Unicharm Corporation

ANNUAL REPORT 2009

Year Ended March 31,2009

Fiscal 2009 Highlights

1. Net sales and operating income reached record highs, totaling ¥347.9 billion and ¥34.9 billion, respectively.

2. In Asia, net sales and operating income maintained double-digit growth, with the regional operating income ratio rising to 12.4%.

3. In the Pet Care Business, sales grew 11.0% year on year, while operating income surged 28.0%, showing a continued high rate of growth.

4. In domestic markets, sales of disposable adult diapers increased due to the launch of differentiated products.

Contents

Aiming for Sustainable Growth through Ongoing Contributions to Countless People around the World

Financial Highlights

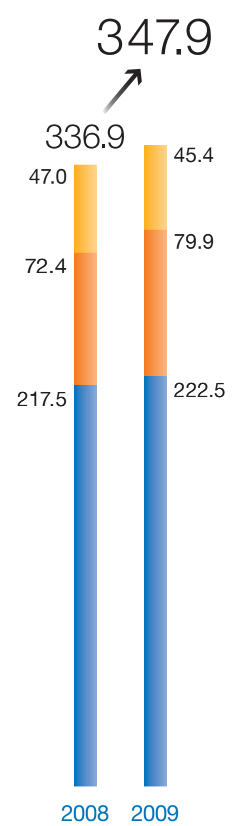
Unicharm Corporation and Subsidiaries

	Millions of yen		Thousands of U.S. dollars
Years Ended March 31	**2009**	2008	**2009**
For the Period:			
Net sales	**¥347,850**	¥336,864	**$3,549,486**
Operating income	**34,884**	33,731	**355,955**
Net income	**17,128**	16,683	**174,772**
Capital expenditures	**14,574**	17,370	**148,705**
Depreciation and amortization	**17,101**	15,022	**174,502**
R&D expenditure	**4,459**	4,505	**45,500**
At Year-End:			
Total equity	**¥185,591**	¥179,171	**$1,893,784**
Total assets	**278,314**	275,436	**2,839,933**
Per Share Data:	Yen		Thousands of U.S. dollars
Net income	**¥268.32**	¥259.39	**$2.74**
Cash dividends	**54.00**	46.00	**0.55**

Note: U.S.dollar amounts are translated from yen at the rate of ¥98=U.S.$1, the approximate rate on the Tokyo Foreign Exchange Market on March 31, 2009.

Increase in Net Sales by Geographic Segment

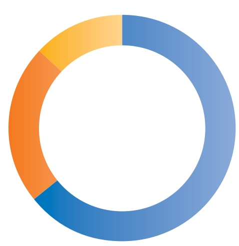
(¥Billion)



YoY Growth Rate

	(%)
Japan	+2.3
Asia	+10.4
Europe/Middle East	-3.4
Total overseas sales	+4.9

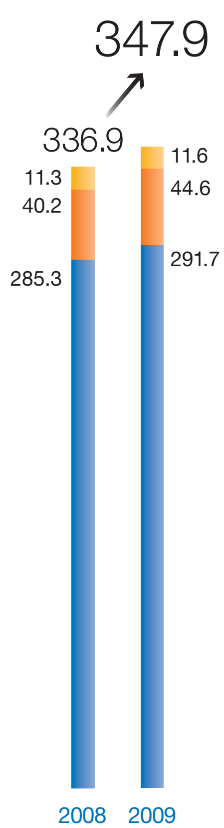
Net Sales Breakdown by Region



	(%)
Japan	64.0
Asia	23.0
Europe/Middle East	13.0

Increase in Net Sales by Business Segment

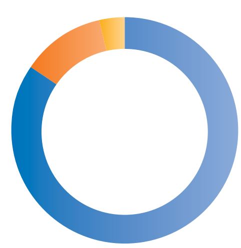
(¥Billion)



YoY Growth Rate

	(%)
Personal Care*	+2.2
Pet Care	+10.8
Other	+2.1

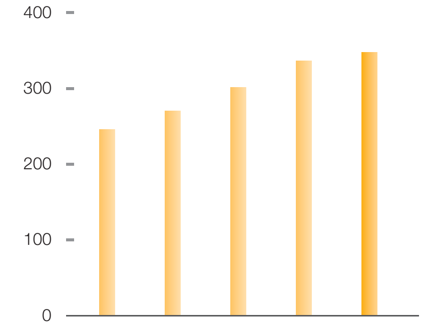
Net Sales Breakdown by Business Segment



	(%)
Personal Care*	83.9
Pet Care	12.8
Other	3.3

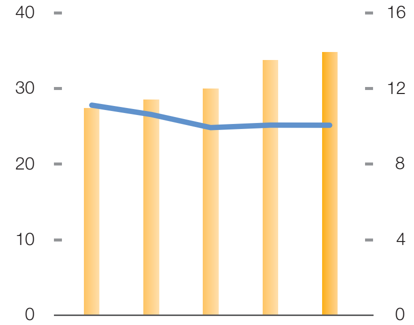
* Includes baby and child care, feminine hygiene and elderly care.

Net Sales



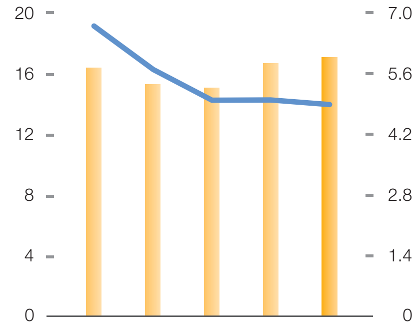
2005	2006	2007	2008	2009
246.1	270.4	301.9	336.9	347.9

Operating Income/Operating Margin



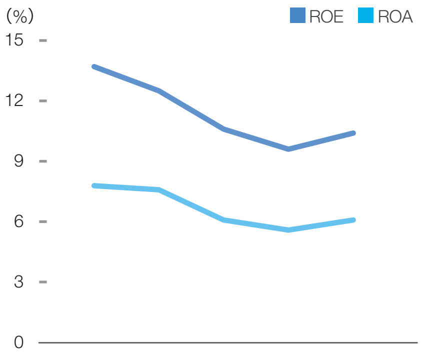
	2004	2005	2006	2007	2008
■	27.3	28.5	29.9	33.7	34.9
■	11.1	10.6	9.9	10.0	10.0

Net Income/Net Income to Net Sales Ratio



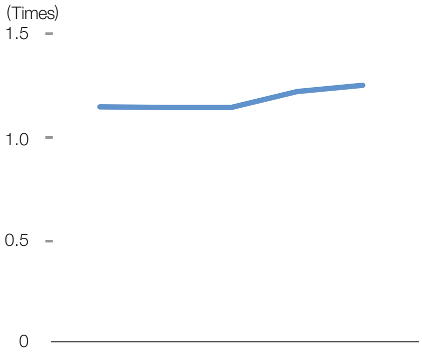
	2005	2006	2007	2008	2009
■	16.4	15.3	15.1	16.7	17.1
■	6.7	5.7	5.0	5.0	4.9

ROE · ROA



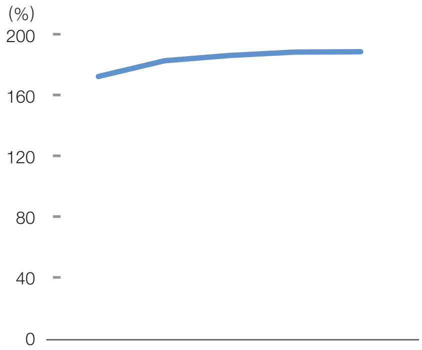
	2005	2006	2007	2008	2009
■	12.5	10.6	9.6	10.3	10.4
■	7.6	6.1	5.6	6.1	6.2

Total Asset Turnover



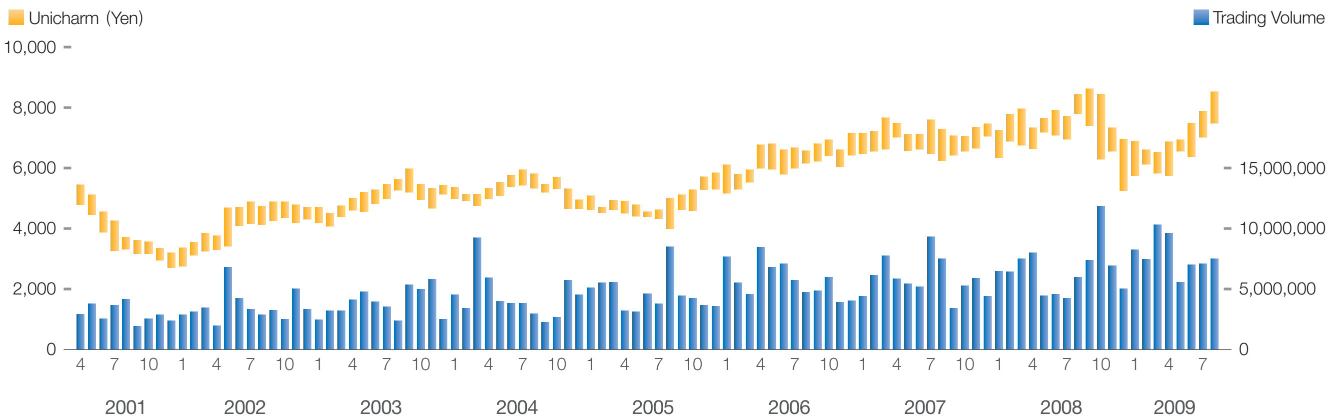
2005	2006	2007	2008	2009
1.16	1.16	1.16	1.24	1.27

Current Ratio



2005	2006	2007	2008	2009
175.2	185.8	189.2	191.4	191.6

Stock Price Performance/Trading Volume



Challenging the Status Quo Opens Markets

In fiscal 2009, ended March 31, 2009, Unicharm Corporation's net sales increased ¥11.0 billion compared with the previous fiscal year, to a record ¥347.9 billion. Double-digit growth in sales and operating income in Asia drove this net sales expansion.

