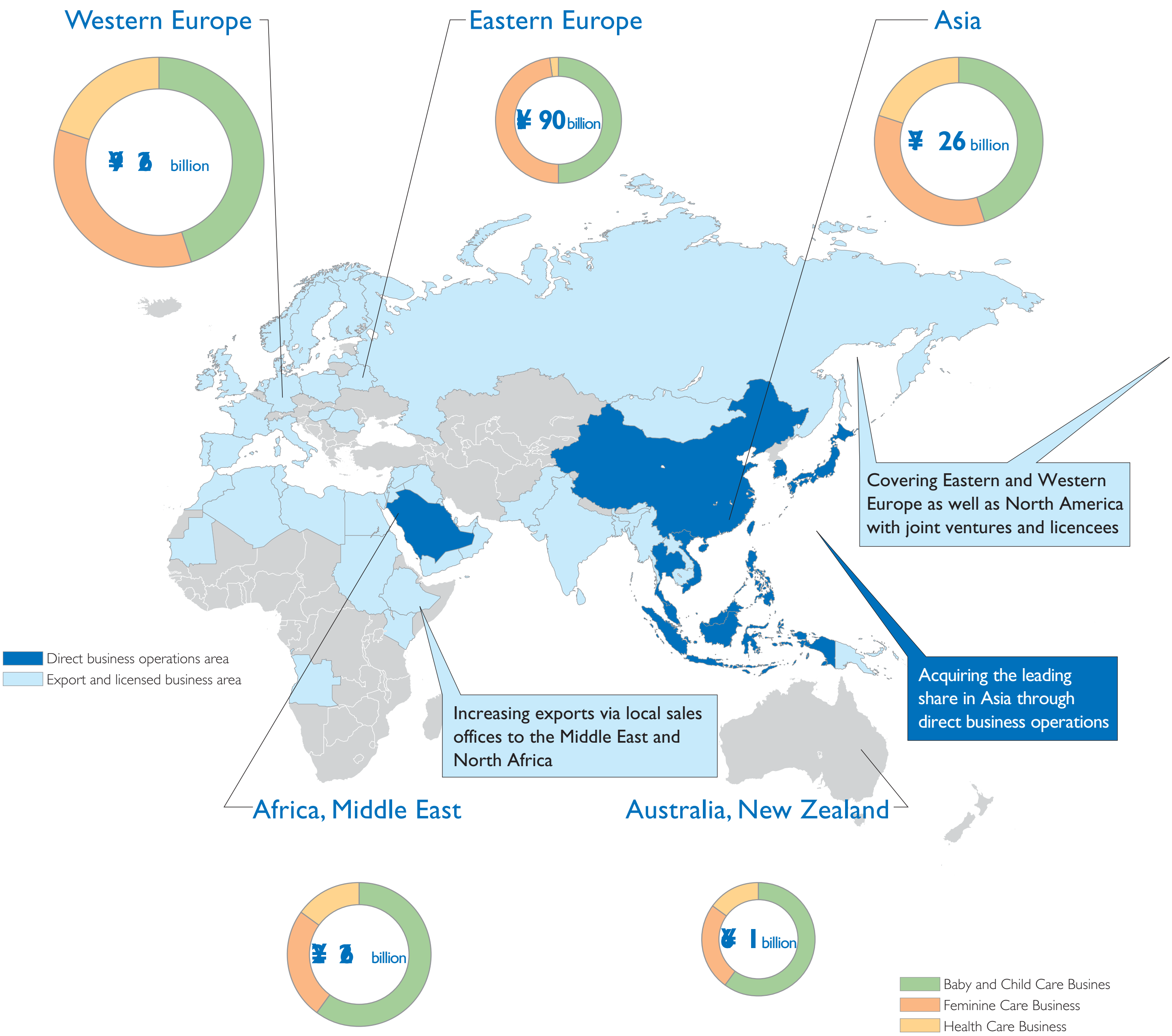


Global 10: Unicharm's Seventh Medium-Term Management Plan

Aiming for a 10% Share of the Global Market

With great advances firmly in its sights, Unicharm drew up Global 10, its new Medium-Term Management Plan, which came into effect at the start of the current fiscal year. Under Global 10, Unicharm is seeking to expand its current 6% share of the global absorbent products market to 10% and build an impregnable position as a global manufacturer.

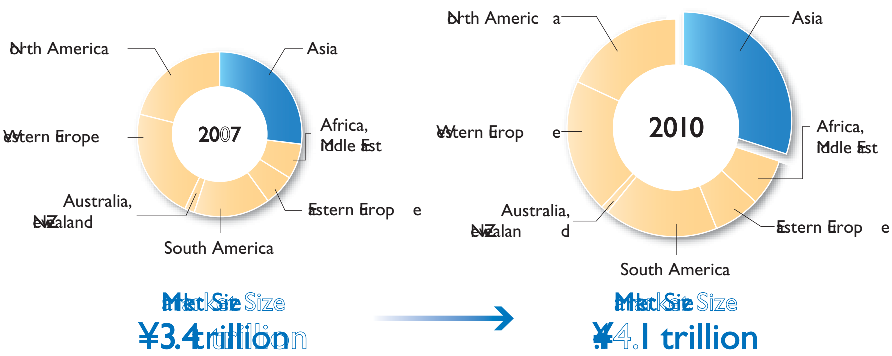
Composition of Global Absorbent Products Market (Annual forecast for 2010)



Sights Set on Growth Markets

Under Global 10, we are emphasizing the Asian market, which is set to account for 30% of the global absorbent products market by 2010. Furthermore, we will make concerted strategic moves in the Middle Eastern and North African markets, where expansion is predicted.

Global Absorbent Products Market and Unicharm Activities (Unicharm survey)

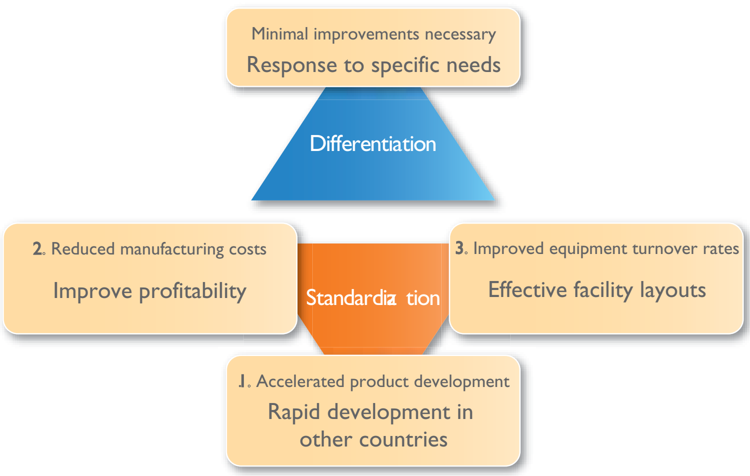


Global Products Line: Product Development to Achieve Global 10 Plan

Having adopted a strategy for overseas expansion, Unicharm is working to improve its brands' market penetration and heighten its presence through the supply of high-value-added products. To this end, we strive to understand and appropriately respond to the differing customs and needs of each country through product development and customization. Despite our efforts, however, our detailed market research has shown that although there is great market potential, many people "want to buy Unicharm but don't" because of price considerations. Thus, to more broadly address local needs and ensure our future growth, we must develop products with selling prices that both we and our customers can feel happy with while not compromising on quality.

Such standardization has led us to the development of "Global Products Line" concept, which calls for both meeting diverse consumer needs and achieving cost reduction. The "Global Products Line" structure, which optimally balances the two opposite concepts of differentiation and standardization in product development and manufacturing, is expected to offer the benefits of:

1. Accelerated product development
2. Reduced manufacturing costs
3. Improved equipment turnover rates



(Source: Unicharm)

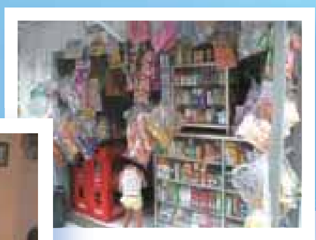
Case Study: Global Products Line I

The Story of *Mamy Poko Pants Standar* Development

No matter where you go in the world, people love and cherish their children. For those people who want only the best for their children but think that disposable diapers are still a high-end product, Unicharm delivers products at affordable prices.

Looking forward to when it would launch Global 10, Unicharm faced and surmount some inescapable hurdles in developing these diapers. Despite never having before worked toward simultaneously achieving high quality and high value-added, Unicharm was able to compete against low-priced products (what Unicharm terms as "every" products) on the market.

Country name:	Republic of Indonesia
Area:	Approx. 1.89 million km^2 (roughly five times larger than Japan)
Population:	Approx. 222 million people (2006 government estimate)
Capital:	Jakarta
Currency:	Rupia (1 rupia = ¥0.01, as of June 2008)
Climate:	Equatorial, tropical climate with dry (May to October) and rainy (November to April) seasons
Time difference:	Jakarta is two hours behind Japan



A local store in Indonesia

Daily life in Indonesia

Getting Established and Conducting Door-to-Door Surveys in Launch Countries

Mamy Poko has performed consistently well in Asia in terms of regard for its high quality as well as brand awareness and appeal. Following surveys of the competitive environments and the needs of a number of countries, we decided on Indonesia as the launch country for *Mamy Poko* due to the high degree of Unicharm brand penetration and broad-based demand from high-income earners.

Next, to develop products tailored to the Indonesian market, we went door-to-door to find out how people really live and what products they use in their daily lives. In addition, we conducted in-depth surveys in order to build up a picture of lifestyles and consumption. Over a period of trial testing, we identified the basic functions that customers required through direct feedback in the form of impressions and opinions received on a daily basis.

Door-to-Door Surveys by Unicharm local staff

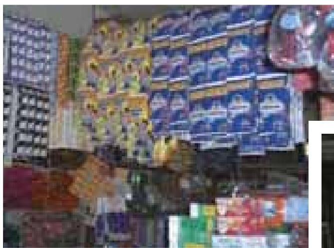
From Development to Production

For us, it was not simply a matter of making cheap products; we, and our customers, demand a certain level of product quality. And, without affecting this quality, we had to reduce costs by eliminating product features that our customers do not value. Firstly, we decided to manufacture products in Indonesia to hold down distribution costs.

By setting new standards in quality management, this experience demonstrates that product quality need not be compromised for the sake of costs or considerations as long as the product's basic function as well as each individual's health and well-being are maintained.

Unicharm factory in Indonesia

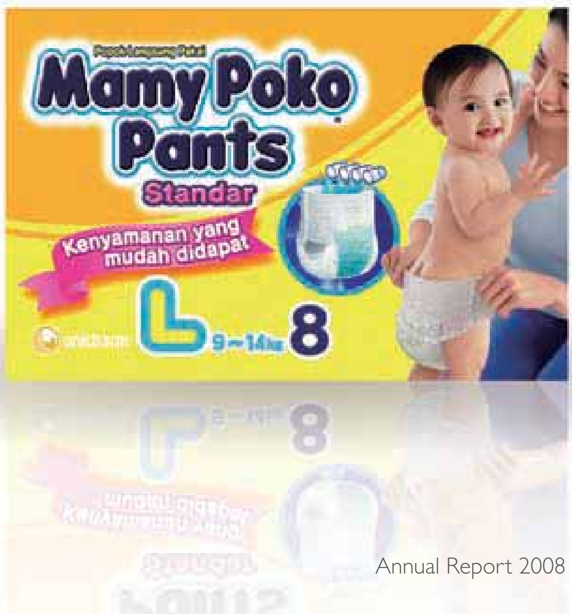
Local employees who studied at Unicharm in Japan



Mamy Poko Pants Standar in a small local store

Distribution Strategies that Capitalize on Brands

Shipments of *Mamy Poko Pants Standar* commenced in December 2007. Utilizing to the fullest extent the deep market penetration of the *Mamy Poko* brand, we employed the same design for the logo and photo as those used for existing products and chrome yellow for the package color. Leveraging brand power kept down advertising expenditures and helped cover the costs of achieving and improving customer brand awareness in stores. The product is currently being marketed chiefly through small, local stores, and Unicharm is emphasizing distribution as it improves its sales channel network. With its vision of "delivering to those who want to buy but don't" meeting with the approval of many small retailers, Unicharm achieved more than the planned number of shipments. Currently, *Mamy Poko Pants Standar* are enjoying better-than-expected sales and Unicharm is getting a high reputation from local customers.



Fiscal 2009 Strategies by Business Segment (Japan)

In mature markets Unicharm must work to fully convey its product value message as it is easy to become caught up in price competition. The strategy for Japan involves sales promotions with stepped-up focus on product value using such means as effective sales development campaigns in collaboration with distributors and retailers

Baby and Child Care Business

Thanks to advances in absorbency processing technologies, the baby and child care business has launched *Moonyman Slim Pants,* which feature absorbent material that is half as thick as that used in conventional diapers and are the driving force behind Unicharm's drive for premium products.

In addition, expanding sales of *Moonyman Haihai Pants* and *Moonyman Tacchi Pants,* which accurately address needs associated with specific child growth development stages, has further strengthened sales of pants-type disposable diapers. In addition, we recorded strong sales of improved, half-thickness, summer limited-edition "sweat care" *Moonyman Ase Sukkiri* as well as *Moonyman Mizu Asobi Pants,* pants-type disposable diapers for play use that keep dry to the touch even when the child has wet them. In addition *Moonyman* is central to a CO_2 emissions rights campaign that seeks to appeal to customers' environmental awareness.

On the other hand, Unicharm is trimming the promotional costs associated with the *Mamy Poko Pants* brand while improving product design and the brand's profitability by raising unit prices through a revaluation of the number of product pieces per package.