FOURTH CONSECUTIVE YEAR OF INCREASED REVENUES AND EARNINGS

In fiscal 2009, ended March 31, 2009, Unicharm Corporation's net sales increased ¥11.0 billion compared with the previous fiscal year to ¥347.9 billion, a record high for the seventh consecutive fiscal year. In Japan, Unicharm created new markets by strengthening its brands and releasing products that generated new demand in both the personal care and pet care businesses. Sales in Japan climbed ¥5.0 billion year on year to ¥222.5 billion.

Overseas, sales increased in key Asian entry markets, particularly China. Thanks to double-digit sales growth primarily in Asia, sales by overseas subsidiaries surged ¥6.0 billion to ¥125.4 billion and now comprise 36% of Unicharm's consolidated sales.

As a result, operating income advanced ¥1.2 billion to ¥34.9 billion, while net income grew ¥0.4 billion to ¥17.1 billion.

Unicharm considers the paying of dividends to shareholders an important management policy and therefore works to increase corporate value through the generation of cash flow. To promote sales growth, the Company aggressively expands its operations by making new investments, works to strengthen its business structure and improve its earnings potential, while maintaining a policy of stable and continuous dividend growth.

The global economic recession has affected the economic growth of Asian countries, which had been steadily growing, and the severity of the business environment has intensified.

Unicharm will firmly maintain its number one market share in Asia and expand into new regions with the goal of gaining a 10% share of the global market. In order to be globally competitive in terms of profitability, we will resolutely carry through restructuring of the entire Group and establish a dominant position in terms of cost structure.

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

"There is a belief that success always comes from hardship. I want to continue to have the courage to face the current difficulties."

Takahisa Takahara
President and CEO

Interview with the President

Unicharm is committed to bringing excitement and delight to people throughout the world. Even in a drastically changing economic environment, we will make across-the-board efforts to offer better products to an even greater number of people.

Emphasizing close customer contact is truly the source of new demand creation.

Q1

Fiscal 2009, the year ended March 31, 2009, was a turbulent year with raw materials price hikes brought about by soaring crude oil prices, not to mention a global economic recession. Despite such conditions, Unicharm managed to record record-high sales and operating income. What gives Unicharm its competitive edge and what are your thoughts on business strategy?

A1

Unicharm is aiming to further expand its business in the global nonwoven fabric and absorbent materials market. Since taking office as president, we have engaged in the selection and concentration of businesses to focus on our mainstay nonwoven fabric and absorbent materials business. At the same time, our basic strategy involves expanding our business into other areas for further growth.

We have concentrated management resources in the nonwoven fabric and absorbent materials business and offered products customers need in a timely manner. Focus on this field can provide us with new business opportunities for such products as masks and pet excrement treatment sheets. Unicharm's initial business was the production and sale of sanitary napkins, and technologies developed through this business can expand our product categories for pet owners as well as for people at different times of their lives: from babies to women and from those who suffer from light incontinence to those in need of nursing care. We can proudly say that our business is making a significant contribution to society.

Some countries in the world are in the process of growing, while others have already reached maturity. Therefore, we can aim for further growth through timely product releases geared to the characteristics and developmental stage of the market in each region.

In short, Unicharm's competitive edge lies in its product lineup and know-how centered on its nonwoven fabric and absorbent materials businesses, which can support people at various stages of their lives.

About the Global 10 Plan

Q2

Fiscal 2009 was the initial year of the Global 10 Medium-Term Management Plan, under which Unicharm is aiming for a 10% share of the global market for absorbent material products. During the fiscal year under review, Unicharm also announced its entry into the Indian and Russian markets. Please tell us about your prospects.

A2

During the fiscal year under review, we established local subsidiaries in India and Russia. Together with these subsidiaries' inaugurations, we commenced the construction of manufacturing plants to meet growing demand.

Having commenced sales in April 2009, Unicharm India is also building its own plant. We regard India as an attractive market with a large population, where growing demand for disposable diapers is expected.

We have engaged in export and sales activities in Russia and the countries of Eastern Europe through our European subsidiary. On the back of growing sales and market potential, however, we will establish a local subsidiary with the aim of expanding supply and reducing costs.

We will determinedly enter markets where we expect demand and enhance efforts to achieve the targets of our Global 10 plan.

Q3

During the fiscal year under review, the Company recorded high sales growth in Asian countries where it conducts business operations. Please give us an overview of your future growth expectations in the midst of further intensifying market competition.

A3

High market growth is expected in the emerging countries in Asia. Against this backdrop, the buying power of the middle class is expanding while the population of high-income individuals rises in metropolitan areas.

In addition, there remain a large number of Asian countries where disposable diapers have yet to be widely distributed and where large demand potential can thus be expected. Based on these facts, Unicharm will proactively expand its business areas to offer disposable diapers to those who previously had been unable to purchase them. By doing do, we will realize a safer and more hygienic child-rearing environment for mothers.

Q4 **Unicharm also purchased the second largest disposable diaper manufacturer in Australia, where the market is considered to be approaching maturity. Please elaborate a little on your plans for this market.**

A4 **The high-profile local subsidiaries we acquired, boasts an approximate 20% share of the Australian market, second only to Kimberly-Clark Australia Pty Ltd.**

By including the Australian acquisition in Unicharm's scope of consolidation, we can expect such synergistic effects as reduced costs through integrated material procurement, a reinforced product lineup and the transfer of production know-how.

Furthermore, we will be able to establish a market presence in the Oceania region with the aim of achieving a 10% share in the global absorbent products market, as stated in the Global 10 Plan. We will strengthen our overseas business by improving our earnings capability.

Q5 **Turning to the Japanese market, in May 2008 the health care business released the *Humany* nursing care robot, which the Company had jointly developed with Hitachi, Ltd. Don't you think that the introduction of a robot designed to reduce the number of disposable diapers to be replaced could be termed a double-edged sword for a disposable diaper maker?**

A5 **When we started this new business, we had to take into consideration what we could do to reduce the mental, physical and financial burdens on both caregivers and patients.**

Since the introduction of *Lifree* pants-type disposable adult diapers in 1987, we have been offering products with the slogan "aiming to have zero bedridden people." Toileting assistance in particular imposes excessive burdens on caregivers. Therefore, we proactively exchanged opinions with companies in different industries with a view to reducing these burdens and enhancing the quality of life for both patients and caregivers. To that end, Unicharm had been engaged in a joint study into "automatic urine collection systems" since autumn 2001—integrating Hitachi, Ltd.'s micro-pump technology with our absorbency technology—and finally succeeded in bringing to fruition the commercial application of a consumer robot with innovative functions to sense and absorb urine. This achievement offers the prospect of cooperation between nursing care robots and human caregivers.

In addition, this robot is capable of reducing waste from disposable diapers to 10% of current levels. Since the majority of our products are disposable, as a leading company in the industry we always have to bear in mind the environmental impact issue, including the waste disposed of by consumers.

Q6

What are your policies regarding shareholder returns?

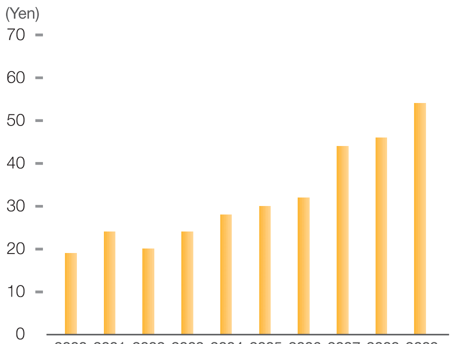
A6

Unicharm considers dividend payments as one of its most important management policies. Therefore, we are striving to enhance corporate value by ensuring positive cash flows.

Furthermore, we will make every effort to maintain stable, sustainable increases in dividend payments through proactive business investment for sales growth, while reinforcing our corporate structure and earnings capabilities.

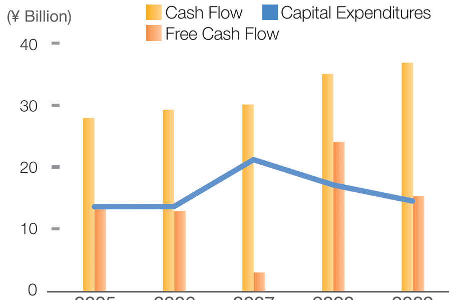
To that end, Unicharm repurchased a total of ¥4,999.6 million of its own shares on November 7, 2008, based on its policy of providing stable shareholder returns equivalent to 50% of net income. For fiscal 2009, the year-end dividend increased ¥4 per share to ¥27 per share. As a result, the full-year dividend for fiscal 2009 rose ¥8 year on year to ¥54 per share.

Returns to Shareholders



2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
19	24	20	24	28	30	32	44	46	54

Cash Flows/Capital Expenditures



	2005	2006	2007	2008	2009
Cash Flow	27.8	29.1	30.0	34.8	36.7
Free Cash Flow	13.8	12.9	2.9	24.0	15.3
Capital Expenditures	13.7	13.7	21.3	17.3	14.6

Special Feature 1: Growth Market Strategies

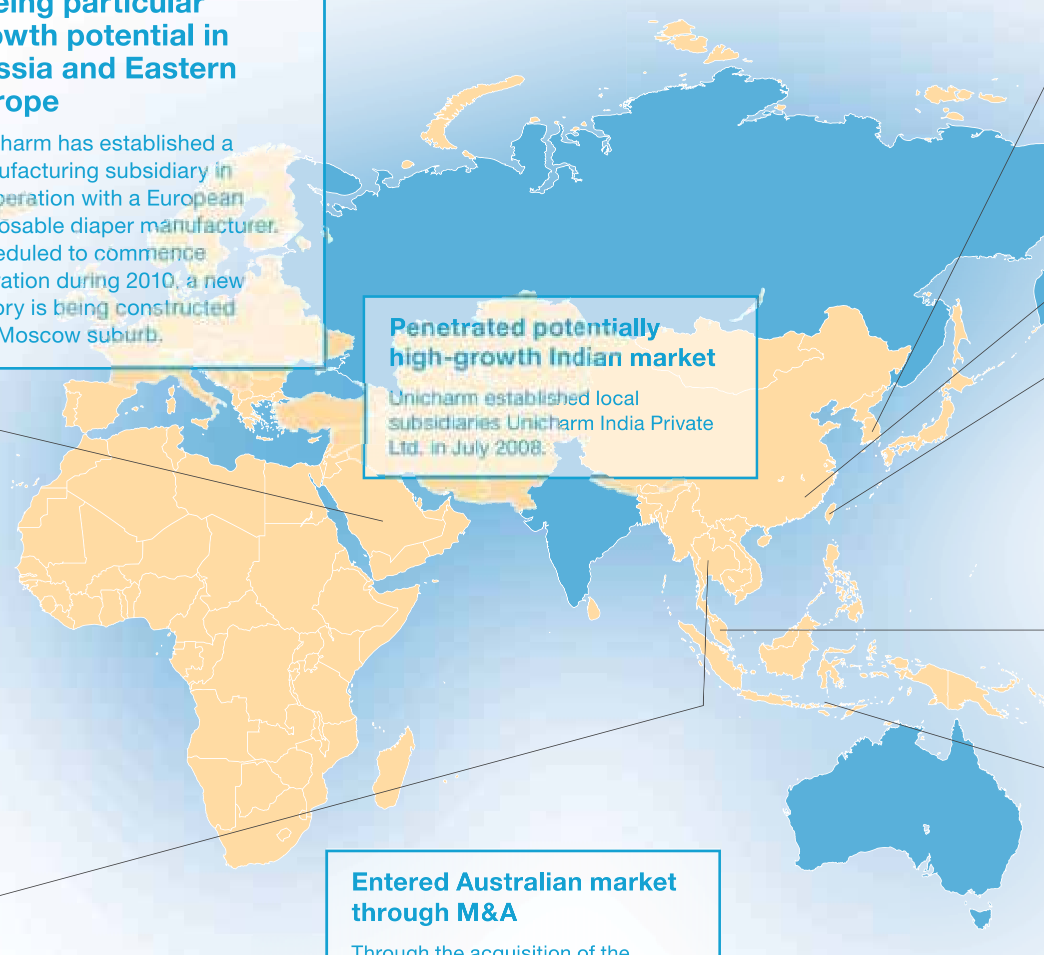
Progress Report on Global 10 Medium-Term Management Plan

Overseas Sales Expand to ¥125.4 Billion

Net sales and operating income in Asia maintained double-digit growth, with the regional operating income ratio edging up to 12.4%. Unicharm has steadily expanded sales in principal Asian entry markets. In particular, sales in China, Indonesia, Saudi Arabia and South Korea are showing significant growth. In high-growth Asia, the Company will complement its mainstay businesses — namely, the Feminine Care Business and the Baby and Child Care Business — with the Health Care Business, centered on disposable adult diapers.

Seeing particular growth potential in Russia and Eastern Europe

Unicharm has established a manufacturing subsidiary in cooperation with a European disposable diaper manufacturer. Scheduled to commence operation during 2010, a new factory is being constructed in a Moscow suburb.



SAUDI ARABIA
Sales

YoY Sales Increase
128%

● **Current-year strategy**
Unicharm is increasing export sales to 18 neighboring nations through its Saudi Arabian base.

Penetrated potentially high-growth Indian market

Unicharm established local subsidiaries Unicharm India Private Ltd. in July 2008.

THAILAND
Sales

YoY Sales Increase
113%

● **Current-year strategy**
Unicharm is accelerating export sales to countries in the Greater Mekong Subregion through its Thailand arm.

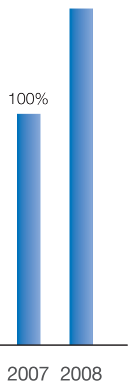
Entered Australian market through M&A

Through the acquisition of the country's second largest paper baby diaper manufacturer, Unicharm has reinforced its presence in the Oceania region. The Company is further bolstering its growth foundation in the region.

SOUTH KOREA*
Sales

YoY Sales Increase

146%



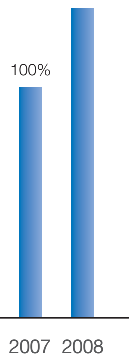
Current-year strategy

In concert with a regional partner, Unicharm aims to expand sales in the country.

CHINA*
Sales

YoY Sales Increase

134%



Current-year strategy

Unicharm will broaden the scope of its sales activities to include regional cities. At the same time, the Company is promoting product differentiation by reinforcing product functions.

*Years ended December 31.

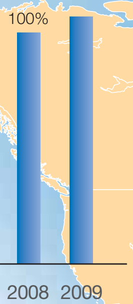
Overseas Expansion

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
2008	Australia	Acquired second largest disposable diaper manufacturer
2008	India	Established a subsidiary

TAIWAN
Sales

YoY Sales Increase

107%



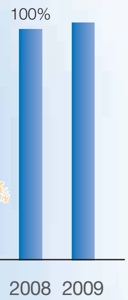
Current-year strategy

Unicharm is strengthening its earnings base in the country by accelerating sales of disposable adult diapers.

MALAYSIA
Sales

YoY Sales Increase

103%



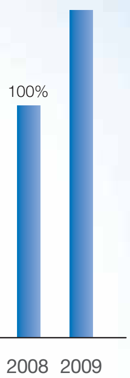
Current-year strategy

Unicharm is enhancing its product lineups and seeking sales expansion.

INDONESIA
Sales

YoY Sales Increase

142%



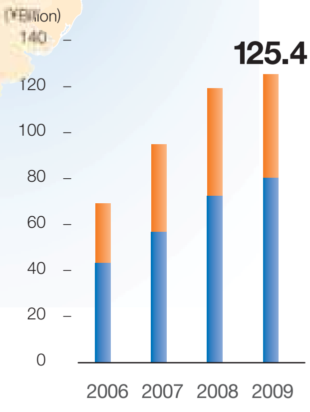
Current-year strategy

Unicharm is promoting the spread of disposable diaper use in the country with *Mamy Poko Pants Standar*, the first in a line of economy-category products. The Company is reinforcing its sales channels by involving local small retailers.

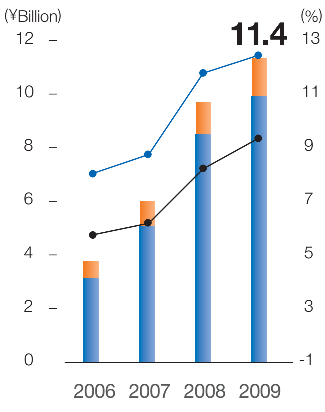
Overseas Business Expansion

Asia · Europe · Middle East · Asian operating profit margin · Overseas operating profit margin

Overseas Sales



Overseas Businesses' Operating Income



Accelerating the Development of Regional Markets

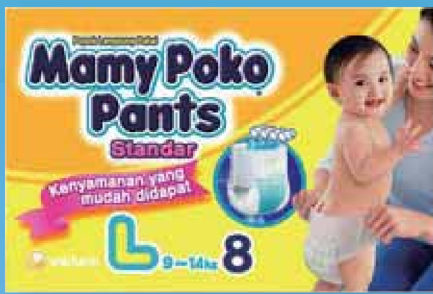
Mamy Poko Pants Standar Succeeds.

The love that mothers have toward their children is the same the world over.

Unicharm would like to encourage more mothers to provide safe and hygienic environments for child care. To that end, Unicharm has studied child-care facilities around the world in order to provide products that are closely adapted to customer needs.

In 2008, we launched *Mamy Poko Pants Standar*, our first economy-category disposable diaper. Combining a low price point with a widely accepted level of quality, it is a customer favorite and has the number one market share.

In entry markets, especially in Asia, we continue to provide safe and hygienic environments for child care by constantly offering better products.



China Strategy

Unicharm considers China a key market and is moving aggressively to expand its business there. In fiscal 2009, ended March 31, 2009, Unicharm sales in China recorded double-digit growth year on year. In the country's fast-growing economy, disposable diaper use is spreading and the market is expanding rapidly. With an upsurge in higher socio-economic and middle-income groups, high growth is expected. In addition to the leading metropolitan markets of Shanghai and Beijing, which Unicharm has entered, regional cities are showing remarkable growth and market expansion. Along with these changes in market conditions, Unicharm expanded its sales network to include regional cities, which will serve as its growth engine in China.

Unicharm has been highly commended for emphasizing close customer contact, establishing a research center in Shanghai and for incorporating feedback from Chinese consumers into its products. We will continue to maintain close customer contact and make comprehensive product improvements. Drawing on its success in Indonesia, Unicharm will broaden its product lineup in accordance with regional differences, and roll out products that satisfy more customers.