Feminine Care Business

Having developed FCL Sheet, our third-generation sanitary napkin top-sheet surface material, and successfully used it in the *Sofy Hada Omoi* napkin series to attract new users, Unicharm is working to create new product categories that utilize this technology and improve profitability. In addition, we are creating demand for high-value-added products in the *Sofy Cho-Jukusui Guard* lineup that features newly developed "airbags" to prevent leakage, having introduced the *Ryohada* series, which reduces heat retention, a cause of consumer dissatisfaction in the summer.

In the tampon category, *Charm Soft Tampon Super Plus* with high absorbency was launched to provide greater peace of mind, particularly on heavy flow days. Launching *Sofy Kiyora* panty liners onto the market as a new product to enhance "women's grooming and appearance," Unicharm is endeavoring to improve value added and cultivate its brands.

Health Care Business

While increasing the flexibility of the *Lifree* pants-type disposable adult diaper series by upgrading the absorption of *Lifree Anshin Nyotori Pad,* Unicharm is evolving point-of-sale proposals geared to the normal activities of daily life and is working to reinforce the *Lifree* brand. In its lineup of moisture-absorbent underwear for the high-growth light incontinence market, Unicharm's focus is on cultivating sales of *Lifree Kyusui Shitagi Slimwear* by creating an incontinence product market among otherwise healthy people. In addition, by expanding the number of facilities handling pants-type diapers for institutional use and high-function pads, Unicharm is aiming to improve the quality of life of those in need of nursing care.

Clean & Fresh Business

Focusing on the *Wave* brand of disposable cleaning products, through which we offer a new manner of cleaning, we worked to acquire new users and expand repeat sales of *Wave Rittai Floor Wiper.* In the case of the *Silcot Wet Tissue* brand we nurtured sales of *Silcot Wet Tissue Alcohol Sanitizer Wet Towel,* a product that uses rubbing alcohol to provide thorough sanitization, contributing to market expansion.

Pet Care Business

Today, as a growing number of people are seeking peace of mind through pet ownership, the pet-owner relationship is becoming more important. Due to the social phenomena of a declining birthrate and aging society as well as to the tendency for people to marry later in life, continually the large-scale retirement of baby boomers can be expected to only accelerate this tendency.

Against this backdrop, Unicharm is endeavoring to develop products and markets that continually meet consumer needs. These efforts take the form of sales promotions and product lineup enhancements to respond to the four ongoing major pet trends in Japan: caring for pets that are kept indoors, small-sized pets, aging pets and overweight pets.

Baby and Child Care Business

Sales in the baby and child care business increased ¥12.6 billion year on year, to ¥136.0 billion.

In Japan, where demand has dipped due to the declining birthrate, the impact of such factors as soaring costs for raw materials made for an exacting business environment. Nevertheless, Unicharm continued to develop and launch new products while making ongoing product improvements.

Unicharm worked to increase sales and improve its market share by launching *Moonyman Sarara Magic* and *Moony Sarara Magic with Sarara sheets* which are gentle to infants' delicate skin. The Company also reviewed its product lineup and endeavored to improve facility operation levels and production efficiency. Also, exclusive new designs were adopted as limited time offers for *Mamy Poko Pants* and *Mamy Poko* tape-type diapers, the latter's price having been increased in spring 2008, while efforts were made to raise the efficacy of sales promotion costs and improve profitability.

Overseas, the market penetration of the *Mamy Poko* brand in Asia was facilitated by conducting vigorous marketing activities. Consequently, sales growth and improved profitability were seen, primarily in China, Thailand and Indonesia. In addition, to broaden the popularity of disposable diapers for infants in Indonesia, *Mamy Poko Pants Standar* sales were introduced in the economy category.

Moonyman Sarara Magic

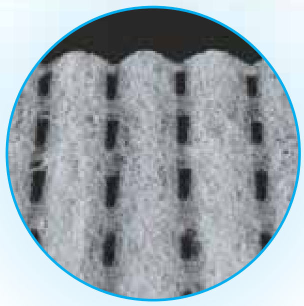
Feminine Care Business

Sales in the feminine care business increased ¥7.0 billion compared with the previous fiscal year, to ¥72.4 billion.

With the mature Japanese market seeing continued stagnation, Unicharm focused on developing safe, high-value-added products that deliver comfort while improving profitability by introducing new products in those segments where they would bring the best returns.

In sanitary napkins, we launched *Sofy Hada Omoi* featuring the newly developed FCL Sheet, which differs from conventional nonwoven fabric and mesh-type surface materials. By adopting this surface material, we achieved a 90% reduction in menstrual blood adhering to the skin and realized a premium product with new added value. In addition, we worked hard to promote the slim-type category *Sofy Body Fit Fuwapita Slim* and nighttime-type *Sofy Cho-Jukusui Guard*. The improved *Sofy Cho-Jukusui Guard,* which was launched in March, incorporates a highly functional side-gathers to prevent slipping that have dramatically cut leaks.

In overseas operations, in order to accelerate development in major Asian countries and regions, we carried out proactive sales and marketing activities focused on high-value-added nighttime sanitary napkins. These efforts yielded rapid market expansion of and penetration by the *Sofy* and *Charmy* brands. As a result, we achieved sales growth exceeding that of market growth in Asia overall and expanded market share.



FCL Sheet

Health Care Business

The aging baby-boom generation is forecast to give rise to further expansion in the light incontinence market. In our efforts to develop the "absorbent underwear" category and boost profit, we launched such products as the *Lifree Kyusui Shitagi Slimwear* for healthy seniors and *Lifree Mens Guard Slim* incontinence pads for men.

In addition, to strengthen sales of our highly profitable *Unicharm Superdimensional Masks*, we added *Unicharm Superdimensional Mask* for Kids to the range.

In the commercial use area, we enhanced business channels by working closely with subsidiary Unicharm Mölnlycke K.K., lowered distribution costs and strove to maintain a stable share of the market.

In overseas operations, we improved our solid market positions in Taiwan and Thailand through the accelerated expansion of the *Lifree* brand and our original incontinence care offerings. We also steadily boosted sales of pants-type disposable diapers, especially in Europe.

Unicharm Superdimensional Masks

Image

Clean & Fresh Business

Wave Handy Wiper Nobiru Type

Wave Handy Wiper

In the clean & fresh business, we provide cleanliness, reassurance and freshness to our customers through products based on nonwoven fabric and absorbing technologies that have been cultivated by our company. We strengthened sales focused on three brands: *Wave, Silcot Wet Tissue* and *Silcot.*

For Wave brand sheet cleaners, through which we offer a new manner of cleaning, we worked to acquire new users and expand repeat sales by adding to our product line the *Wave Handy Wiper Nobiru Type* and the *Wave Rittai Floor Wiper,* which can pick up particles as large as breadcrumbs and sand. Further improving on *Silcot Wet Tissues,* we incorporated antibacterial agents derived from green tea into the *Anshin Jokin* series to strengthen its functions. We also launched the *Silcot Wet Tissue Jokin Wet Towel,* which incorporates highly-concentrated rubbing alcohol to respond to greater hygiene awareness.

Pet Care Business

In the Pet Food Department, in the semi-moist-type *Gains Packun* dog food series we launched low-fat *Gains Packun Tori Sasami* featuring tasty white chicken meat. For cats, in addition to traditional food in cans, we launched *Gin no Spoon Pouch,* a wet-type food in a pouch. We are focusing on sales promotions and on enhancing differentiated product categories to meet growing needs associated with the four pet trends in Japan, including keeping indoor pets and caring for aging pets and fat pets.

In the Pet Toiletry Department, we increased sales of *Dry Pet Sheet ZERO Wan* dog excrement treatment sheets, which are extremely absorbent and fast drying, absorbing urine three times faster than Unicharm's previous sheets. We are also improving and promoting the sale of products that respond to the trend of keeping indoor pets.

CSR

CSR Promotion and Activities

Through the creation and distribution of top-quality products and services throughout Japan and the world, Unicharm is creating a better life for humankind while pursuing sustainable development. At the same time, we strive to act as a socially responsible corporation in line with this corporate ideal, and we place a high value on the opinions and efforts of each and every employee. These two concepts form our basic approach to CSR.

Having experienced increases in revenue thanks to the expansion of its overseas operations in recent years, Unicharm made the dissemination of CSR to all overseas Group company employees a major management theme during the year under review. For example, CSR study sessions involving employees at Unicharm's Chinese subsidiaries were held where participants discussed future CSR initiatives concerning such items as appropriate responses to product complaints and resource conservation. Through such activities, we will continue to promote issues related to quality assurance, environmental protection and corporate ethics within the Unicharm Group.

Regardless of differences in culture and environmental conditions, every Group employee has a responsibility to promote the development of Unicharm as a trustworthy enterprise, while keeping the best interests of stakeholders in mind.

Groupwide CSR Promotion and Support Structure

Unicharm's CSR Committee, chaired by the president and CEO, meets four times a year to facilitate the progress of Groupwide CSR activities.

* SAPS: Schedule-Action-Performance-Schedule. The SAPS plan aims to increase management efficiency.

Environmental Activities: "The Carbon Offset Campaign"

The purpose of the Carbon Offset Campaign is to bring about reductions in CO_2 emissions by cooperating with activities that help achieve reductions in everyday CO_2 emissions.

To this end, Unicharm held the Moonyman Carbon Offset Campaign in June and July, 2008. By using absorbent materials that are half as thick as those used in conventional products, *Moonyman Slim Pants* and *Moonyman Ase Sukkiri* diapers contribute to broad reductions in CO_2 emissions. However, because disposable diapers are incinerated after use, reducing CO_2 emissions to zero has yet to be realized. The purpose of this campaign has been to sell disposable diapers with CO2 emission rights for a limited time as a new way to promote environmental protection. Unicharm used a portion of the proceeds from sales of *Moonyman* products to purchase CO_2 emission rights from Carbon Offset Japan (COJ)*. Through this activity, the Company has offset approximately 3,400 tons of CO_2 produced by the incineration of disposable diapers.

In the wake of such recent events as the commencement of Kyoto Protocol's first commitment period in January and the G8 Summit held in Toyako last July, which made the global environment a central theme, 2008 has been characterized by greater than ever environment awareness in Japan. Consequently, Unicharm is actively conducting business with this in mind.

* COJ is a non-profit environmental organization that abides by the principles of the Kyoto Protocol.

Carbon Offset Scheme

Campaign on the Unicharm website from June 5, 2008 to July 10, 2008

Corporate Governance and Internal Control

Fundamental Principles

The Unicharm Group strives to pursue correct corporate management principles, which brings together corporate growth, well-being among employees and the fulfillment of its social responsibilities. Guided by these established ideals, management and operating divisions work in unison to create new value and promote a corporate management structure that consistently aims to create No. 1 value for all stakeholders, including customers, shareholders, business partners, associates and society at large. In addition, as stakeholders examine corporate governance and CSR with ever-more discerning eyes, the Group increasingly endeavors to ensure sound corporate management consistently guided by its corporate ideas. With a strong awareness of the importance of constantly increasing corporate value and fulfilling its corporate responsibilities, Unicharm's management and operating divisions work together through the conduct of business to achieve these goals. Under a corporate auditor system, the Company endeavors to further strengthen its executive officer structure, while striving to bolster overall corporate governance.

Composition and Management of the Board of Directors

The Company maintains a Board of Directors that is presently composed of seven directors, including the chairman. In addition to its monthly ordinary meetings, the Board of Directors holds extraordinary meetings on an as-required basis (16 such meetings were held during the year ended March 31, 2008).

In an effort to enhance management's focus on the front line and accelerate strategy implementation, both recognized as Group strengths, the Company has deemed it appropriate to choose as internal directors individuals who possess a thorough knowledge of Unicharm's business operations. Consequently, individuals from outside the Company are not eligible to be directors.

Moreover, in 1999, we introduced an executive officer system with the purpose of bolstering and accelerating business operations. This system reinforces the decision-making and supervisory functions of the Board of Directors as well as the separation of execution functions for executive officers. As of September 2008, the Company had 14 executive officers, 5 of whom concurrently held the position of director, and 5 deputy executive officers.

Unicharm endeavors to increase the supervisory functions of directors and enhance the transparency of its corporate conduct through four corporate auditors, including two outside corporate auditors.

Corporate Auditors and the Corporate Auditor System

Unicharm has adopted a corporate auditor system that comprises four corporate auditors, two of whom are appointed from outside the Group. The activities of corporate auditors are determined and guided by policies and plans formulated by the Board of Auditors. Corporate auditors also participate as standing members of major meetings that involve management decision-making and take part in corporate governance. To provide objective viewpoints, two outside auditors have been entrusted to hold the post of corporate auditor due to their ability to furnish broad insights based on an abundance of experience and knowledge in corporate affairs.

Through the augmentation of staff engaged in internal audit functions, the Internal Auditing Division is able to assess the effectiveness of internal control systems within operating divisions and recommend corrective measures.

To complement the aforementioned corporate auditor and internal audit systems, Unicharm's accounting audit is conducted independently by certified accountants Takao Goto and Seibei Kyojima of the Deloitte Touche Tohmatsu auditing firm. In addition, corporate auditors and the Board of Auditors meet periodically, and as needed, with accounting auditors to share the results of their respective audit plans and ensure maximum efficacy and efficiency.

Internal Control System Upgrading

Recognizing that deeply rooted internal control system structures and operations ensure highly effective corporate governance, and by extension a high degree of corporate trust and operational efficiency, Unicharm is steadily promoting the upgrading of its internal control systems.