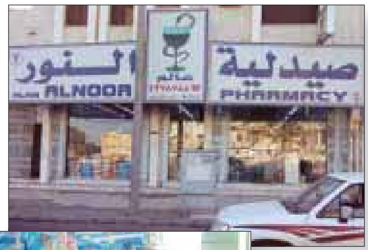
Middle East Strategy

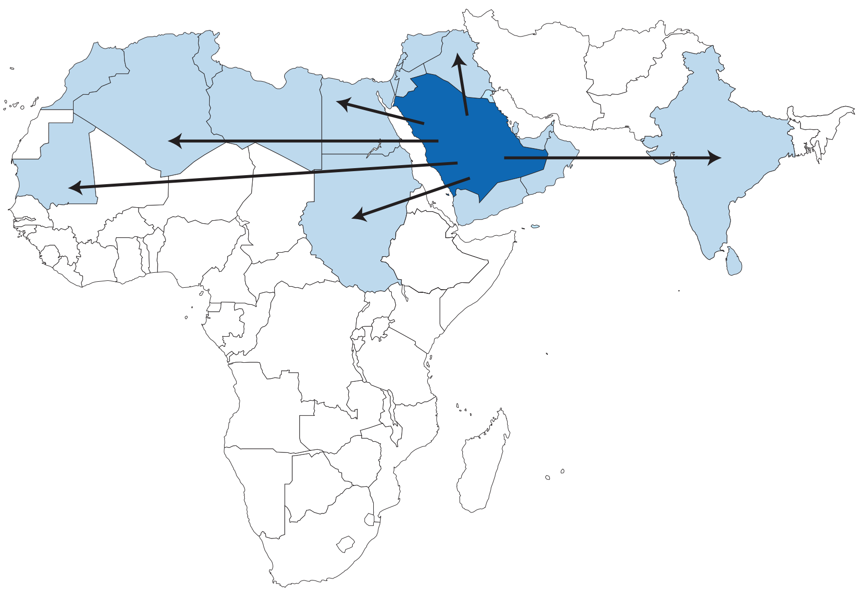
After licensing technology to Saudi Arabia's Gulf Hygenic Industries Ltd. in 1993, Unicharm made the company a subsidiary in 2005 and then began full-scale entry into the region. At present, Unicharm has business operations in 18 countries, including the UAE, Qatar, Iraq, Kuwait and Egypt.

The Middle East has a population of over 300 million, high per-capita GDP and annual birth rate, and is therefore a promising market with a high anticipated growth rate.

Taking into account the cultural background and differences rooted in tradition and religion, Unicharm has steadily built its brand image by introducing high-value-added products. In fiscal 2009, ended March 31, 2009, Unicharm sales in the Middle East jumped 28% year on year.

With China and Indonesia as medium-term growth drivers, Unicharm will move even more aggressively to expand its business.





« Expanded Operation in 18 countries »

Tackling mature markets by assessing what customers really need

Businesses Centered on Nonwoven Fabric and Absorbent Materials

Unicharm commenced sanitary napkin sales in 1963. Since then, the Company — now a leading feminine care products maker — has developed a number of unique technologies and products, while leveraging the nonwoven fabric and absorbent forming and processing technologies cultivated in the feminine care products field to expand its businesses. Thanks to these efforts, Unicharm branched out into the disposable baby diaper business in the 1980s. Spurred by this achievement, the Company has developed and offered to markets around the world such wide-ranging, revolutionary items as super-slim sanitary napkins on the back of women's social advancement, adult diapers to address the aging society and *Unicharm Superdimensional Masks* to respond to rising self-care awareness.

In the fiscal year ended March 31, 2009, Unicharm recorded sales growth for the seventh consecutive year and achieved record-high operating income. Since 2000, Unicharm's strategy has been backed primarily by "selection and concentration" in the nonwoven fabric and absorbent materials business. Starting with the sale of its building materials business in 2002, Unicharm sold its home-drainage cleaner business and acquired a Japanese maker's *Eldy* tampon business in the same year. The Company then withdrew from the tourism business in 2004, acquiring a Saudi Arabian disposable diaper maker in the following year. In 2006, Unicharm purchased the *Center-In* sanitary napkin business, again from a Japanese marker, followed by the second largest Australian disposable diaper company in 2008. These activities were all based on Unicharm's motto of "creating our all-time best products and services to markets and customers." With this in mind, the Company conducts business operations in accordance with its strategies to expand business for further growth, while focusing on the nonwoven fabric and absorbent materials field.

There are a number of markets and customers around the world that can achieve better lifestyles with Unicharm's proprietary nonwoven fabric and absorbent technologies. To that end, the Company will continue to pay utmost attention to customer comments and opinions to create higher quality products and services to offer comfortable lifestyles to countless people.

● History of Selection and Concentration

2002
- Sold building materials business
- Sold home-drainage cleaner business
- Purchased the *Eldy* tampon business from a Japanese maker.

2004
- Withdrew from tourism business

2005
- Purchased diaper manufacturer in Saudi Arabia

2006
- Purchased the *Center-In* sanitary napkin business from a Japanese maker

2007
- Withdrew from educational business

2008
- Acquired second largest diaper manufacturer in Australia

Case Study: *Lifree* story

Unceasing Product Development to Address an Aging Society

Aiming for a Bedridden Population of Zero

Unicharm has been developing products that address the anticipated aging of society since this trend first came to light. Since launching *Lifree* pants-type disposable diapers for adults in 1987, Unicharm has provided revolutionary products and services under its "Aiming for a bedridden population of zero" slogan.

Lifree "Living is Rehabilitation"

According to the latest ideas on rehabilitation, taking care of such daily activities as eating, going to the bathroom and changing clothes unaided are important aspects of rehabilitation. Unicharm launched *Lifree Rehabilitation Pants* in the fall of 2008, not only for those undergoing rehabilitation to recover and maintain their mobility and who are receiving nursing care to assist them in going to the bathroom, but also under the broader concept of preserving human dignity.

Enabling diaper-type pants to be easily changed while the wearer's pants are lowered to the knees—by simply unlatching the tape on both sides of the diaper—this revolutionary product helps reduce the mental and physical strain on both the caregiver and receiver, and contributes to improving the quality of life.

Seeking to spread the concept of lifelong rehabilitation, Unicharm has established "Living is rehabilitation" as its new brand message. Unicharm has selected jazz singer Chie Ayado, a caring mother herself, to act as its spokesperson, through TV commercials and other media, to encourage all those engaged in the arduous tasks of nursing care professionals.

The Incontinence Care Research Center's Role

In 1996, prior to the introduction of the nursing-care insurance system, Unicharm launched the Incontinence Care Research Center. At that time, Unicharm had considered entering the commercial market with *Lifree Rehabilitation Pants* and placed the Incontinence Care Research Center in charge of researching and analyzing the facilities and hospital markets.

Because nursing care facilities were using many disposable diapers at that time, we explained the various cost advantages of adopting pants-style disposable diapers to users and caregivers. We introduced these disposable diapers by selling the concept of proper incontinence care and by continually proposing the use of products that provide such care.

Our current focus is on approaches to incontinence self support, in which we emphasize the importance of transferring to the toilet and inducing evacuation while using *Lifree Rehabilitation Pants* and *Nyotori Pad*.

Home Care Promotion Group Activities

A super-aging society needs to preserve life and protect livelihoods, which requires the combined efforts of health preservation, medical care and welfare. The integration of medical care for the preservation of life and welfare-supported livelihood is needed. In 2001, Unicharm inaugurated the Home Service Promotion Division and visited municipalities nationwide to propose improvements to the system whereby local governments provide welfare benefits to be used for disposable diapers. As a leading manufacturer, we also provide advice to care managers and know-how to caregivers, including classes on how to select and apply diapers.

Fiscal 2010 Strategies by Business Segment

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

In Japan, the baby and child care business has launched a new *Moony* with the softness of babies' clothing. Gentle to infants' delicate skin thanks to its air jet manufacturing process and 30% thinner, the new *Moony* is lightweight, easy to carry and environment friendly. Unicharm is also creating demand with the *Funwari Bonyu Pad*, which incorporates Unicharm's non-woven absorbent technology and solves mothers' breast-feeding problems. Overseas, Unicharm is expanding its product lineup for the *Mamy Poko* brand in all regions and augmenting its supply capacity. As rapidly expanding markets drive growth we are taking steps to increase market share.

Feminine Care Business

In Japan, we are boosting demand with the launch of *Sofy Fuwagokochi* and *Sofy Kiyora*, new product designs to enhance women's grooming and appearance, a key to expanding the panty liner market. As a leading producer of sanitary napkins that adheres to its principle of creating freedom and comfort for women, Unicharm is also improving product appeal, reinforcing its product lineup and taking the lead in stimulating market growth. Overseas, Unicharm is fortifying its product lineup in response to consumer needs in all regions and taking steps to increase the market penetration of the *Sofy* and *Charm* brands.

Health Care Business

Unicharm has totally redesigned its packaging for *Charm Nap*, a light incontinence product, and fortified the already strong *Kyusui Sarafi* brand. The *Lifree Sawayaka Pad* has been improved through the adoption of a soft central absorber and a full-size sheet that alleviate skin discomfort. In conjunction with these efforts, we will continue to increase store points of sale for light incontinence products.

Furthermore, Unicharm has jointly established the Unicharm Humancare Corporation with Hitachi, Ltd. for sales of nursing care and health support products. It also launched *Humany*, a urine-aspiration robot equipped with an automatic urine collection system developed by the two companies, combining Hitachi's micro-pump and Unicharm's absorbent materials technologies.

Overseas, Unicharm is further expanding sales of its own incontinence care offerings, based on the *Lifree* brand, in Taiwan, Thailand and Indonesia.

Clean & Fresh Business

Unicharm has launched a sanitary *Silcot Wet Tissue* in response to growing hygienic awareness stemming from societal concerns over food.

Pet Care Business

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

Consolidated net sales in the baby and child care business increased ¥7,823 million from the previous fiscal year to ¥143,799 million.

In Japan, with the aim of revitalizing the market and increasing earnings, Unicharm released *Moony* and *Moonyman* disposable diapers with renewed package designs, which allow users to easily identify on sight different functions for each size. Meanwhile, the Company improved the package design of *Mamy Poko Pants* disposable diapers and changed the number of diapers contained in a package. This initiative has enabled us to expand sales and market share.

Overseas, Unicharm bolstered sales and marketing activities in Asian growth markets and successfully achieved significant sales expansion. In Indonesia, sales of *Mamy Poko Pants Standar* disposable diapers remained strong and contributed to sales growth. The Company also increased sales steadily in China, the Middle East and North Africa. In addition, Unicharm acquired Australia's second largest paper baby diaper maker, to consolidate its presence in Oceania and accordingly enhanced its growth foundation for the future.

■ Feminine Care Business

Consolidated net sales in the feminine care business declined ¥2,121 million year on year to ¥70,253 million.

On the domestic front, as part of efforts to support the Pink Ribbon Campaign — aimed at disseminating the importance of early detection and diagnosis of breast cancer among consumers as well as to promote purchases-Unicharm launched the limited — edition Pink Ribbon version of *Sofy* sanitary napkin products. Furthermore, under its *Sofy Synchro Fit* brand, the Company introduced a new type of sanitary napkin that can be directly applied to the body. Through this new product, we worked to create a new market that accommodates changing needs among women while revitalizing the existing sanitary napkin market.

Unicharm successfully boosted overseas feminine care business sales by accelerating activities in the growth markets of China, ASEAN, the Middle East and North Africa and by stepping up sales in such stable markets as Taiwan and South Korea.

■ Health Care Business

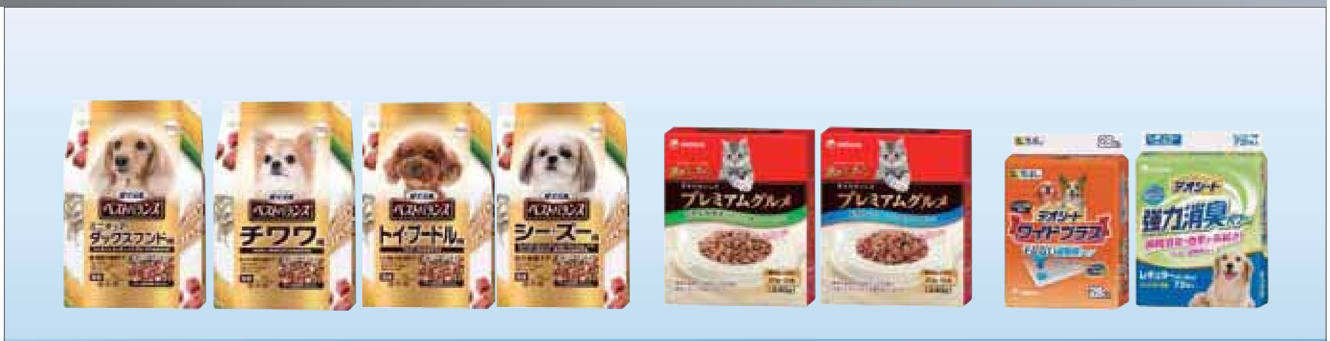
Unicharm introduced *Lifree Easy-to-Exchange Rehabili Pants* adult diapers to expand the product lineup of the *Lifree* brand. Upon the introduction of this new pants-type paper diaper, the Company changed the concept of the *Lifree* brand to "Living is rehabilitation." The new concept was conveyed via TV commercials and Unicharm's website as well as at stores and other places to reinforce *Lifree's* brand power and boost sales.

Meanwhile, people are becoming increasingly aware of the health management benefits of self-care. In response to this trend and to meet surging demand for masks to prevent colds and influenza, Unicharm enhanced the functions of *Super 3D Masks for Cold* and released *Super 3D Masks for Women*.

Clean & Fresh Business

In this business, Unicharm improved the design of *Wave Handy Wiper* by introducing a semitransparent holder and redesigned the replacement sheets for the wiper. In addition, the Company launched a limited-edition *Wave 3D Floor Wiper* with a floral-print head to expand the brand's product lineup and increase sales.

Pet Care Business



In the pet care business, Unicharm enhanced its product lineups in response to the four major pet-keeping trends in Japan: caring for pets that are kept indoors, small-sized pets, aging pets and overweight pets. In conjunction with this strategy, Unicharm promoted sales of its products.

In the Pet Food Department, the Company launched new, tasty and low-calorie products that especially cater for overweight pets. These products included *Silver Dish-Yummy and Low Calorie* for dogs and *Silver Spoon-Yummy and Low Calorie* for cats. Other new products launched during the fiscal year under review were: *Aiken Genki Best Balance* dog food for small dogs, which are becoming popular due to the growing trend for keeping pets indoors; and high-end *Silver Spoon Premium Gourmet* cat food. As described above, the Company reinforced its differentiated product lineup and undertook sales promotion as it addressed the burgeoning needs brought about by the four major pet-keeping trends.

In the Pet Toiletry Department, Unicharm has worked to improve and more effectively market products that cater to the ever-increasing requirements involved with keeping pets indoors. For example, the Company released *Deo Sheet Wide-Plus*, a sheet for disposing of dog urine in a size larger than the conventional wide-size product under the *Deo Sheet* brand, and *Deo Sheet Super Deodorant Power*, which immediately and lastingly neutralizes dog urine odors.

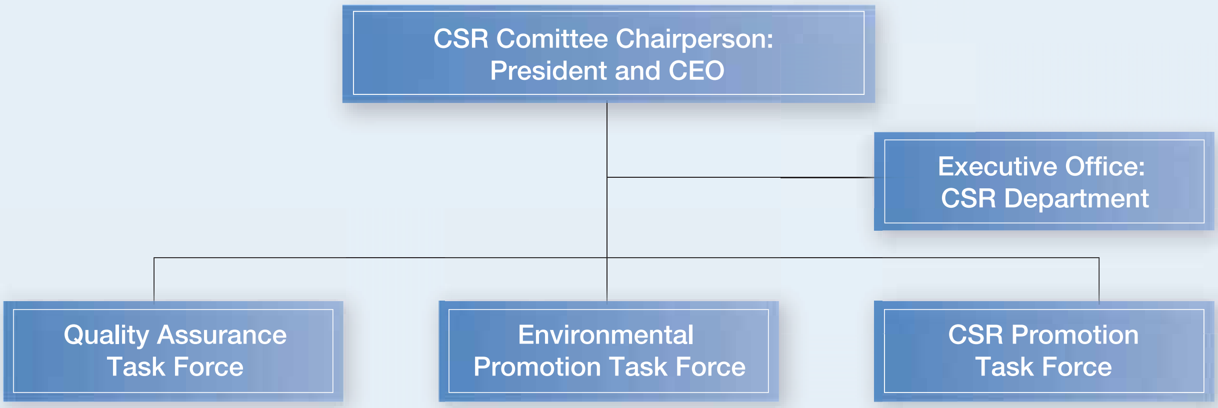
CSR Activities

CSR Promotion and Activities

As a company responsible for manufacturing disposable products, Unicharm is actively engaged in the development of products as well as efforts that reduce the environmental load.

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.



Quality Assurance Task Force

- Maintains quality assurance structure
- Promotes safety assurance measures
- Improves quality control
- Ensures appropriate product content labeling
- Responds to customer complaints
- Collects and distributes regulatory information

Environmental Promotion Task Force

- Maintains environmental management systems
- Promotes energy conservation
- Promotes waste recycling
- Promotes environmentally conscious product development
- Handles environmental risk issues
- Collects and distributes regulatory information

CSR Promotion Task Force

- Promotes ethics and compliance awareness
- Ensures risk control and information security
- Improves working environments
- Oversees corporate governance structures
- Maintains communication with stakeholders
- Engages in social contribution activities

Corporate Planning Division, Global Marketing Division, Global Research & Development Division, Global Human Resource & Administration Division, Intellectual Property & Legal Division, Customer Support Office, Internal Audit Department, Unicharm Products Co., Ltd.

Contributing to the Reduction of Environmental Load through Superior Technology

Unicharm has launched *Moonyman Slim Pants*, disposable diapers for infants that have an improved thinner absorbent lining and require fewer raw materials to produce. As a company that specializes in manufacturing absorbent products, Unicharm has leveraged its technologies to successfully cut the thickness of the absorbent layer by half. This has allowed Unicharm to eliminate complaints about diaper thickness, such as that diaper bulkiness makes them unwieldy to carry and that they are lumpy when worn. At the same time, the Company has lowered the environmental load of this product by reducing the amount of raw material required to produce it. Unicharm has created a diaper that emits less CO_2 than conventional brands and is ecologically friendly.

Unicharm has also started to include the “Eco Charming” eco-mark on products that have a reduced environmental load and higher product value. While working to reduce environmental load, we have used the benchmark of “environmental efficiency,” a numerical value that shows the extent to which product value has been improved, and this mark is applied only to those products that have passed our strict internal standards. This mark signifies Uncharm’s deep desire to create environment-friendly products. *Moonyman Slim Pants* and *Sofy Synchro Fit* are only the first step, Unicharm will continue to increase the number of eco-marked products and contribute to building a sustainable society.