In accordance with the Financial Instruments and Exchange Law, the drafting of internal control reports and audits by management has become a requirement from April 2008 onward. In addition, with this and other legal ordinances in mind, the "Internal Control Upgrading Project" was initiated in April 2006. The maintenance of internal control systems has been conducted on both a company-wide and a business process level. Related activities over the past two years are detailed below.

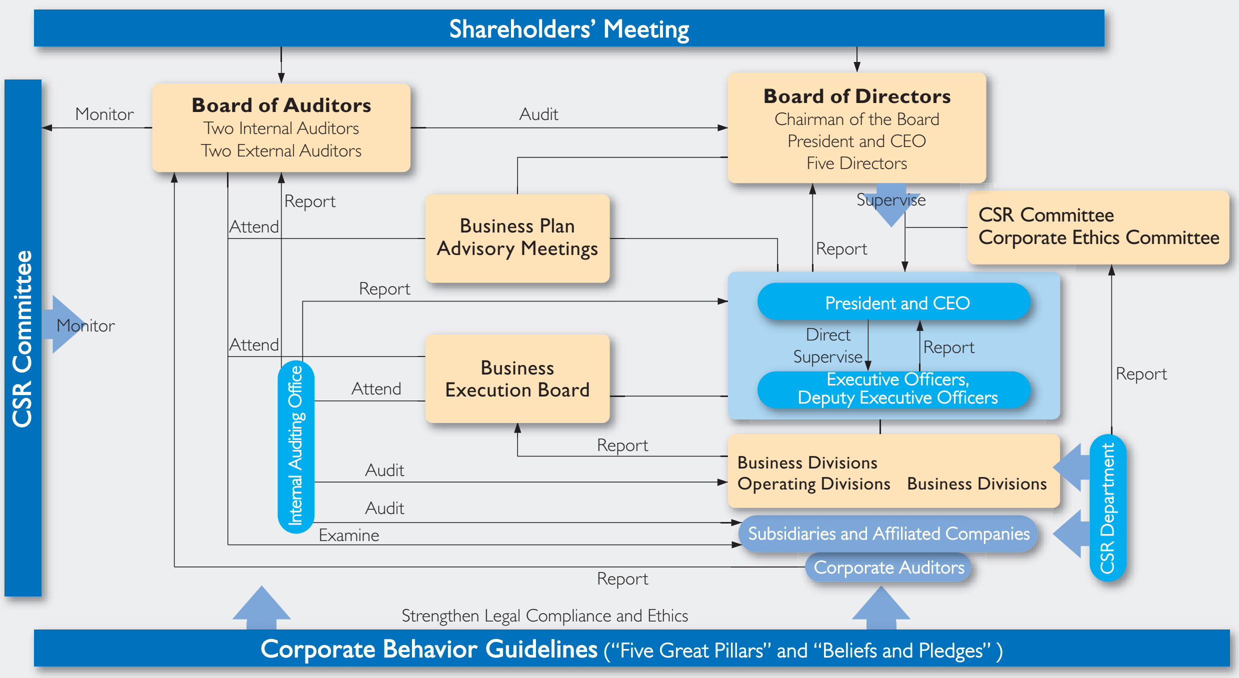
(1) An evaluation of internal control systems on a companywide level was implemented throughout the Unicharm Group companies, including at Unicharm PetCare Corporation Unicharm Products Co., Ltd., Unicharm Material Co., Ltd., Cosmotec Corporation and Kokko Paper Mfg. Co., Ltd., as well as at overseas subsidiaries in Shanghai, South Korea, Thailand, Taiwan, Indonesia and Saudi Arabia. Upon completion of this evaluation, upgrades were implemented, starting with the control environments of each subsidiary. In addition, maintenance was undertaken to improve the transparency of the Board of Directors' decision making, accounting and financial reporting processes, and overall corporate governance.

(2) In integral control of business processes, we focused on risks connected to misstatements in financial reporting. To prevent such misstatement, our risk management systems have been upgraded through the establishment of 15 business processes including how sales are recorded, as well as the appointment of internal control managers to oversee various business processes and fully document all relevant procedures. In addition, once the effectiveness of a process has been verified, a simulated audit is conducted by the Deloitte Touche Tohmatsu auditing firm to identify any deficiencies in internal control systems based on which corrective measures are implemented.

(3) In preparation for system upgrading to ensure no contact with anti-social forces, and in recognition of the need to act in accordance with legal ordinances and corporate ethics, corporate behavior guidelines have been thoroughly outlined for all directors and employees.

Unicharm maintains a specific compliance structure to ensure that all directors and employees adhere to its corporate philosophy and corporate ethics, along with domestic and overseas laws and regulations. In 2005, the "Unicharm Way" was established, codifying the corporate behavior guidelines. All directors and employees are required to carry this set of principles while on duty and put them into practice throughout the Group. In addition, Corporate Ethics Committee Meetings are held to respond to vital issues related to risk management, compliance and corporate ethics. Endeavoring to address the needs of employees, the Corporate Ethics Office of the CSR Department established the Rinrin Hotline as a point of contact for employees seeking consultation, helping to swiftly identify risks and promote daily efforts to implement countermeasures.

Internal Control Structure



Board of Directors, Corporate Auditors and Executive Officers

Board of Directors and Corporate Auditors As of June 25, 2008

Chairman of the Board
Keiichiro Takahara

President and Chief Executive Officer
Takahisa Takahara

Director
Kennosuke Nakano

Director
Eiji Ishikawa

Director
Shinji Mori

Director
Masakatsu Takai

Director
Takaaki Okabe

Internal Corporate Auditors
Shigeki Maruyama
Tsuyoshi Miyauchi

Corporate Auditor
Masahiko Hirata*
Haruhiko Takenaka*

* External corporate auditors who fulfill the requirements as provided for in Article 2, Item 16 of the Corporation Law.

Executive Officers As of September 1, 2008

President and
Chief Executive Officer
Takahisa Takahara

Senior Executive Officers
Kennosuke Nakano
Eiji Ishikawa
Shinji Mori
Masakatsu Takai

Deputy Executive Officer	Takamitsu Igaue
Executive Officer	Shinya Takahashi
Executive Officer	Katsuhiko Sakaguchi
Executive Officer	Yoshihiro Miyabayashi
Executive Officer	Shigeo Moriyama
Executive Officer	Norio Nomura
Executive Officer	Yukihiro Kimura

Deputy Executive Officer	Kazuhira Ikawa
Deputy Executive Officer	Hidetoshi Yamamoto
Deputy Executive Officer	Hironori Nomura
Executive Officer	Atsushi Iwata
Executive Officer	Kenji Takaku
Deputy Executive Officer	Masaaki Takahashi
Executive Officer	Yasushi Akita

Financial Section

Six-Year Summary

Unicharm Corporation and Subsidiaries

Millions of yen, except per share amounts

	2003	2004	2005	2006	2007	2008
FOR THE FISCAL PERIOD:						
Net sales	¥223,169	¥240,110	¥246,051	¥270,380	¥301,880	¥336,864
Cost of sales	123,883	132,074	137,341	153,264	173,239	196,130
Net income	12,879	16,240	16,382	15,288	15,059	16,683
As percentage of sales	5.8%	6.8%	6.7%	5.7%	5.0%	5.0%
Net income per share (yen)						
New accounting standard	185.29	240.26	244.25	229.34	232.31	259.39
Cash dividends per share applicable to the year (yen)	24.00	28.00	30.00	32.00	44.00	46.00
AT FISCAL PERIOD-END:						
Total assets	¥187,988	¥209,002	¥215,365	¥250,355	¥268,763	¥275,436
Property, plant and equipment	71,090	77,306	72,799	77,111	86,725	86,463
Long-term debt— less current maturities	1,710	1,557	345	677	1,739	1,452
Total equity	113,137	123,709	137,697	151,183	177,049	179,171
Equity ratio	60.2%	59.2%	63.9%	60.4%	60.0%	58.9%
RATIOS:						
Operating income ratio	11.6%	12.8%	11.1%	10.6%	9.9%	10.0%
Return on sales	5.8%	6.8%	6.7%	5.7%	5.0%	5.0%
Gross profit margin	44.5%	45.0%	44.2%	43.3%	42.6%	41.8%
SGA ratio	32.9%	32.2%	33.1%	32.8%	32.7%	31.8%
Return on equity (ROE)	11.6%	13.7%	12.5%	10.6%	9.6%	10.3%
Return on total assets (ROA)	6.9%	7.8%	7.6%	6.1%	5.6%	6.1%

Contents

Management's Discussion and Analysis

SCOPE OF CONSOLIDATION

The Unicharm Group comprises the Unicharm Corporation, 24 subsidiaries and two affiliated companies, which mainly engage in business activities related to the manufacture and sale of baby and child care products, feminine care products and pet care products.

OPERATING RESULTS

Sales

In fiscal 2008, ended March 31, 2008, consolidated net sales increased 11.6% compared with ¥301.9 billion in the previous fiscal year to a record-high ¥336.9 billion. On a regional basis, sales in Japan rose ¥10.6 billion, or 5.1%, year on year to ¥217.5 billion, comprising 64.6% of net sales.

Domestically, Unicharm strived to increase profitability by reinvigorating the market with the launch of new higher-added-value and demand-generating products in both the lifestyle and pet care product divisions. As a result, Company sales in growth areas, specifically the health care and pet care businesses, expanded steadily, and profitability in the feminine care business also improved.

In the core baby and child care business, Unicharm worked to cultivate sales of pants-type disposable diapers, launching *Moonyman Slim Pants*, which feature an absorbent layer that is half the thickness of other diapers and a design that shows that attention has been paid to convenience with regard to portability as well as to environmental concerns. In the feminine care business, sales commenced of *Sofy Hada Omoi* sanitary napkins, which utilize Unicharm's newly developed FCL Sheet technology. In addition, efforts were made to strengthen the high-value-added napkin segment, which includes *Sofy Cho-Jukusui Guard* with its "airbag" side gather technology designed to prevent leaks. A comprehensive revamp was carried out of the newly acquired *Center-In* lineup, including the *Compact* series, sales being increased by raising product awareness by means of such methods as television advertising.

Sales in Asia (excluding Japan) soared 27.9% over the previous fiscal year to ¥72.4 billion, marking a 2.8 percentage point increase in the net sales composition ratio to 21.5%. In Asian entry markets, market share expanded in the feminine care business as well as the baby and child care business. In other regions, particularly Europe, sales of adult incontinence products and pants-type disposable diapers for infants grew. In the Middle East, sales of pants-type diapers for infants made steady progress. As a result, sales by all overseas subsidiaries expanded ¥24.4 billion year on year, to ¥119.4 billion, representing 35.4% of consolidated net sales.

Geographic Segment Sales

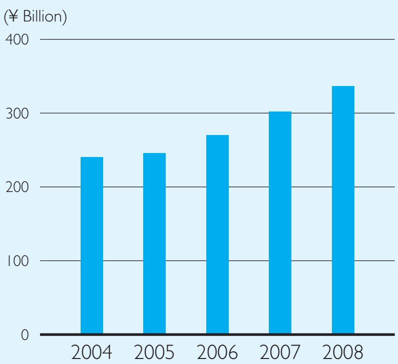
Millions of yen

	2007	2008
Japan	¥206,891	¥217,474
Asia (excluding Japan)	56,645	72,422
Others	38,343	46,968
Total	¥301,880	¥336,864

Cost of Sales and Selling, General and Administrative Expenses

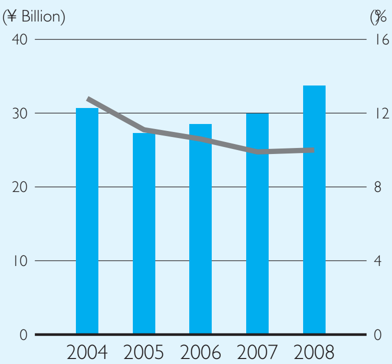
Mirroring the increase in net sales in the fiscal year under review, the cost of sales rose ¥22.9 billion, from ¥173.2 billion in

Net Sales



2004	2005	2006	2007	2008
240.1	246.1	270.4	301.9	336.9

Operating Income / Operating Margin



	2004	2005	2006	2007	2008
Operating Income	30.7	27.3	28.5	29.9	33.7
Operating Margin	12.8	11.1	10.6	9.9	10.0

SGA Ratio

2004	2005	2006	2007	2008
32.2	33.1	32.8	32.7	31.8

the previous fiscal year to ¥196.1 billion, while the cost of sales ratio increased 0.8 percentage point, from 57.4% to 58.2%. Gross profit increased 9.4% to ¥140.7 billion. Selling, general and administrative expenses rose 8.4% year on year, to ¥107.0 billion. Efforts to boost overseas business competitiveness incurred sales promotion costs of ¥37.3 billion and ¥18.0 billion in shipping and storage expenses. As a result of cost improvement initiatives, the ratio of selling, general and administrative expenses to net sales improved 0.9 percentage point to 31.8%.

Research and Development Costs

Research and development costs increased ¥0.2 billion, from ¥4.3 billion to ¥4.5 billion.

Income and Expenses

Income in the fiscal year under review was impacted by high raw material prices, increases in brand cultivation marketing and advertising costs and higher sales promotion costs aimed at boosting Company competitiveness. Despite these setbacks, Unicharm took steps to reduce costs and increase income by expanding sales, centered on growth businesses.

Consequently, operating income rose 12.7% year on year, from ¥29.9 million to ¥33.7 billion. However, the operating margin edged up only 0.1 percentage point, from 9.9% to 10.0%.