Carbon Footprint

“Carbon footprint” refers to the amount of CO_2 that is emitted during a product’s lifecycle, and is provided on product packaging to help make this concept more tangible to consumers. Unicharm strives to reduce these CO_2 emissions. Providing information on emissions on the product package allows consumers to compare products from the standpoint of CO_2 emissions.

Unicharm is taking part in this carbon footprint campaign with its *Moonman Slim Pants* product. The concept of a carbon footprint, whereby the entire supply chain, including upstream suppliers, downstream customers, and the manufacturing and distributions processes in between are assessed for traces of carbon emitted into the earth’s environment, is attracting increasing international attention. Unicharm will continue to take responsibility as both an industry leader and as a manufacturer of disposable products to proactively engage in eco-friendly activities while working to keep pace with distributors and other stakeholders.

Moonyman Slim Pants Carbon Offset (with CO_2 emission credits)

Unicharm held the Moonyman Carbon Offset Campaign from June 5th to July 10th, and it met with widespread approval. The Company has offset approximately 3,400 tons of CO_2 based on sales volume in fiscal 2009. Unicharm plans to implement and further spread the Carbon Offset Campaign in fiscal 2010 as well.

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 (17 such meetings were held during the year ended March 31, 2009).

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 2009, the Company had 14 executive officers, 5 of whom concurrently held the position of director, and 4 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 companywide and a business process level. Related activities are detailed below.

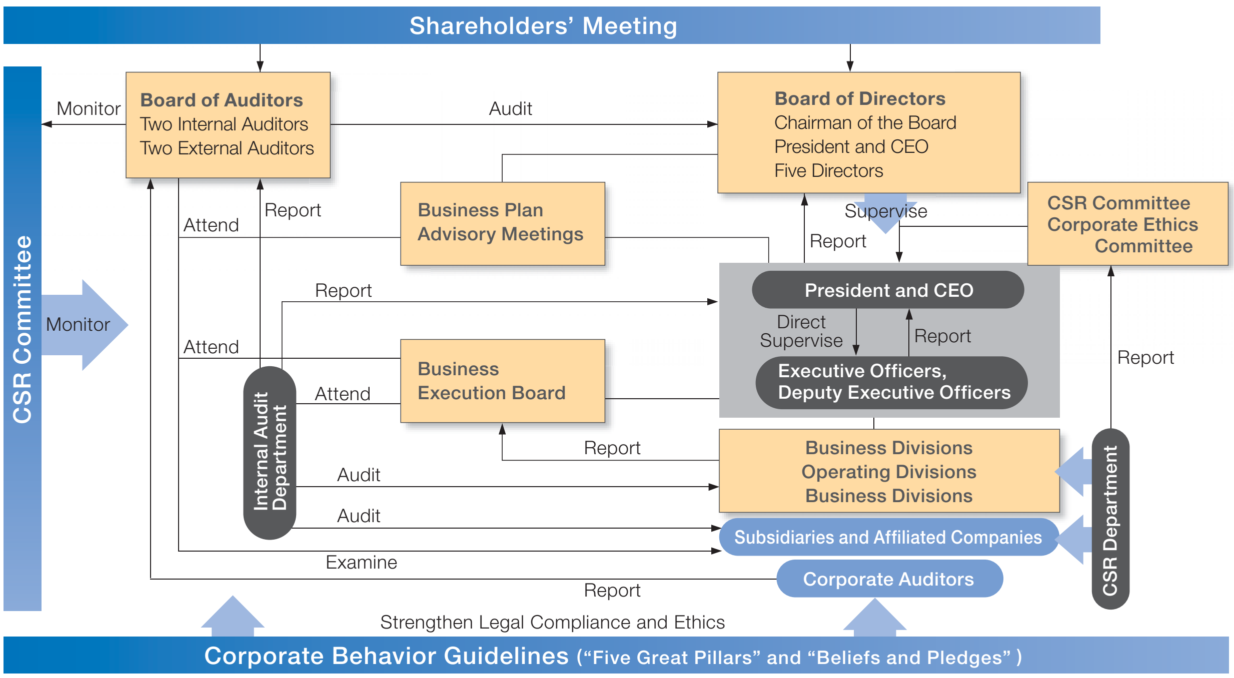
(1) An evaluation of internal control systems on a companywide level was implemented throughout the Unicharm Group companies, including at Unicharm PetCare Corporation, Unicharm Products Co., Ltd., Cosmotec Corporation and Unicharm Kokko Non-woven Co., Ltd. (former Kokko Paper Mfg. Co., Ltd. and Unicharm Material 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 24, 2009

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
Kazuhira Ikawa

Corporate Auditors
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, 2009

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	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

	2004	2005	2006	2007	2008	2009
FOR THE FISCAL PERIOD:						
Net sales	¥240,110	¥246,051	¥270,380	¥301,880	¥336,864	**¥347,850**
Cost of sales	132,074	137,341	153,264	173,239	196,130	**206,209**
Net income	16,240	16,382	15,288	15,059	16,683	**17,128**
As percentage of sales	6.8%	6.7%	5.7%	5.0%	5.0%	**4.9%**
Net income per share (yen)						
New accounting standard	240.26	244.25	229.34	232.31	259.39	**268.32**
Cash dividends per share applicable to the year (yen)	28.00	30.00	32.00	44.00	46.00	**54.00**
AT FISCAL PERIOD-END:						
Total assets	¥209,002	¥215,365	¥250,355	¥268,763	¥275,436	**¥278,314**
Property, plant and equipment	77,306	72,799	77,111	86,725	86,463	**84,248**
Long-term debt— less current maturities	1,557	345	677	1,739	1,452	**1,306**
Total equity	123,709	137,697	151,183	177,049	179,171	**185,591**
Equity ratio	59.2%	63.9%	60.4%	60.0%	58.9%	**60.2%**
RATIOS:						
Operating income ratio	12.8%	11.1%	10.6%	9.9%	10.0%	**10.0%**
Return on sales	6.8%	6.7%	5.7%	5.0%	5.0%	**4.9%**
Gross profit margin	45.0%	44.2%	43.3%	42.6%	41.8%	**40.7%**
SGA ratio	32.2%	33.1%	32.8%	32.7%	31.8%	**30.7%**
Return on equity (ROE)	13.7%	12.5%	10.6%	9.6%	10.3%	**10.4%**
Return on total assets (ROA)	7.8%	7.6%	6.1%	5.6%	6.1%	**6.2%**

Contents

SCOPE OF CONSOLIDATION

The Unicharm Group comprises the Unicharm Corporation, 30 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 2009, ended March 31, 2009, consolidated net sales increased 3.3% compared with ¥336.9 billion in the previous fiscal year to a record-high ¥347.9 billion. On a regional basis, sales in Japan rose ¥5.0 billion, or 2.3%, year on year to ¥222.5 billion, comprising 64.0% of net sales.

Domestically, Unicharm strived to strengthen its earnings platform and create new markets by bolstering the Company's product brands and launching new demand-generating products in both the personal care and pet care product divisions. As a result, Company sales in growth areas, specifically the health care and pet care businesses, expanded steadily.

In the core baby and child care business, Unicharm worked to invigorate markets and improve earnings by releasing *Moony* and *Moonyman* featuring a new and improved design that makes it possible to identify on sight different functions for each size while cultivating sales of pants-type disposable diapers. In the feminine care business, with the launch of *Sofy Syncrofit* sanitary napkins—a new type of feminine care product that adheres snugly to the body—Unicharm introduced new market-generating products in response to women's changing lifestyles.

Sales in Asia (excluding Japan) rose 10.4% over the previous fiscal year to ¥79.9 billion, marking a 1.5 percentage point increase in the net sales composition ratio to 23.0%. 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 ¥6.0 billion year on year, to ¥125.4 billion, representing 36.0% of consolidated net sales.

Geographic Segment Sales

Millions of yen

	2008	2009
Japan	¥217,474	¥222,471
Asia (excluding Japan)	72,422	79,939
Others	46,968	45,439
Total	¥336,864	¥347,850

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 ¥10.1 billion, from ¥196.1 billion in the previous fiscal year to ¥206.2 billion, while the cost of sales ratio increased 1.1 percentage points, from 58.2% to 59.3%. Gross profit increased 0.6% to ¥141.6 billion. Selling, general and administrative expenses dipped 0.2% year on year, to ¥106.8 billion due to increases in such areas

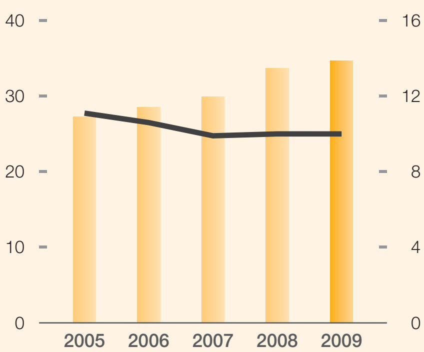
Net Sales

(¥ Billion)

246.1 270.4 301.9 336.9 347.9

Operating Income / Operating Income Ratio

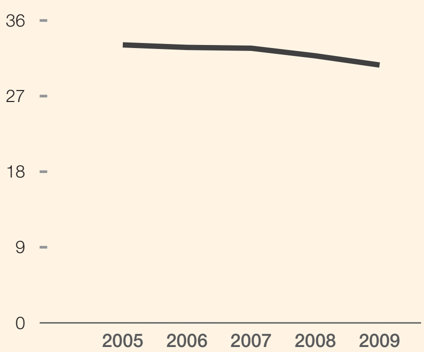
(¥ Billion) (%)



■	27.3	28.5	29.9	33.7	34.9
■	11.1	10.6	9.9	10.0	10.0

SGA Ratio

(%)



33.1 32.8 32.7 31.8 30.7

as of depreciation and amortization and shipping and storage expenses, totaling ¥2.3 billion and ¥18.3 billion respectively. As a result of cost improvement initiatives, the ratio of selling, general and administrative expenses to net sales improved 1.1 percentage points to 30.7%.