Other expenses increased ¥1.0 billion from the previous fiscal year to ¥1.8 billion. Interest and dividend income edged up from ¥0.9 billion to ¥1.0 billion, while the previous fiscal year's foreign exchange gain of ¥0.3 billion turned into a ¥1.2 billion loss.

As a result, income before income taxes and minority interests increased 9.7% to ¥31.9 billion. Current income taxes increased ¥2.5 billion from ¥10.1 billion to ¥12.5 billion, while deferred income taxes saw a reversal to ¥0.1 billion compared with the previous year's ¥1.8 billion. Net income increased 10.8% year on year to ¥16.7 billion, with net income per share amounting to ¥259.39, up ¥27.08 per share.

FINANCIAL POSITION AND LIQUIDITY

Assets, Liabilities and Equity

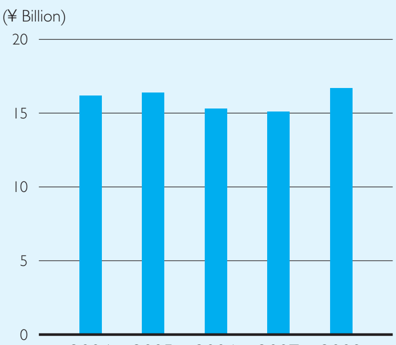
Total assets as of March 31, 2008 stood at ¥275.4 billion, a ¥6.7 billion, or 2.5%, increase compared with the previous fiscal year. Under current assets, cash and cash equivalents increased ¥21.9 billion to ¥87.3 billion. Marketable securities amounted to ¥5.8 billion, a contraction of ¥7.3 billion compared with the previous fiscal year. In notes and accounts receivable, the balance of trade receivables edged up ¥0.2 billion to ¥38.3 billion. Reduction efforts led to a decrease in inventories of ¥1.1 billion, from ¥20.4 billion to ¥19.3 billion. Other current assets grew ¥0.5 billion to ¥3.6 billion.

Net property, plant and equipment decreased ¥0.2 billion to ¥86.5 billion. At ¥145.6 billion machinery and equipment was up ¥8.2 billion from the previous fiscal year. Construction in progress fell from ¥4.3 billion to ¥4.2 billion.

Investments and other assets decreased from ¥39.5 billion to ¥31.2 billion. Investment securities fell ¥9.3 billion to ¥20.3 billion, while goodwill totaled ¥2.5 billion.

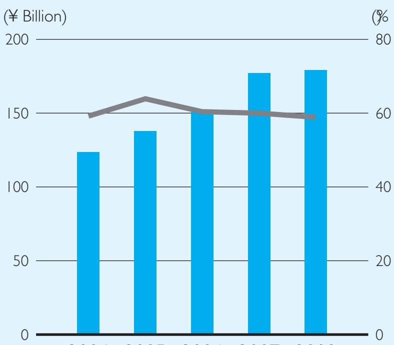
Current liabilities rose 9.4%, or ¥7.1 billion, from ¥75.4 billion in the previous fiscal year to ¥82.4 billion. Short-term bank loans dropped ¥3.6 billion to ¥3.2 billion. Trade liabilities under notes and accounts payable were up ¥7.1 billion to ¥63.1 billion.

Net Income



2004	2005	2006	2007	2008
16.2	16.4	15.3	15.1	16.7

Total Equity, Equity Ratio



	2004	2005	2006	2007	2008
▬ (blue)	123.7	137.7	151.2	177.0	179.2
▬ (gray)	59.2	63.9	60.4	60.0	58.9

Total long-term liabilities as of the fiscal year-end stood at ¥13.8 billion, a decrease of ¥2.5 billion. In addition to long-term debt of ¥1.5 billion, a ¥0.3 billion decrease, major components of this decrease included a ¥2.2 billion decrease in deferred tax liabilities ¥2.5 billion and a ¥1.4 billion decrease in liability for retirement benefits to ¥6.1 billion due in part to prepaid pension costs in line with the abolition of retirement benefits for directors.

Within equity, retained earnings climbed ¥13.8 billion, or 9.8%, to ¥154.3 billion. Foreign currency translation adjustments amounted to a loss of ¥0.1 billion. As a result, total equity improved ¥2.1 billion, or 1.2%, to ¥179.2 billion, while the equity ratio decreased 0.9 percentage point compared with the previous fiscal year-end to 65.0%.

Capital Expenditures and Depreciation

Capital expenditures amounted to ¥17.4 billion in fiscal 2008, a ¥3.9 billion decrease from ¥21.3 billion in the previous fiscal year. Major components of this spending were the expansion of overseas facilities, the building of new product facilities for core domestic businesses and facility renovations in line with product enhancements. Depreciation and amortization amounted to ¥15.0 billion, a ¥1.6 billion increase, year on year, from ¥13.4 billion.

Cash Flow

Net cash provided by operating activities increased ¥17.0 billion compared with the previous fiscal year to ¥45.3 billion. Income before income taxes and minority interests increased ¥2.8 billion to ¥31.9 billion, while depreciation and amortization increased ¥1.8 billion to ¥15.0 billion. Trade receivables increased ¥0.3 billion, while inventories decreased ¥1.1 billion. The increase in trade payables rose ¥3.2 billion to ¥5.8 billion.

Net cash used in investing activities was roughly half that of the previous fiscal period, amounting to ¥10.1 billion. Primary components of this in the year under review were ¥79.3 billion in proceeds from sales and redemption of marketable securities, ¥71.2 billion in purchases of marketable securities, ¥17.4 billion in capital expenditures and ¥2.8 million in payment for purchase of investment securities.

Net cash used in financing activities increased ¥1.8 billion year on year, from ¥10.8 billion to ¥12.6 billion. Principal factors were a ¥3.8 billion decrease in short-term bank loans, ¥5.0 billion used for the repurchase of the Company's stock and ¥2.9 billion in cash dividends paid.

As a result of the foregoing, cash and cash equivalents at the end of the year totaled ¥87.3 billion, a ¥21.9 billion increase from the total at the beginning of the year.

OUTLOOK FOR FISCAL 2009

Despite a positive outlook for healthy domestic corporate performance and robust consumer spending, the Unicharm Group's operating environment is expected to remain uncertain due to high raw material prices. In addition, with rapidly expanding markets in Asia, we anticipate that competition between global brands will intensify.

In anticipation of these conditions, Unicharm will remain committed to the basic aims of "Global 10," its Seventh Medium-Term Management Plan, which are to rejuvenate mature markets and vigorously expand business in markets that exhibit growth potential by further developing its ability to consistently pinpoint and meet customer needs, implement marketing initiatives to create new markets and high brand value, and bolster product development and technological capabilities. In addition, as Unicharm looks to improve its earnings potential, it will work to drastically revise its cost structure by streamlining expenses and reducing total supply chain costs.

BUSINESS RISKS

The business performance of Unicharm and the Unicharm Group (the Company) is subject to a variety of potential risks, with the major considerations as outlined in the following. This section contains various forward-looking statements that represent the opinions of Unicharm as of the fiscal year ended March 31, 2008.

1. Market Competition

Unicharm anticipates both product and price competition to become increasingly severe in its core markets, both overseas and domestically. Given the nature of consumer products, Unicharm's core products are constantly exposed to fierce price competition and successive new product releases by competitors.

The selling environment is heavily impacted by Unicharm's marketing efforts and activities as well as those of its competitors. Unicharm's business performance may be severely affected in light of expectations of increasingly fierce market competition.

2. Changing Domestic Demographics

Due to Japan's declining birthrate and aging population, the percentage of babies and menstruating women in the domestic population continues to fall. As a result, Unicharm's business performance may be affected by a decline in domestic demand for Unicharm's mainstay baby and child care and feminine care products.

3. Overseas Operations

Unicharm currently undertakes product manufacturing in Thailand, Indonesia, Taiwan, South Korea, China, the Netherlands and Saudi Arabia. The Company is therefore subject to a number of risks inherent in overseas business development. These include changes in raw material prices and demand due to fluctuating exchange rates as well as changes in the economic and regulatory environments due to the acts of foreign governments. There is also a possibility of political or social instability in overseas countries. Unicharm's business performance may be affected by any or all of these factors.

4. Raw Material Price Fluctuation

As a manufacturer, Unicharm is directly subject to fluctuating raw material prices. Unicharm currently purchases raw materials from several outside suppliers and procures pulp and certain other raw materials predominantly from overseas sources. These transactions are generally conducted on a U.S. dollar basis. Despite Unicharm's efforts to minimize the effect of exchange rate fluctuations through payment netting and exchange hedging, there is a risk that Unicharm's raw materials-related costs could significantly increase. These factors may consequently impact Unicharm's business performance.

5. Market Response to Product Reliability

As a manufacturer and purveyor of consumer products, Unicharm considers issues related to product quality, safety and the raw materials used in its products to be of vital importance. In particular, complaints about product reliability and safety, could cause a sudden drop in sales and negatively impact Unicharm's business results. Although Unicharm has never been subject to large-sum compensation or had to face significant issues regarding complaints, it cannot guarantee the absence of such issues in the future. If such an issue were to arise, Unicharm's business performance may be affected.

6. Protection of Patents, Trademarks and Other Intellectual Property Rights

Unicharm is subject to risk of significant loss caused by the infringement of intellectual property rights held by the Company. At the same time, there is also the possibility that Unicharm may be unknowingly infringe upon the intellectual property rights of a third party. In the event that either of these incidents should occur, Unicharm's business performance may be affected.

7. Environmental Issues

As a product manufacturer, Unicharm is expected to abide by certain environmental standards both in Japan and overseas. These standards include the handling and disposal of air pollution, CO_2 emissions, effluent emissions and waste matter.

Although Unicharm believes there is no negative impact on its performance or financial standing from current laws and regulations, there is the possibility that future legal restrictions may affect its business performance.

8. Buy-outs, Tie-ups and Other Forms of Business Elimination and Consolidation

Unicharm aims to maximize corporate value through the effective use of continuously held management resources. Based on this goal, there is the possibility that in the course of its corporate activities, Unicharm will engage in business acquisitions and capital subscriptions, tie-ups with other companies, business eliminations and consolidations, and/or rationalizations and spin-offs. In the event that Unicharm decides to implement any of the foregoing measures, the Company's future business structure and business performance may be affected.

9. Information Leakage

Unicharm is in possession of a variety of information that includes not only data generated within the Company but personal information acquired through confidentiality agreements or with the consent of customers and clients. Accordingly, Unicharm has established an information security policy and stipulated corporate behavioral guidelines and other rules to ensure a secure information environment while striving for full compliance by thoroughly disseminating such rules to directors and employees. However, in the event of information leakage that calls into question Unicharm's legal responsibility with regard to information management, Unicharm may lose credibility and its business performance may be affected.

Consolidated Balance Sheets

Unicharm Corporation and Subsidiaries March 31, 2008, 2007 and 2006

	Millions of yen			Thousands of U.S. dollars (Note 1)
ASSETS	2008	2007	2006	2008
CURRENT ASSETS:				
Cash and cash equivalents	¥ 87,318	¥ 65,449	¥ 67,649	$ 873,179
Marketable securities (Note 3)	5,796	13,112	12,744	57,957
Notes and accounts receivables:				
Trade	38,288	38,012	33,160	382,878
Allowance for doubtful accounts	(83)	(71)	(68)	(832)
Inventories (Note 4)	19,300	20,376	16,177	192,997
Deferred tax assets (Note 12)	3,525	2,639	2,642	35,248
Other current assets	3,607	3,071	2,680	36,083
Total current assets	157,751	142,588	134,984	1,577,510
PROPERTY, PLANT AND EQUIPMENT:				
Land (Note 5)	9,715	9,975	10,143	97,153
Buildings and structures	53,976	52,382	49,204	539,753
Machinery and equipment	145,595	137,364	120,522	1,455,949
Furniture and fixtures	6,171	5,951	5,280	61,714
Construction in progress	4,176	4,333	3,425	41,760
Total	219,633	210,005	188,574	2,196,329
Accumulated depreciation	(133,170)	(123,280)	(111,463)	(1,331,696)
Net property, plant and equipment	86,463	86,725	77,111	864,633
INVESTMENTS AND OTHER ASSETS:				
Investment securities (Note 3)	20,255	29,517	29,519	202,545
Investments in affiliates	106	87	81	1,058
Goodwill	2,542	2,725	2,677	25,424
Software (Note 6)	1,099	1,177	1,322	10,989
Intangibles	104	126	266	1,038
Deferred tax assets (Note 12)	424			4,245
Deferred tax assets—land revaluation (Notes 5 and 12)	223	223	227	2,226
Prepaid pension cost (Note 8)	4,913	3,852	2,854	49,125
Other assets	1,748	1,916	1,885	17,491
Allowance for doubtful accounts	(192)	(173)	(571)	(1,924)
Total investments and other assets	31,222	39,450	38,260	312,217
TOTAL	¥ 275,436	¥ 268,763	¥ 250,355	$ 2,754,360

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of yen 2008	2007	2006	Thousands of U.S. dollars (Note 1) 2008
CURRENT LIABILITIES:				
Short-term bank loans (Note 7)	¥ 3,243	¥ 6,856	¥ 8,614	$ 32,433
Current portion of long-term debt (Note 7)	184	126	63	1,842
Notes and accounts payable:				
Trade	63,142	56,031	49,665	631,425
Others	868	519	759	8,681
Income taxes payable (Note 12)	6,696	3,048	6,723	66,963
Accrued expenses	7,192	8,101	6,105	71,916
Other current liabilities	1,108	690	716	11,075
Total current liabilities	82,433	75,371	72,645	824,335
LONG-TERM LIABILITIES:				
Long-term debt (Note 7)	1,452	1,739	677	14,517
Liability for retirement benefits (Note 8)	6,106	7,484	6,877	61,056
Guarantee deposits from customers	1,909	1,989	1,962	19,089
Deferred tax liabilities (Note 12)	2,515	4,742	2,476	25,147
Other long-term liabilities	1,850	389	231	18,508
Total long-term liabilities	13,832	16,343	12,223	138,317
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 14, 15 and 16):				
EQUITY (Notes 9 and 18):				
Common stock,				
authorized: 275,926,364 shares in 2008, 2007 and 2006				
issued: 68,981,591 shares in 2008, 2007 and 2006	15,993	15,993	15,993	159,927
Capital surplus	18,591	18,591	18,591	185,909
Retained earnings	154,332	140,547	128,107	1,543,316
Land revaluation difference, net of tax (Note 5)	(324)	(324)	(330)	(3,243)
Unrealized gains on available-for sale securities, net of taxes (Note 3)	1,910	6,960	6,289	19,101
Deferred gain (loss) on derivatives under hedge accounting	(46)	5		(452)
Foreign currency translation adjustments	(75)	2,514	(362)	(752)
Treasury stock—at cost shares: 5,248,303 in 2008, 4,556,375 in 2007 and 3,611,190 in 2006	(28,129)	(23,120)	(17,105)	(281,292)
Total	162,252	161,166	151,183	1,622,514
Minority interests	16,919	15,883	14,304	169,194
Total equity	179,171	177,049	165,487	1,791,708
TOTAL	¥275,436	¥268,763	¥250,355	$2,754,360

Consolidated Statements of Income

Unicharm Corporation and Subsidiaries Years Ended March 31, 2008, 2007 and 2006

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2008	2007	2006	2008
NET SALES	¥336,864	¥301,880	¥270,380	$3,368,642
COST OF SALES (Note 13)	196,130	173,239	153,264	1,961,300
Gross profit	140,734	128,641	117,116	1,407,342
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 11, 13 and 19)	107,003	98,711	88,585	1,070,029
Operating income	33,731	29,930	28,531	337,313
OTHER INCOME (EXPENSES):				
Interest and dividend income	1,024	853	494	10,243
Interest expense	(457)	(413)	(305)	(4,574)
Foreign exchange gain (loss)	(1,240)	338	518	(12,396)
Impairment loss (Note 6)			(281)	
Sales discount	(1,574)	(1,221)	(1,021)	(15,744)
Other—net (Note 19)	410	(408)	631	4,093
Other income (expenses)—net	(1,837)	(851)	36	(18,378)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	31,894	29,079	28,567	318,935
INCOME TAXES (Note 12):				
Current	12,509	10,062	11,014	125,092
Deferred	(127)	1,890	451	(1,268)
Total income taxes	12,382	11,952	11,465	123,824
MINORITY INTERESTS IN NET INCOME	2,828	2,068	1,814	28,275
NET INCOME	¥ 16,684	¥ 15,059	¥ 15,288	$ 166,836

	Yen			U.S. dollars
	2008	2007	2006	2008
PER SHARE OF COMMON STOCK (Notes 2 and 17):				
Net income	¥ 259.39	¥ 232.31	¥ 229.34	$ 2.59
Diluted net income	259.31	232.17	229.00	2.59
Cash dividends applicable to the year	46.00	44.00	32.00	0.46

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

Unicharm Corporation and Subsidiaries Years Ended March 31, 2008, 2007 and 2006

	Outstanding Number of Shares of Common Stock	Millions of yen										
		Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-Sale Securities	Deferred Gain (loss) on Derivatives under Hedge Accounting	Land Revaluation Difference	Foreign Currency Translaiton Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, APRIL 1, 2005	66,472,140	¥15,993	¥18,591	¥114,411	¥ 3,934		¥(309)	¥(2,799)	¥(12,124)	¥137,697		¥137,697
Net income				15,288						15,288		15,288
Cash dividends,¥31.00 per share				(2,043)						(2,043)		(2,043)
Bonuses to directors and corporate auditors				(109)						(109)		(109)
Increase in retained earnings due to fiscal year-end change for subsidiaries (Note 2.a)				539						539		539
Land revaluation difference, net of tax (Note 5)				21			(21)					
Net increase in unrealized gain on available-for-sale securities					2,355					2,355		2,355
Net increase in foreign currency translation adjustments								2,437		2,437		2,437
Treasury stock acquired—net	(1,101,739)								(4,981)	(4,981)		(4,981)
BALANCE, MARCH 31, 2006	65,370,401	15,993	18,591	128,107	6,289		(330)	(362)	(17,105)	151,183		151,183
Reclassified balance as March 31, 2006 (Note 2.i)											14,304	14,304
Net income				15,059						15,059		15,059
Cash dividends, ¥38.00 per share				(2,463)						(2,463)		(2,463)
Bonuses to directors and corporate auditors				(150)						(150)		(150)
Land revaluation difference, net of tax (Note 5)				(6)			6					
Treasury stock acquired, net (Note 9)	(945,185)								(6,015)	(6,015)		(6,015)
Net change in the year					671	5		2,876		3,552	1,579	5,131
BALANCE, MARCH 31, 2007	64,425,216	15,993	18,591	140,547	6,960	5	(324)	2,514	(23,120)	161,166	15,883	177,049
Net income				16,684						16,684		16,684
Cash dividends, ¥45.00 per share				(2,899)						(2,899)		(2,899)
Treasury stock acquired, net (Note 9)	(691,928)								(5,009)	(5,009)		(5,009)
Net change in the year					(5,050)	(51)		(2,589)		(7,690)	1,036	(6,654)
BALANCE, MARCH 31, 2008	63,733,288	¥15,993	¥18,591	¥154,332	¥ 1,910	¥(46)	¥(324)	¥ (75)	¥(28,129)	¥162,252	¥16,919	¥179,171

	Thousands of U.S. dollars (Note 1)										
BALANCE, MARCH 31, 2007	$159,927	$185,909	$1,405,471	$ 69,608	$ 48	$(3,243)	$ 25,139	$(231,199)	$1,611,660	$158,833	$1,770,493
Net income			166,836						166,836		166,836
Cash dividends, $0.45 per share			(28,991)						(28,991)		(28,991)
Treasury stock acquired, net (Note 9)								(50,093)	(50,093)		(50,093)
Net change in the year				(50,507)	(500)		(25,891)		(76,898)	10,361	(66,537)
BALANCE, MARCH 31, 2008	$ 159,927	$185,909	$1,543,316	$ 19,101	$(452)	$(3,243)	$ (752)	$(281,292)	$1,622,514	$169,194	$1,791,708

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Unicharm Corporation and Subsidiaries   Years Ended March 31, 2008, 2007 and 2006

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2008	2007	2006	2008
OPERATING ACTIVITIES:				
Income before income taxes and minority interests	¥ 31,894	¥ 29,079	¥ 28,567	$ 318,935
Adjustments for:				
Income taxes—paid	(8,893)	(13,709)	(7,192)	(88,929)
Depreciation and amortization	15,022	13,185	13,063	150,222
Gain on transfer of the substitutional portion of the governmental pension program				
Net periodic retirement benefit costs	(180)	381	853	(1,800)
Loss on disposals and sales of property, plant and equipment	780	792	935	7,798
Increase in trade receivables	(295)	(4,851)	(2,389)	(2,954)
(Increase) decrease in inventories	1,076	(3,957)	(1,821)	10,764
Increase in trade payables	5,760	2,577	3,442	57,599
Increase in other current liabilities	1,308	5,092	2,772	13,079
Impairment loss			281	
Other—net	(1,163)	(239)	(1,625)	(11,626)
Total adjustments	13,415	(721)	8,322	134,153
Net cash provided by operating activities	45,309	28,358	36,889	453,088
INVESTING ACTIVITIES:				
Proceeds from sales and redemption of marketable securities	79,329	99,428	40,299	793,288
Proceeds from sale of property, plant and equipment	151	568	418	1,510
Purchases of marketable securities	(71,208)	(95,689)	(47,559)	(712,078)
Capital expenditures	(17,370)	(21,307)	(13,609)	(173,704)
Payment for purchase of investment securities	(2,830)	(3,013)	(3,858)	(28,297)
Payment for acquisition of a subsidiary		(575)	(4,214)	
Proceeds from sales and redemption of investment securities	2,540	136	4,654	25,400
Decrease in cash and cash equivalents from sales of a subsidiary	(76)			(763)
Proceeds from sales of subsidiary	46			462
Repayment from cancellation of insurance contracts as investments			2,930	
Decrease in other assets	(673)	123	688	(6,729)
Net cash used in investing activities	(10,091)	(20,329)	(20,251)	(100,911)
FORWARD	¥ 35,218	¥ 8,029	¥ 16,638	$ 352,177

	Millions of yen 2008	2007	2006	Thousands of U.S. dollars (Note 1) 2008
FORWARD	¥ 35,218	¥ 8,029	¥ 16,638	$ 352,177
FINANCING ACTIVITIES:				
Increase (decrease) in short-term bank loans	(3,774)	(2,500)	1,689	(37,743)
Proceeds from long-term debt	305	1,177	35	3,054
Repayments of long-term debt	(126)	(65)	(1,258)	(1,263)
Cash dividends paid	(2,903)	(2,461)	(2,049)	(29,031)
Investment from minority interests			965	
Additional acquisition of the subsidiaries' stock from minority interests			(132)	
Repurchase of the Company's stock	(5,009)	(6,015)	(4,981)	(50,093)
Cash dividends paid to minority interests	(1,078)	(932)	(488)	(10,779)
Net cash used in financing activities	(12,585)	(10,796)	(6,219)	(125,855)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(764)	567	499	(7,637)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	21,869	(2,200)	10,918	218,685
CASH AND CASH EQUIVALENTS, DUE TO FISCAL YEAR-END CHANGE FOR SUBSIDIARIES (Note 2. a)			372	
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	65,449	67,649	56,359	654,494
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 87,318	¥ 65,449	¥ 67,649	$ 873,179
ADDITIONAL INFORMATION:				
Payment for acquisition of Unicharm Gulf Hygienic Industries Ltd., net of cash acquired (Note 2. a)			¥ 4,214	
Assets acquired			7,275	
Goodwill			2,711	
Liabilities assumed			(3,873)	
Minority interests			(1,667)	
Cash paid for the capital			4,446	
Cash and cash equivalents in this subsidiary			(232)	
Cash and cash equivalents, due to fiscal year-end change for subsidiaries			¥ 4,214	

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Unicharm Corporation and Subsidiaries Years Ended March 31, 2008, 2007 and 2006

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 Law (formerly, the Japanese Securities and Exchange Law) and its related accounting regulations and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

On December 27, 2005, the Accounting Standards Board of Japan (ASBJ) published a new accounting standard for the statement of changes in equity, which is effective for fiscal year ending on or after May 1, 2006.

The consolidated statement of shareholders' equity, which was previously voluntarily prepared in line with the international accounting practices, is now required under generally accepted accounting principles in Japan and has been renamed "the consolidated statement of changes in equity" in the current fiscal year.

In preparing these consolidated financial statements, certain reclassifications and rearrangements 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 2007 and 2006 consolidated financial statements to conform to the classifications used in 2008.

The consolidated financial statements are stated 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 ¥100 to $1, the approximate rate of exchange at March 31, 2008. 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 all 24 (26 in 2007 and24 in 2006) subsidiaries (together, the "Group").

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. During the fiscal year ended March 31, 2006, one affiliated company accounted for by the equity method in prior periods became a subsidiary since the Company acquired additional equity. In addition, the Company acquired one subsidiary (Unicharm Gulf Hygienic Industries Ltd.).

During the fiscal year ended March 31, 2007, the Company established UNI-CHARM (VIETNAM) Co., Ltd. and included it in the scope of consolidation. In addition, since the Company's consolidated subsidiary, Unicharm Products Co., Ltd., acquired Mew Products Co., Ltd., Mew Products Co., Ltd. was included in Unicharm's scope of consolidation.

During the fiscal year ended March 31, 2008, the Company sold certain shares in UBS Co., Ltd., which is now accounted for by the equity method as an affiliate. In addition, the Company sold all its shares in Unicharm Eduo Co., Ltd., which was excluded from the scope of consolidation.

Investment in two affiliates (one in 2007 and 2006) are accounted for by the equity method.

The accounting settlement of consolidated subsidiaries and equity method affiliates is the same as the date of the consolidated accounting settlement, excluding nine overseas subsidiaries and one domestic subsidiary (nine in 2007 and ten in 2006) that close accounts on December 31. In the consolidated financial statements, therefore, the Company uses the financial statements as of December 31, 2007 and makes necessary adjustments for important transactions that occurred during the time difference from the date of the consolidated accounting settlement.

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 using the straight-line method over a period of less than 20 years, which is the estimated available life.

The Company has adopted a revised method for acquisitions during or after the fiscal year 2006, in which 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. In order to expand business in the strategic areas of Asia and the Middle East, the Company acquired a 51% interest in Gulf Hygienic Industries Ltd. in Saudi Arabia in December 2005. As a result of this acquisition and possible future business expansion through additional mergers and acquisitions, the Company believes it is necessary for the effective investment life to be more than 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.

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, certificate of deposits, commercial paper and bond funds, all of which mature or become due within three months of the date of acquisition.

c. Inventories

Inventories are stated at cost substantially determined by the average method.

d. Allowance for Doubtful Accounts

The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the companies' past credit loss experience and an evaluation of potential losses in the receivables outstanding.

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 equity.

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 reduced to net realizable value by a charge to 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 substantially by the declining-balance method at rates based on the estimated useful lives of the assets, while the straight-line method is applied to buildings acquired after April 1, 1998 and the property, plant and equipment of foreign subsidiaries. The range of useful lives is principally from 2 to 60 years for buildings and structures, from 2 to 20 years for machinery and equipment and from 2 to 20 years for furniture and fixtures.

g. Software

Software is carried at cost less accumulated amortization, which is calculated by the straight-line method 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. Other consolidated subsidiaries have unfunded retirement benefit plans.

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

Effective June 2007, the Company and its domestic subsidiaries terminated its unfunded retirement allowance plan for all directors and corporate auditors. The outstanding balance of retirement allowances for directors and corporate auditors as of June 2007 was reclassified to the long-term liabilities in the year ended March 31, 2008.

j. Presentation of Equity

On December 9, 2005, the ASBJ published a new accounting standard for presentation of equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of equity. Such items include stock acquisition right, minority interests, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard was effective for fiscal years ended on or after May 1, 2006. The balances of such items as of March 31, 2006 were reclassified as separate components of equity as of April 1, 2006 in the consolidated statement of changes in equity. The consolidated balance sheets as of March 31, 2008 and 2007 are presented in line with this new accounting standard.

k. Research and Development Costs

Research and development costs are charged to income as incurred.

l. Leases

All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

m. Bonuses to Directors and Corporate Auditors

Prior to the fiscal year ended March 31, 2005, bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings in the fiscal year following approval at the general shareholders meeting. The ASBJ issued ASBJ Practical Issues Task Force (PITF) No. 13, "Accounting treatment for bonuses to directors and corporate auditors", which encouraged companies to record bonuses to directors and corporate auditors on the accrual basis with a related charge to income, but still permitted the direct reduction of such bonuses from retained earnings after approval of the appropriation of retained earnings.

The ASBJ replaced the above accounting pronouncement by issuing a new accounting standard for bonuses to directors and corporate auditors on November 29, 2005. Under the new accounting standard, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings. This accounting standard became effective for fiscal years ending on or after May 1, 2006. The companies must accrue bonuses to directors and corporate auditors at the year end to which such bonuses are attributable.

The company adopted the new accounting standard for bonuses to directors and corporate auditors in the year ended March 31, 2007. However, as the internal rule of the directors' remuneration was revised during the year ended March 31, 2008 and accordingly, the bonuses to directors and corporate auditors were incorporated in the directors' remuneration, accrued bonuses to directors and corporate auditors at March 31, 2007 were fully reversed and credited to other income in the amount of ¥174 million ($1,746 thousand) for the year ended March 31, 2008.

n. 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.

o. 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.

p. Foreign Currency Financial Statements

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

Differences arising from such translation were shown as "Foreign currency translation adjustments" in a separate component of equity.

Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

q. 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 income statement 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, but the unrealized gains/losses are deferred until the underlying transactions are completed.

r. 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 64,318,155 shares for 2008, 64,821,907 shares for 2007 and 65,775,016 shares for 2006.

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.

s. New Accounting Pronouncements

Measurement of Inventories—Under generally accepted accounting principles in Japan ("Japanese GAAP"), inventories are currently measured either by the cost method, or at the lower of cost or market. On July 5, 2006, the ASBJ issued ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories", which is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted. This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate. The standard also requires that inventories held for trading purposes be measured at the market price.

Lease Accounting—On March 30, 2007, the ASBJ issued ASBJ Statement No.13, "Accounting Standard for Lease Transactions", which revised the existing accounting standard for lease transactions issued on June 17, 1993.

Under the existing accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, however, other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the lessee's financial statements.

The revised accounting standard requires that all finance lease transactions should be capitalized recognizing lease assets and lease obligations in the balance sheet. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements—Under Japanese GAAP, a company currently can use the financial statements of foreign subsidiaries which have been prepared in accordance with generally accepted accounting principles in their respective jurisdictions for its consolidation process unless they are clearly unreasonable. On May 17, 2006, the ASBJ issued ASBJ Practical Issues Task Force (PITF) No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements". The new task force prescribes: 1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, 2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used for the consolidation process, 3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material;

(1) Amortization of goodwill
(2) Actuarial gains and losses of defined benefit plans recognized outside profit or loss
(3) Capitalization of intangible assets arising from development phases
(4) Fair value measurement of investment properties, and the revaluation model for property, plant and equipment, and intangible assets
(5) Retrospective application when accounting policies are changed
(6) Accounting for net income attributable to a minority interest

The new task force is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities at March 31, 2008, 2007 and 2006 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	2008
Current:				
Government and corporate bonds			¥ 10	
Trust fund investments and other	¥ 5,796	¥13,112	12,734	$ 57,957
Total	¥ 5,796	¥13,112	¥12,744	$ 57,957
Non-current:				
Marketable equity securities	¥11,913	¥18,309	¥14,236	$119,132
Government and corporate bonds	2,000	2,000	2,000	20,000
Trust fund investments and other	6,342	9,208	13,283	63,413
Total	¥20,255	¥29,517	¥29,519	$202,545

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2008, 2007 and 2006 are as follows:

	Millions of yen			
March 31, 2008	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 7,786	¥6,258	¥2,131	¥11,913
Debt securities and other	8,699		895	7,804
Held-to-maturity	2,000		129	1,871
Total	¥18,485	¥6,258	¥3,155	¥21,588

	Millions of yen			
March 31, 2007	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 5,485	¥12,832	¥ 8	¥18,309
Debt securities and other	13,225	2	1,063	12,164
Held-to-maturity	2,000		88	1,912
Total	¥20,710	¥12,834	¥1,159	¥32,385

	Millions of yen			
March 31, 2006	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 2,477	¥11,760	¥ 1	¥14,236
Debt securities and other	14,662	1	1,133	13,530
Held-to-maturity	10			10
Total	¥17,149	¥11,761	¥1,134	¥27,776

	Thousands of U.S. dollars			
March 31, 2008	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	$ 77,860	$62,578	$21,306	$119,132
Debt securities and other	86,990		8,948	78,042
Held-to-maturity	20,000		1,287	18,713
Total	$184,850	$62,578	$31,541	$215,887

Available-for-sale securities and held-to-maturity securities whose fair value is not readily determinable as of March 31, 2008, 2007 and 2006 were as follows:

	Carrying Amount			
	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	2008
Available-for-sale:				
Equity securities	¥ 274	¥ 274	¥ 379	$ 2,739
Debt securities and other	1,060	3,084	3,108	10,601
Held-to-maturity	2,999	6,798	11,000	29,988
Total	¥4,333	¥10,156	¥14,487	$43,328

Proceeds from sales of available-for-sale securities for the years ended March 31, 2008, 2007 and 2006 were ¥6,077 million ($60,770 thousand), ¥6,150 million and ¥20,370 million, respectively. Gross realized gains on these sales, computed according to the moving-average cost , was ¥41 million ($414 thousand) for the year ended March 31, 2008. Gross realized gains on and losses on these sales, computed according to the moving average cost, were ¥88 million and ¥0 million, respectively, for the year ended March 31, 2007, and ¥880 million and ¥10 million, respectively, for the year ended March 31, 2006 respectively.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2008, are as follows:

	Millions of yen		Thousands of U.S. dollars	
	Available-for-Sale	Held-to Maturity	Available-for-Sale	Held-to Maturity
Due in one year or less	¥2,797	¥2,999	$27,969	$29,988
Due after one year through five years	886		8,863	
Due after five years through ten years				
Due after ten years	4,121	2,000	41,210	20,000
Total	¥7,804	¥4,999	$78,042	$49,988

4. INVENTORIES

Inventories at March 31, 2008, 2007 and 2006 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	2008
Merchandise and finished products	¥10,168	¥11,515	¥ 9,188	$101,674
Work in process	317	323	328	3,172
Raw materials	7,627	7,457	6,036	76,273
Supplies	1,188	1,081	625	11,878
Total	¥19,300	¥20,376	¥16,177	$192,997

5. LAND REVALUATION

Under the "Law of Land Revaluation," 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 a value based on real estate appraisal information 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 equity. There is no effect on the consolidated statement of income. Continuous readjustment is not permitted unless the land value subsequently declines significantly such that the amount of the decline in value should be removed from the land revaluation diminish account and related deferred tax assets.

In the case when land is sold or the Company recognizes an impairment loss, the land revaluation difference account will be reversed.

As at March 31, 2008, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥516 million.

6. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of the year ended March 31, 2006 and, as a result, recognized an impairment loss of ¥281 million as other expenses for certain software which was written down to the recoverable amount. The recoverable amount of the software was measured at its value in use, and the discount rate used for computation of present value of future cash flows was 4.3%. No impairment loss was recognized in 2008 and 2007.

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

Short-term bank loans at March 31, 2008, 2007 and 2006, consisted of notes to banks and bank overdrafts. Short-term loans were made under general security agreements with banks. The annual interest rates applicable to the short-term bank loans ranged from 4.1% to 5.3%, 4.1% to 6.6% and 2.3% to 3.0% at March 31, 2008, 2007 and 2006, respectively.

Long-term debt at March 31, 2008, 2007 and 2006 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	2008
Loans from banks and municipal corporations, due serially to 2013 with interest rates ranging from 2.0% to 6.9% in 2008, from 2.0% to 6.9% in 2007 and 2.0% to 6.8% in 2006	¥1,636	¥1,865	¥740	$ 16,359
Total	1,636	1,865	740	16,359
Less current portion	(184)	(126)	(63)	(1,842)
Long-term debt, less current portion	¥1,452	¥1,739	¥677	$ 14,517

Annual maturities of long-term debt as of March 31, 2008 for the next five years were as follows:

Year Ending March 31	Millions of yen	Thousands of U.S. dollars
2009	¥ 184	$ 1,842
2010	595	5,954
2011	329	3,284
2012	442	4,420
2013 and thereafter	86	859
Total	¥1,636	$16,359

As is customary in Japan, the Company maintains substantial deposit balances with banks with which it has borrowings. Such deposit balances are not legally or contractually restricted as to withdrawal.

General agreements with respective banks provide, as is customary in Japan, that additional collateral must be provided under certain circumstances if requested by such banks and that certain banks have the right to offset cash deposited with them against any long-term or short-term debt or obligation that becomes due and, in case of default and certain other specified events, against all other debt payable to the bank concerned. The Company has never been requested to provide any additional collateral for loans.

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.

Prior to April 1, 2007, retirement benefits to directors and corporate auditors of the Company and its domestic subsidiaries were provided at the estimated amount that would be required if all directors and corporate auditors retired at the balance sheet date. The liability for retirement benefits at March 31, 2007 and 2006 included retirement benefits for directors and corporate auditors of ¥1,198 million and ¥1,136 million, respectively.

As discussed in note 2.i., Effective June , 2007, the Company terminated its unfunded retirement allowance plan for all directors and corporate auditors. The outstanding balance of retirement allowances for directors and corporate auditors in the amount of ¥1,131 million ($11,312 thousand) was reclassified to long-term liabilities in the year ended March 31, 2008.

The liability for employees' retirement benefits at March 31, 2008, 2007 and 2006 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	2008
Projected benefit obligation	¥ 21,464	¥ 20,824	¥ 19,287	$ 214,636
Fair value of plan assets	(16,309)	(17,414)	(15,242)	(163,087)
Unrecognized actuarial loss	(3,771)	(642)	(670)	(37,709)
Unrecognized prior service cost	(191)	(334)	(488)	(1,909)
Prepaid pension cost	4,913	3,852	2,854	49,125
Net liability	¥ 6,106	¥ 6,286	¥ 5,741	$ 61,056

The components of net periodic benefit costs for the years ended March 31, 2008, 2007 and 2006 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	2008
Service cost	¥1,468	¥1,458	¥1,439	$14,676
Interest cost	416	386	358	4,165
Expected return on plan assets	(522)	(457)	(334)	(5,224)
Recognized actuarial loss	261	240	461	2,610
Amortization of prior service cost	143	403	159	1,432
Net periodic benefit costs	¥1,766	¥2,030	¥2,083	$17,659

Assumptions used for the years ended March 31, 2008, 2007 and 2006 are set forth as follows:

	2008	2007	2006
Discount rate	2.0%	2.0%	2.0%
Expected rate of return on plan assets	3.0%	3.0%	3.0%
Recognition period of actuarial gain/loss	10 years	10 years	10 years
Amortization period of prior service cost	5 years	5 years	5 years
Amortization mettod of projected benefit obligation	The straight-line method	The straight-line method	The straight-line method

9. EQUITY

Since May 1, 2006, Japanese companies have been subject to the corporate law of Japan (the "Corporate Law"), which reformed and replaced the Commercial Code of Japan (the "Code" The significant changes in the Corporate Law that affect financial and accounting matters are summarized below:

a. Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The company meets all the above criteria.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Corporate Law also provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of equity.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

10. STOCK OPTIONS

The stock options outstanding as of March 31, 2008 are as follows:

Unicharm Corporation

Meeting Date	Persons Granted	Number of Options granted	Date of Grant	Conditions for vesting	Vesting Date	Exercisable period
June 27, 2003 (2003 Stock Option)	10 company's directors and corporate auditors 6 subsidiaries' directors and corporate auditors 1,032 company's employees 713 subsidiaries' employees 107 others***	Common stock 533,600 shares	October 1, 2003	* **	From October 1, 2003 to June 30, 2006	From July 1, 2006 to June 30, 2008
June 29, 2004 (2004 Stock Option)	11 company's directors and corporate auditors 2 subsidiaries' directors and corporate auditors 1,166 company's employees 1,184 subsidiaries' employees 126 others***	Common stock 692,100 shares	October 1, 2004	* **	From October 1, 2004 to June 30, 2007	From July 1, 2007 to June 30, 2009

Unicharm PetCare Corporation

Meeting Date	Persons Granted	Number of Options granted	Date of Grant	Conditions for vesting	Vesting Date	Exercisable period
June 24, 2002 (2002 Stock Option)	3 directors and 169 employees	Common stock 718,000 shares	October 1, 2002	****	From October 1, 2002 to June 30, 2004	From July 1, 2004 to June 30, 2008

* The market price of the Company's common stock at the time of stock option exercise must be at least ¥8,200 (In the event that it become necessary to adjust this value, the adjustment shall be conducted in a uniform and predetermined manner).

** 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, corporate auditor, employee or advisor. However, Unicharm's Board of Directors may approve the exercise of stock options by directors or corporate auditors who have resigned due to the expiration of one's term or employees who have retired due to reaching the compulsory retirement age.

*** Others include retired directors and employees.

**** A stock option holder must, at the time of the stock option exercise, hold a position within the Unicharm PetCare Corporation, its subsidiaries or affiliates (hereinafter, collectively the "Group") as a director, corporate auditor, executive officer or employee, or have: (1) completed a term of office as a director or corporate auditor; (2) retired as an executive officer or employee due to involuntary reasons stipulated by the rules of employment of individual Group companies; or (3) after retirement, been specifically approved to hold and exercise the stock options by Unicharm PetCare's Board of Directors.

The stock option activity is as follows:

	Unicharm Corporation		Unicharm Petcare Corporation
	2003 Stock Option	2004 Stock Option	2002 Stock Option
For the year ended March 31, 2008			
Non-vested			
March 31, 2007—Outstanding	533,600	692,100	
Granted			
Forfeited	7,200	9,500	
Vested			
March 31, 2008—Outstanding	526,400	682,600	
Vested			
March 31, 2007—Outstanding			
Vested			38,000
Exercised			
Forfeited			22,000
March 31, 2008—Outstanding			16,000
Exercise price	¥5,731 ($57)	¥5,702 ($57)	¥300 ($3)
Average stock price at exercise			¥5,261 ($53)
Fair value price at grant date			

The stock options outstanding as of March 31, 2007 are as follows:

Unicharm Corporation

Meeting Date	Persons Granted	Number of Options granted	Date of Grant	Conditions For vesting	Vesting Date	Exercisable period
June 27, 2003 (2003 Stock Option)	9 company's directors and corporate auditors 6 subsidiaries' directors and corporate auditors 1,066 company's employees 737 subsidiaries' employees 77 others***	Common stock 533,600 shares	October 1, 2003	* **	From October 1, 2003 to June 30, 2006	From July 1, 2006 to June 30, 2008
June 29, 2004 (2004 Stock Option)	10 company's directors and corporate auditors 2 subsidiaries' directors and corporate auditors 1,202 company's employees 1,232 subsidiaries' employees 86 others***	Common stock 692,100 shares	October 1, 2004	* **	From October 1, 2004 to June 30, 2007	From July 1, 2007 to June 30, 2009

Unicharm PetCare Corporation

Meeting Date	Persons Granted	Number of Options granted	Date of Grant	Conditions For vesting	Vesting Date	Exercisable period
June 24, 2002 (2002 Stock Option)	3 directors and 169 employees	Common stock 718,000 shares	October 1, 2002	****	From October 1, 2002 to June 30, 2004	From July 1, 2004 to June 30, 2008

* The market price of the Company's common stock at the time of stock option exercise must be at least ¥8,200 (In the event that it become necessary to adjust this value, the adjustment shall be conducted in a uniform and predetermined manner).

** 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, corporate auditor, employee or advisor. However, Unicharm's Board of Directors may approve the exercise of stock options by directors or corporate auditors who have resigned due to the expiration of one's term or employees who have retired due to reaching the compulsory retirement age.

*** Others include retired directors and employees.

**** A stock option holder must, at the time of the stock option exercise, hold a position within the Unicharm PetCare Corporation, its subsidiaries or affiliates (hereinafter, collectively the "Group") as a director, corporate auditor, executive officer or employee, or have: (1) completed a term of office as a director or corporate auditor; (2) retired as an executive officer or employee due to involuntary reasons stipulated by the rules of employment of individual Group companies; or (3) after retirement, been specifically approved to hold and exercise the stock options by Unicharm PetCare's Board of Directors.

The stock option activity is as follows:

	Unicharm Corporation		Unicharm Petcare Corporation
	2003 Stock Option	2004 Stock Option	2002 Stock Option
For the year ended March 31, 2007			
Non-vested			
March 31, 2006—Outstanding	544,600	705,700	
Granted			
Canceled	(11,000)	(13,600)	
Vested			
March 31, 2007—Outstanding	533,600	692,100	
Vested			
March 31, 2006—Outstanding			160,000
Vested			
Exercised			122,000
Canceled			
March 31, 2007—Outstanding			38,000
Exercise price	¥5,731	¥5,702	¥300
Average stock price at exercise			¥4,565
Fair value price at grant date			

11. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended March 31, 2008, 2007 and 2006 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	2008
Sales promotion	¥ 37,280	¥31,735	¥27,688	$ 372,800
Advertising	10,519	10,116	9,002	105,189
Shipping and storage expenses	17,977	17,280	15,214	179,775
Employees' salaries	11,276	10,877	9,776	112,765
Depreciation	1,613	1,282	1,444	16,129
Other	28,338	27,421	25,461	283,371
Total	¥107,003	¥98,711	¥88,585	$1,070,029

12. 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 40.7% for the years ended March 31, 2008, 2007 and 2006. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

The tax effects of significant temporary differences and loss carry forward, which resulted in deferred tax assets and liabilities at March 31, 2008, 2007 and 2006, are as follows:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	2008
Deferred tax assets-current:				
Accrued bonuses	¥ 1,149	¥ 1,144	¥ 1,114	$ 11,491
Accrued enterprise tax	514	516	547	5,136
Accrued sales promotion	1,175	504	543	11,745
Unrealized gains	137	78	55	1,370
Other	552	422	383	5,530
Less valuation allowance		(21)		
Total	3,527	2,643	2,642	35,272
Deferred tax assets-non-current:				
Investment securities	1,060	1,060	1,035	10,601
Pension and severance costs	2,678	2,755	1,578	26,783
Less allowance for doubtful accounts	76	66	137	763
Impairment loss	138	168	850	1,379
Other	313	964	984	3,125
Less valuation allowance	(339)	(187)		(3,386)
Total	3,926	4,826	4,584	39,265
Deferred tax liabilities-current:				
Other	2	4		24
Total	2	4		24
Deferred tax liabilities-non-current				
Net unrealized gain on available-for-sale securities	1,320	4,788	4,302	13,202
Undistributed earnings of subsidiaries	2,668	2,315	1,466	26,681
Prepaid pension cost	1,999	1,579		19,994
Other	30	886	1,292	290
Total	6,017	9,568	7,060	60,167
Net deferred tax assets-current	¥ 3,525	¥ 2,639	¥ 2,642	$ 35,248
Net deferred tax assets—non-current	¥ 424			$ 4,245
Net deferred liabilities-non-current	¥(2,515)	¥(4,742)	¥(2,476)	$(25,147)
Deferred tax assets-land revaluation	¥ 223	¥ 223	¥ 227	$ 2,226

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, 2008, 2007 and 2006 is not required to be disclosed because the difference is less than 5% of the normal effective statutory tax rate.

13. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥4,505 million ($45,048 thousand), ¥4,332 million and ¥4,018 million for the years ended March 31, 2008, 2007 and 2006, respectively.

14. LEASES

The Group leases certain machinery, computer equipment, office space and other assets.

Total rental expenses for the years ended March 31, 2008, 2007 and 2006, were ¥348 million ($3,477 thousand), ¥350 million and ¥359 million, respectively, including ¥107 million ($1,072 thousand), ¥129 million and ¥174 million of lease payments under finance leases.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense and interest expense of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2008, 2007 and 2006, were as follows:

	Millions of yen			Thousands of U.S. dollars
Machinery, Furniture and Fixtures	2008	2007	2006	2008
Acquisition cost	¥371	¥325	¥975	$3,714
Accumulated depreciation	195	81	879	1,953
Net leased property	¥176	¥244	¥ 96	$1,761

The amount of acquisition cost includes the imputed interest expense portion.

Obligations under finance leases for the years ended March 31, 2008, 2007 and 2006 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	2008
Due within one year	¥101	¥ 94	¥84	$1,008
Due after one year	75	150	12	753
Total	¥176	¥244	¥96	$1,761

The amount of obligations under finance leases includes the imputed interest expense portion.

Depreciation expense, which is not reflected in the accompanying consolidated statements of income, computed by the straight-line method was ¥107 million ($1,072 thousand), ¥129 million and ¥174 million for the years ended March 31, 2008, 2007 and 2006, respectively.

The minimum rental commitments under noncancelable operating leases at March 31, 2008 were as follows:

	Millions of yen	Thousands of U.S. dollars
Due within one year	¥2	$23
Due after one year		
Total	¥2	$23

15. 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 reducing 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.

Foreign currency forward contracts and currency options that qualify for hedge accounting for the years ended March 31, 2008, 2007 and 2006 are excluded from the disclosure of market value information.

The Group had the following derivatives contracts outstanding at March 31, 2007 and 2006:

	Millions of yen					
	2007			2006		
	Contract Amount	Fair Value	Unrealized Gain (Loss)	Contract Amount	Fair Value	Unrealized Gain (Loss)
Credit default swap option	¥4,000	¥ 10	¥10	¥6,000	¥27	¥27
Forward exchange contracts-selling U.S. dollar forward	669	669				

There was no derivative contract outstanding at March 31, 2008.

The contract or notional amounts of derivatives that are shown in the above table do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

The credit default swap option is part of an embedded derivative which is a kind of compound financial instruments. It is measured at fair value and the gains/losses are recognized in the income statement.

16. CONTINGENT LIABILITIES

At March 31, 2008, the Group had the following contingent liabilities:

	Millions of yen	Thousands of U.S. dollars
Guarantees and similar items of bank loans	¥85	$847

17. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2008, 2007 and 2006 is as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars
Year Ended March 31, 2008	Net Income	Weighted-average Shares	EPS	
Basic EPS—Net income available to common shareholders	¥16,684	64,318	¥259.39	$2.59
Effect of dilutive securities-Adjustment of warrants of subsidiary	(5)			
Diluted EPS—Net income for computation	¥16,679	64,318	¥259.31	$2.59

	Millions of yen	Thousands of shares	Yen
Year Ended March 31, 2007	Net Income	Weighted-average Shares	EPS
Basic EPS-Net income available to common shareholders	¥15,059	64,821	¥232.31
Effect of dilutive securities-Adjustment of warrants of subsidiary	(8)		
Diluted EPS-Net income for computation	¥15,051	64,821	¥232.17

	Millions of yen	Thousands of shares	Yen
Year Ended March 31, 2006	Net Income	Weighted-average Shares	EPS
Basic EPS-Net income available to common shareholders	¥15,288	65,775	¥229.34
Effect of dilutive securities-Adjustment of warrants of subsidiary	(22)		
Diluted EPS-Net income for computation	¥15,266	65,775	¥229.00

18. SUBSEQUENT EVENTS

The following appropriations of retained earnings at March 31, 2008 were approved at the Board of Directors of the Company meeting held on May 26, 2008:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥23 ($0.23) per share	¥1,466	$14,659

19. RELATED PARTY TRANSACTIONS

Transactions of the Company with related parties for the years ended March 31, 2008, 2007 and 2006 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, Chairman 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
	2008	2007	2006	2008
Insurance premium	¥ 2	¥ 6	¥ 11	$ 22

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
	2008	2007	2006	2008
Rental expenses	¥25	¥24	¥ 200	$248

c. Takahara Fund Ltd.
Takahara Fund Ltd.is directly owned 100% share Mr.Keiichiro Takahara.

	Millions of yen		
	2008	2007	2006
Sale of investment securities			¥2581
Realized gain on sale of investment securities			834

20. SEGMENT INFORMATION

The Group operates in the following industries: Industry A consists of baby and child care, feminine hygiene and elderly care.
Industry B consists of pet care.
Industry C consists of other products.

Information about industry segments, geographic segments and sales to foreign customers of the Group is as follows:

(1) INDUSTRY SEGMENTS

a. Sales and Operating Income

	Millions of yen				
	2008				
	Industry A	Industry B	Industry C	Eliminations	Consolidated
Sales to customers	¥285,325	¥40,224	¥11,315	¥	¥336,864
Intersegment sales	3		4	(7)	
Total sales	285,328	40,224	11,319	(7)	336,864
Operating expenses	257,753	35,086	10,413	(119)	303,133
Operating income	¥ 27,575	¥ 5,138	¥ 906	¥ 112	¥ 33,731

b. Assets, Depreciation, Impairment Loss and Capital Expenditures

	Millions of yen				
	2008				
	Industry A	Industry B	Industry C	Corporate	Consolidated
Assets	¥168,090	¥23,850	¥27,773	¥55,723	¥275,436
Depreciation	14,321	440	280		15,041
Capital expenditures	16,425	815	130		17,370

a. Sales and Operating Income

	Thousands of U.S. dollars				
	2008				
	Industry A	Industry B	Industry C	Eliminations	Consolidated
Sales to customers	$2,853,253	$402,243	$113,146	$	$3,368,642
Intersegment sales	24		42	(66)	
Total sales	2,853,277	402,243	113,188	(66)	3,368,642
Operating expenses	2,577,528	350,860	104,132	(1,191)	3,031,329
Operating income	$ 275,749	$ 51,383	$ 9,056	$ 1,125	$ 337,313

b. Assets, Depreciation, Impairment Loss and Capital Expenditures

	Thousands of U.S. dollars				
	2008				
	Industry A	Industry B	Industry C	Corporate	Consolidated
Assets	$1,680,901	$238,505	$277,723	$557,231	$2,754,360
Depreciation	143,214	4,400	2,794		150,408
Capital expenditures	164,248	8,147	1,309		173,704

a. Sales and Operating Income

	Millions of yen				
	2007				
	Industry A	Industry B	Industry C	Eliminations	Consolidated
Sales to customers	¥256,872	¥34,105	¥10,903	¥	¥301,880
Intersegment sales	66		4	(70)	
Total sales	256,938	34,105	10,907	(70)	301,880
Operating expenses	232,244	30,130	9,754	(178)	271,950
Operating income	¥ 24,694	¥ 3,975	¥ 1,153	¥ 108	¥ 29,930

b. Assets, Depreciation, Impairment Loss and Capital Expenditures

	Millions of yen				
	2007				
	Industry A	Industry B	Industry C	Corporate	Consolidated
Assets	¥165,143	¥19,962	¥26,125	¥57,533	¥268,763
Depreciation	12,811	351	269		13,431
Capital expenditures	20,496	422	389		21,307

a. Sales and Operating Income

	Millions of yen				
	2006				
	Industry A	Industry B	Industry C	Eliminations	Consolidated
Sales to customers	¥228,884	¥30,361	¥11,135	¥	¥270,380
Intersegment sales	60		4	(64)	
Total sales	228,944	30,361	11,139	(64)	270,380
Operating expenses	205,057	26,952	9,991	(151)	241,849
Operating income	¥ 23,887	¥ 3,409	¥ 1,148	¥ 87	¥ 28,531

b. Assets, Depreciation, Impairment Loss and Capital Expenditures

	Millions of yen				
	2006				
	Industry A	Industry B	Industry C	Corporate	Consolidated
Assets	¥145,350	¥17,578	¥26,912	¥60,515	¥250,355
Depreciation	12,460	332	271		13,063
Impairment loss	281				281
Capital expenditures	12,906	569	134		13,609

(2) GEOGRAPHIC SEGMENTS

a. Sales and Operating Income

	Millions of yen				
	2008				
	Japan	Asia (Excluding Japan)	Europe and The Middle East	Eliminations	Consolidated
Sales to customers	¥217,474	¥72,422	¥46,968	¥	¥336,864
Intersegment sales	9,725	2,670		(12,395)	
Total sales	227,199	75,092	46,968	(12,395)	336,864
Operating expenses	203,176	66,594	45,762	(12,399)	303,133
Operating income	¥ 24,023	¥ 8,498	¥ 1,206	¥ 4	¥ 33,731

b. Assets

	Millions of yen				
	2008				
	Japan	Asia (Excluding Japan)	Europe and The Middle East	Corporate	Consolidated
Assets	¥137,958	¥52,366	¥29,759	¥55,353	¥275,436

a. Sales and Operating Income

	Thousands of U.S. dollars				
	2008				
	Japan	Asia (Excluding Japan)	Europe and The Middle East	Eliminations	Consolidated
Sales to customers	$2,174,747	$724,217	$469,678	$	$3,368,642
Intersegment sales	97,241	26,704		(123,945)	
Total sales	2,271,988	750,921	469,678	(123,945)	3,368,642
Operating expenses	2,031,757	665,942	457,616	(123,986)	3,031,329
Operating income	$ 240,231	$ 84,979	$ 12,062	$ 41	$ 337,313

b. Assets

	Thousands of U.S. dollars				
	2008				
	Japan	Asia (Excluding Japan)	Europe and The Middle East	Corporate	Consolidated
Assets	$1,379,580	$523,656	$297,587	$553,537	$2,754,360

a. Sales and Operating Income

	Millions of yen				
	2007				
	Japan	Asia (Excluding Japan)	Europe and The Middle East	Eliminations	Consolidated
Sales to customers	¥206,891	¥56,645	¥38,344	¥	¥301,880
Intersegment sales	10,980	2,334		(13,314)	
Total sales	217,871	58,979	38,344	(13,314)	301,880
Operating expenses	194,070	53,919	37,378	(13,417)	271,950
Operating income	¥ 23,801	¥ 5,060	¥ 966	¥ 103	¥ 29,930

b. Assets

	Millions of yen				
	2007				
	Japan	Asia (Excluding Japan)	Europe and The Middle East	Corporate	Consolidated
Assets	¥129,480	¥49,125	¥28,649	¥61,509	¥268,763

a. Sales and Operating Income

	Millions of yen				
	2006				
	Japan	Asia (Excluding Japan)	Europe and The Middle East	Eliminations	Consolidated
Sales to customers	¥201,651	¥43,202	¥25,527	¥	¥270,380
Intersegment sales	4,851	2,505		(7,356)	
Total sales	206,502	45,707	25,527	(7,356)	270,380
Operating expenses	181,810	42,578	24,870	(7,409)	241,849
Operating income	¥ 24,692	¥ 3,129	¥ 657	¥ 53	¥ 28,531

b. Assets

	Millions of yen				
	2006				
	Japan	Asia (Excluding Japan)	Europe and The Middle East	Corporate	Consolidated
Assets	¥121,308	¥35,492	¥21,373	¥72,182	¥250,355

(3) SALES TO FOREIGN CUSTOMERS

Sales to foreign customers for the years ended March 31, 2008, 2007 and 2006 amounted to ¥124,309 million ($1,243,095 thousand), ¥98,103 million and ¥72,250 million, respectively.

Independent Auditors' Report

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Unicharm Corporation:

We have audited the accompanying consolidated balance sheets of Unicharm Corporation and subsidiaries as of March 31, 2008, 2007 and 2006, and the related consolidated statements of income, changes in equity, and cash flows for each of the three years in the period ended March 31, 2008, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Unicharm Corporation and subsidiaries as of March 31, 2008, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2008, in conformity with accounting principles generally accepted in Japan.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 25, 2008

Member of
Deloitte Touche Tohmatsu

Subsidiaries and Affiliated Companies

As of March 31, 2008

Subsidiaries

		Major Operations	Percentage of Equity
Japan	Unicharm Product Co., Ltd.	Production of baby care, feminine care, health care and other products	100%
	Unicharm Material Co., Ltd.	Production, processing and sales of nonwoven and other materials	100
	Kokko Paper Mfg. Co., Ltd.	Production of paper, nonwoven and other materials	100
	Cosmotec Corporation	Processing and sales of photographic printing plates	100
	Unicharm PetCare Corporation	Production and sales of pet care products	39
	Unicharm Mölnlycke K.K.	Sales of adult incontinence care products	51
Taiwan	United Charm Co., Ltd.	Production and sales of baby care, feminine care and other products	53
Thailand	Uni-Charm (Thailand) Co., Ltd.	Production and sales of baby care, feminine care and other products	94
People's Republic of China	Shanghai Unicharm Co., Ltd.	Production and sales of feminine care products	75
	Unicharm Consumer Products (China) Co., LTD.	Production of baby care products	98
	Unicharm Consumer Products Service (Shanghai) Co., Ltd.	Sales of baby care, feminine care and other products	100
Republic of Korea	LG Unicharm Co., Ltd.	Production and sales of baby care, feminine care and other products	51
Indonesia	PT Uni-Charm Indonesia	Production and sales of baby care, feminine care and other products	74
Malaysia	Uni-Charm Corporation Sdn. Bhd.	Sales of baby care, feminine care and other products	100
Vietnam	Uni-Charm (Vietnam) Co., Ltd.	Production and sales of feminine care products	100
Philippines	Uni-Charm (Philippines) Corporation	Sales of baby care, feminine care and other products	97
Netherlands	Uni-Charm Mölnlycke B.V.	Holding company of two manufacturing companies	60
Saudi Arabia	Unicharm Gulf Hygienic Industries Ltd.	Production and sales of baby care, feminine care and other products	51

(Plus 6 others)

Affiliated Companies

		Major Operations	Percentage of Equity
Japan	The Fun Co., Ltd.	Data storage, processing and disposal services	25%
	UBS Co., Ltd.	Accounting, human resource management and administrative affairs	20

Investor Information

As of March 31, 2008

Fiscal Year-end	March 31, 2008
Annual Shareholders' Meeting	June 25, 2008
Common Stock	Authorized: 275,926,364 Issued: 68,981,591
Number of Shareholders	10,132
Date of Listing	August 1976
Stock Exchange Listing	First Section, Tokyo Stock Exchange
Transfer Agent	Japan Securities Agents, Ltd. 2-4 Kayaba-cho, 1-chome, Nihonbashi, Chuo-ku, Tokyo 103-0025, Japan
Auditor	Deloitte Touche Tohmatsu

Principal Shareholders

Shareholder	Number of Shares (Thousands)	Ratio of Number of Shares Held to Number of Shares Issued and Outstanding
Unitec Corporation	12,368	17.93%
Takahara Kosan K.K.	3,418	4.96
Takahara Kikin	3,120	4.52
The Master Trust Bank of Japan, Ltd. (Trust Account)	2,381	3.45
Nippon Life Insurance Company	1,934	2.81
The Hiroshima Bank, Ltd.	1,920	2.79
Japan Trustee Services Bank, Ltd. (Trust Account)	1,763	2.56
The Iyo Bank, Ltd.	1,699	2.46
State Street and Trust Company	1,537	2.23
Takahara Sangyo K.K.	1,230	1.78

Equity Policy

February	2008	Repurchase of treasury stock pursuant to Article 459, paragraph 1, item 1 of the Corporation Law of Japan (total number of shares acquired: 690,600; aggregate amount of acquisition cost: ¥4,999,944,000)
July-August	2006	Repurchase of treasury stock pursuant to Article 459, paragraph 1, item 1 of the Corporation Law of Japan (total number of shares acquired: 943,000; aggregate amount of acquisition cost: ¥5,999,992,000)
July-August	2005	Repurchase of treasury stock pursuant to Article 211-3, paragraph 1, item 2 of the Commercial Code of Japan (total number of shares acquired: 1,100,000; aggregate amount of acquisition cost: ¥4,972,890,000)
July	2004	Sales of shares (2,116,600 shares) (Price: ¥5,409; Purchasers: UFJ Bank Limited, Takahara Kosan K.K., Nippon Life Insurance Company, Kajima Corporation)
September	2003	Repurchase of treasury stock pursuant to Article 210.1 of the Commercial Code of Japan (999,000 shares purchased at ¥5,330 per share)
January	2003	Repurchase of treasury stock pursuant to Article 210.1 of the Commercial Code of Japan (1,500,000 shares purchased at ¥4,500 per share)
February	2002	Repurchase and retirement of shares (964,300 shares purchased at ¥3,400 per share)
March	2001	Repurchase and retirement of shares (921,000 shares purchased at ¥4,900 per share)
July	1999	Sales of shares in Japan and overseas (2,400,000 shares and 300,000 green shoe shares) (Price: ¥6,128; Purchasers: The Tokai Bank, Ltd., Takahara Shinko K.K., The Fuji Bank, Ltd.)
August	1998	Repurchase and retirement of shares (1,724,289 shares purchased at ¥5,210 per share)

Corporate Data

As of September 1, 2008

Registered Office of the Company	182 Shimobun Kinsei-cho, Shikokuchuo-City, Ehime 799-0111, Japan
Head Office	Sumitomo Fudosan Mita Twin Bldg. West Wing, 3-5-27, Mita, Minato-ku, Tokyo, Japan 108-8575
Date of Establishment	February 10,1961
Paid-in Capital	¥15,993 million
Number of Associates	967 (6,461 on a consolidated basis as of March 31, 2008)
Information	Executive Secretarial & Corporate Communication Office Sumitomo Fudosan Mita Twin Bldg. West Wing, 3-5-27, Mita, Minato-ku, Tokyo, Japan 108-8575 Tel: +81-3-6722-1019 Fax: +81-3-6722-1016

Website Information

Unicharm proactively discloses various information on its corporate Website. Unicharm is also upgrading its IR site, which contains financial information and the most recent Company news. This site also features interviews with Unicharm's president and other information. Our Website is continually updated and includes the latest product information.
http://www.unicharm.co.jp/english/index.html

Unicharm's Product-Related Websites (In Japanese only)

Website that provides a fun way to learn about first-time menstruation. We invite parents and children to visit the site together.
Hajimete Karada Nabi
http://www.unicharm.co.jp/english/index.html

Provides support to meet the needs of mothers through pregnancy, childbirth and child rearing. A "mother and baby" lifestyle support site.
Baby Town
http://www.babytown.jp/

A website for first-time mothers, providing a plethora of information about pregnancy and childbirth.
Premama Town
http://www.premama.jp/

Provides solutions to worries about early incontinence issues with self-help tips and a dedicated portal site for women.
Nyomore Care Nabi
http://www.nyoucare.jp/

Informational site for families and caregivers of elderly who need living assistance. Provides information and solutions for incontinence care issues.
Haisetsu Care Nabi
http://www.carenavi.jp/

Online adult incontinence-care product shopping site provides direct home delivery. Convenient for at-home nursing care recipients and providers, too.
Unicharm Tsushin Hanbai "Iki Iki Seikastu"
http://www.rakuten.ne.jp/gold/unicharm/

Printed in Japan