RESEARCH AND DEVELOPMENT COSTS

Research and development costs totaled ¥4.5 billion.

INCOME AND EXPENSES

Income in the fiscal year under review decreased due to such factors as high raw material prices, increases in brand cultivation marketing and advertising costs and a rise in sales promotion costs aimed at boosting Company competitiveness. Despite these setbacks, Unicharm took steps to increase income by expanding sales centered on growth businesses and by reducing costs. Consequently, operating income rose 3.4% year on year, from ¥33.7 billion to ¥34.9 billion, with the ratio of operating income to net sales unchanged at 10.0%.

Other expenses increased from ¥1.8 billion in fiscal 2008 to ¥7.4 billion during fiscal 2009. Foreign exchange loss rose from ¥1.2 billion year on year to ¥2.7 billion.

As a result, income before income taxes and minority interests decreased 13.9% to ¥27.5 billion. Current income taxes fell ¥4.6 billion from ¥12.5 billion to ¥7.9 billion, while deferred income taxes rose to ¥1.1 billion from the previous year's decrease of ¥0.1 billion. Net income increased 2.7% year on year to ¥17.1 billion, with net income per share amounting to ¥268.32, up ¥8.93 per share.

FINANCIAL POSITION AND LIQUIDITY

ASSETS, LIABILITIES AND EQUITY

Total assets as of March 31, 2009 stood at ¥278.3 billion, a ¥2.9 billion increase compared with the previous fiscal year. Under current assets, cash and cash equivalents decreased ¥26.9 billion to ¥60.4 billion. Marketable securities amounted to ¥5.5 billion, a contraction of ¥1.4 billion compared with the previous fiscal year. In notes and accounts receivable, the balance of trade receivables rose ¥2.6 billion to ¥40.9 billion. Inventories rose ¥3.4 billion, from ¥19.3 billion to ¥22.7 billion. Other current assets increased ¥17.4 billion to ¥21.0 billion.

Net property, plant and equipment decreased by ¥2.2 billion to ¥84.2 billion. Machinery and equipment fell ¥4.7 billion from the previous fiscal year to ¥140.9 billion. Construction in progress rose from ¥4.2 billion to ¥7.6 billion. Investments and other assets increased from ¥31.2 billion to ¥39.8 billion. Investment securities declined ¥4.8 billion to ¥15.5 billion, while goodwill totaled ¥12.7 billion.

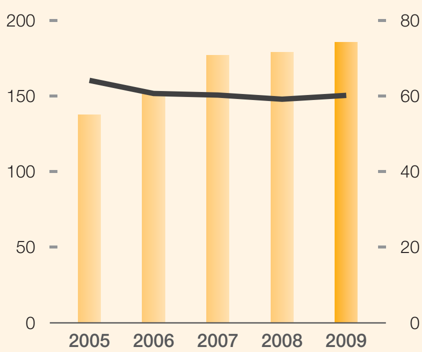
Current liabilities fell ¥1.9 billion, from ¥82.4 billion in the previous fiscal year to ¥80.5 billion. Short-term bank loans increased from ¥3.2 billion to ¥4.3 billion. Trade payables under notes and accounts payable decreased ¥2.1 billion to ¥61.0 billion.

Total long-term liabilities as of the fiscal year-end stood at ¥12.2 billion, a decrease of ¥1.6 billion. In addition to long-term debt of ¥1.3 billion, a ¥0.1 billion decrease, deferred tax liabilities decreased ¥1.0 billion year on year to ¥1.6 billion.

Net Income
(¥ Billion)

2005	2006	2007	2008	2009
16.4	15.3	15.1	16.7	17.1

Total Equity, Equity Ratio
(¥ Billion) (%)



	2005	2006	2007	2008	2009
■ (bar)	137.7	151.2	177.0	179.2	185.6
■ (line)	63.9	60.4	60.0	58.9	60.2

Within total equity, retained earnings climbed ¥14.0 billion to ¥168.3 billion. Foreign currency translation adjustments amounted to ¥6.7 billion. As a result, total equity improved ¥6.4 billion, or 3.4%, to ¥185.6 billion, while the equity ratio rose 1.3 percentage points compared with the previous fiscal year to 60.2%.

CAPITAL EXPENDITURES AND DEPRECIATION

Capital expenditures amounted to ¥14.6 billion in fiscal 2009, a ¥3.0 billion decrease from ¥17.4 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 production enhancements. Depreciation and amortization amounted to ¥17.1 billion, representing a year-on-year increase of ¥2.1 billion.

CASH FLOWS

Net cash provided by operating activities decreased ¥23.3 billion compared with the previous fiscal year to ¥22.0 billion. Income before income taxes and minority interests fell ¥4.4 billion to ¥27.5 billion, while depreciation and amortization increased ¥2.1 billion to ¥17.1 billion. Trade receivables rose ¥5.5 billion, while inventories increased ¥3.8 billion. Trade payables also increased ¥0.7 billion.

Net cash used in investing activities jumped ¥34.2 billion year on year to ¥44.3 billion due to such factors as increases made to the balance of time deposits and M&A. Primary components of this in the year under review were ¥66.1 billion in proceeds from sales and redemption of marketable securities, ¥65.7 billion in purchases of marketable securities, ¥14.8 billion in capital expenditures and ¥0.2 million in payment for purchase of investment securities.

Net cash used in financing activities decreased year on year by ¥9.4 billion, from ¥12.6 billion to ¥3.2 billion. Principal factors were a ¥1.9 billion increase in short-term bank loans, ¥5.0 billion in repurchase of the Company's stock, and ¥0.9 billion in cash dividends paid.

As a result of the foregoing, cash and cash equivalents at the end of the year totaled ¥60.4 billion, a ¥26.9 billion decrease from the total at the beginning of the year.

OUTLOOK FOR FISCAL 2010

Within the business environment that the Unicharm Group operates, deteriorating economic conditions encompassing both the corporate household sectors are impacting consumer spending. Although Unicharm products, as essential commodities, are not easily affected by the economy, it is important to view future market trends with extreme caution. However, the Group expects sales to increase, and corresponding rises in earnings, based on assumptions that high growth rates will continue in those overseas markets where the Company has a presence. In addition, raw materials prices that until recently had been increasing are expected to shift to a declining trend.

The Unicharm Group has continued to implement corporate restructuring initiated in the previous fiscal year by placing the highest priority on promoting revitalization of the domestic market and market growth overseas—particularly in Asia—as well as taking steps to expand its operations.

Consequently, despite the impact of rises in raw material prices during the first half of the fiscal year under review and stagnating domestic consumption resulting from the global economic recession in the second half, Unicharm matched its previous record for net sales, operating income and net income.

In order to promote further corporate changes, the Unicharm Group will focus its efforts on creating added value in all its businesses by ceaselessly undertaking product innovations. In addition, the Group will implement measures to bolster cost reduction and cost efficiency. Unicharm will also rapidly advance the aggressive development of overseas areas—particularly in Asia—and the expansion of product lineups that meet consumer needs. Through these measures, Unicharm is solidifying its position as a category leader in growth markets, while striving to increase its performance.

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, 2009.

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, Saudi Arabia, Vietnam and Australia. 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.

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, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2009**	**2008**	**2009**
CURRENT ASSETS:			
Cash and cash equivalents	¥ 60,421	¥ 87,318	$ 616,546
Marketable securities (Note 3)	5,535	5,796	56,478
Notes and accounts receivable:			
Trade	40,929	38,288	417,645
Allowance for doubtful accounts	(84)	(83)	(859)
Inventories (Note 4)	22,691	19,300	231,542
Deferred tax assets (Note 11)	3,783	3,525	38,598
Other current assets	21,016	3,607	214,447
Total current assets	154,291	157,751	1,574,397
PROPERTY, PLANT AND EQUIPMENT:			
Land (Note 5)	10,254	9,715	104,632
Buildings and structures	53,596	53,976	546,897
Machinery and equipment	140,919	145,595	1,437,947
Furniture and fixtures	6,427	6,171	65,579
Leased assets	253		2,579
Construction in progress	7,574	4,176	77,291
Total	219,023	219,633	2,234,925
Accumulated depreciation	(134,775)	(133,170)	(1,375,256)
Net property, plant and equipment	84,248	86,463	859,669
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 3)	15,497	20,255	158,136
Investments in affiliates	113	106	1,149
Goodwill	12,735	2,542	129,946
Software	1,105	1,099	11,271
Intangibles	2,389	104	24,376
Deferred tax assets (Note 11)	786	424	8,017
Deferred tax assets—land revaluation (Notes 5 and 11)		223	
Prepaid pension cost (Note 7)	5,586	4,913	57,000
Other assets	1,728	1,748	17,647
Allowance for doubtful accounts	(164)	(192)	(1,675)
Total investments and other assets	39,775	31,222	405,867
TOTAL	¥ 278,314	¥ 275,436	$ 2,839,933

See notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
LIABILITIES AND EQUITY	**2009**	**2008**	**2009**
CURRENT LIABILITIES:			
Short-term bank loans (Note 6)	¥ 4,297	¥ 3,243	$ 43,842
Current portion of long-term debt (Note 6)	454	184	4,633
Notes and accounts payable			
Trade	61,039	63,142	622,849
Others	1,264	868	12,898
Income taxes payable	4,333	6,696	44,212
Accrued expenses	8,237	7,192	84,053
Other current liabilities	898	1,108	9,164
Total current liabilities	80,522	82,433	821,651
LONG-TERM LIABILITIES:			
Long-term debt (Note 6)	1,306	1,452	13,329
Liability for retirement benefits (Note 7)	6,161	6,106	62,863
Guarantee deposits from customers	1,525	1,909	15,559
Deferred tax liabilities (Note 11)	1,556	2,515	15,880
Other long-term liabilities	1,653	1,850	16,867
Total long-term liabilities	12,201	13,832	124,498
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 13, 14 and 15):			
EQUITY (Notes 8 and 17):			
Common stock,			
authorized: 275,926,364 shares in 2009 and 2008			
issued: 68,981,591 shares in 2009 and 2008	15,993	15,993	163,191
Capital surplus	18,802	18,591	191,861
Retained earnings	168,283	154,332	1,717,174
Unrealized gains on available-for sale securities, net of taxes (Note 3)	1,746	1,910	17,812
Deferred gain on derivatives under hedge accounting	(28)	(46)	(287)
Land revaluation difference, net of tax (Note 5)	(547)	(324)	(5,580)
Foreign currency translation adjustments	(6,751)	(75)	(68,894)
Treasury stock—at cost shares: 5,329,376 in 2009 and 5,248,303 in 2008	(29,830)	(28,129)	(304,385)
Total	167,668	162,252	1,710,892
Minority interests	17,923	16,919	182,892
Total equity	185,591	179,171	1,893,784
TOTAL	¥278,314	¥275,436	$2,839,933

Consolidated Statements of Income

Unicharm Corporation and Subsidiaries Years Ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
NET SALES	¥347,850	¥336,864	$3,549,486
COST OF SALES (Note 12)	206,209	196,130	2,104,177
Gross profit	141,641	140,734	1,445,309
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 10, 12 and 18)	106,757	107,003	1,089,354
Operating income	34,884	33,731	355,955
OTHER INCOME (EXPENSES):			
Interest and dividend income	967	1,024	9,866
Interest expense	(311)	(457)	(3,172)
Foreign exchange loss	(2,668)	(1,240)	(27,221)
Sales discount	(1,887)	(1,574)	(19,251)
Loss on write-down of investment securities	(3,455)	(5)	(35,257)
Other—net (Note 18)	(74)	415	(754)
Other income (expenses)—net	(7,428)	(1,837)	(75,789)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	27,456	31,894	280,166
INCOME TAXES (Note 11)**:**			
Current	7,883	12,509	80,438
Deferred	(1,076)	(127)	(10,982)
Total income taxes	6,807	12,382	69,456
MINORITY INTERESTS IN NET INCOME	3,521	2,828	35,938
NET INCOME	¥ 17,128	¥ 16,684	$ 174,772

	Yen		U.S. dollars
	2009	2008	2009
PER SHARE OF COMMON STOCK (Notes 2. q. and 16)**:**			
Net income	¥ 268.32	¥ 259.39	$ 2.74
Diluted net income	268.21	259.31	2.74
Cash dividends applicable to the year	54.00	46.00	0.55

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

Unicharm Corporation and Subsidiaries Years Ended March 31, 2009 and 2008

	Thousands	Millions of yen										
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-Sale Securities	Deferred Gain (loss) on Derivatives under Hedge Accounting	Land Revaluation Surplus	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, APRIL 1, 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
Adjustment of retained earnings due to adoption of PITF No. 18				26						26		26
Net income				17,128						17,128		17,128
Cash dividends, ¥50.00 per share				(3,203)						(3,203)		(3,203)
Purchase of treasury stock	(699,373)								(5,015)	(5,015)		(5,015)
Disposal of treasury stock (Note 9)	618,300		211						3,314	3,525		3,525
Net change in the year					(164)	18	(223)	(6,676)		(7,045)	1,004	(6,041)
BALANCE, MARCH 31, 2009	63,652,215	¥15,993	¥18,802	¥168,283	¥ 1,746	¥(28)	¥(547)	¥(6,751)	¥(29,830)	¥167,668	¥17,923	¥185,591

	Thousands of U.S. dollars (Note 1)										
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-Sale Securities	Deferred Gain (loss) on Derivatives under Hedge Accounting	Land Revaluation Surplus	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, MARCH 31, 2008	$163,191	$189,703	$1,574,812	$19,490	$(460)	$(3,309)	$ (768)	$(287,033)	$1,655,626	$172,648	$1,828,274
Adjustment of retained earnings due to adoption of PITF No. 18			270						270		270
Net income			174,772						174,772		174,772
Cash dividends, $0.51 per share			(32,680)						(32,680)		(32,680)
Purchase of treasury stock								(51,169)	(51,169)		(51,169)
Disposal of treasury stock (Note 9)		2,158						33,817	35,975		35,975
Net change in the year				(1,678)	173	(2,271)	(68,126)		(71,902)	10,244	(61,658)
BALANCE, MARCH 31, 2009	$163,191	$191,861	$1,717,174	$17,812	$(287)	$(5,580)	$(68,894)	$(304,385)	$1,710,892	$182,892	$1,893,784

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Unicharm Corporation and Subsidiaries Years Ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 27,456	¥ 31,894	$ 280,166
Adjustments for:			
Income taxes—paid	(13,801)	(8,893)	(140,827)
Depreciation and amortization	17,101	15,022	174,502
Net periodic retirement benefit costs	(502)	(180)	(5,123)
Loss on write-down of investment securities	3,455	5	35,257
Increase in trade receivables	(5,526)	(295)	(56,384)
(Increase) decrease in inventories	(3,828)	1,076	(39,063)
Increase in trade payables	680	5,760	6,941
Increase (decrease) in other current liabilities	(5,716)	1,308	(58,329)
Other—net	2,659	(388)	27,128
Total adjustments	(5,478)	13,415	(55,898)
Net cash provided by operating activities	21,978	45,309	224,268
INVESTING ACTIVITIES:			
Proceeds from sales and redemption of marketable securities	66,065	79,329	674,134
Proceeds from sale of property, plant and equipment	78	151	797
Purchases of marketable securities	(65,706)	(71,208)	(670,468)
Capital expenditures	(14,791)	(17,370)	(150,930)
Purchase of time deposits	11,706		119,446
Repayment of time deposits	(25,157)		(256,701)
Payment for purchase of investment securities	(207)	(2,830)	(2,117)
Payment for purchase of shares in a subsidiary	(1,682)		(17,160)
Payment for acquisition of a subsidiary	(15,651)		(159,703)
Proceeds from sales and redemption of investment securities	1,000	2,540	10,204
Decrease in cash and cash equivalents from sales of a subsidiary		(76)	
Proceeds from sales of subsidiary		46	
Decrease in other assets	29	(673)	293
Net cash used in investing activities	(44,316)	(10,091)	(452,205)
FORWARD	¥(22,338)	¥ 35,218	$(227,937)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
FORWARD	¥(22,338)	¥ 35,218	$(227,937)
FINANCING ACTIVITIES:			
Increase (decrease) in short-term bank loans	1,878	(3,774)	19,164
Proceeds from long-term debt	241	305	2,464
Repayments of long-term debt	(274)	(126)	(2,793)
Cash dividends paid	(3,200)	(2,903)	(32,650)
Proceeds from sales of the Company's stock	3,525		35,975
Repurchase of the Company's stock	(5,015)	(5,009)	(51,169)
Cash dividends paid to minority interests	(934)	(1,078)	(9,529)
Others	581		5,912
Net cash used in financing activities	(3,198)	(12,585)	(32,626)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(1,361)	(764)	(13,890)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(26,897)	21,869	(274,453)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	87,318	65,449	890,999
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 60,421	¥ 87,318	$ 616,546
ADDITIONAL INFORMATION:			
Payment for acquisition of Australia Pty Ltd., net of cash acquired (Note 2. a)			
Assets acquired	¥ 8,680		$ 88,575
Goodwill	7,250		73,981
Liabilities assumed	(9,302)		(94,922)
Cash paid for the capital	6,628		67,634
Cash and cash equivalents in this subsidiary	(5)		(57)
Cash paid during the period from acquisition date September 30, 2008, the deemed acquisition date	9,028		92,126
Payment for acquisition of a subsidiary	¥ 15,651		$ 159,703

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Unicharm Corporation and Subsidiaries   Years Ended March 31, 2009 and 2008

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing these consolidated financial statements, certain reclassifications 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 2008 consolidated financial statements to conform to the classifications used in 2009.

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 ¥98 to $1, the approximate rate of exchange at March 31, 2009. 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 30 (24 in 2008) 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, 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.

During the fiscal year ended March 31, 2009, the Company established Unicharm India Private Ltd., Unicharm Molnlycke Rus Limited Liability Company and Unicharm Human Care Co., Ltd. and included these companies in the scope of consolidation. The Company acquired all shares in Unicharm Australia Pty Ltd., which was included in the scope of consolidation together with the four subsidiaries of the company.

In addition, three subsidiaries in China were merged into one subsidiary effective January 1, 2009.

Investment in two affiliates is 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 thirteen (nine in 2008) overseas subsidiaries and one domestic subsidiary that close accounts on December 31. In the consolidated financial statements, therefore, the Company uses the financial statements as of December 31, 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 over the effective investment period, calculated on an individual basis, using the straight-line method up to a maximum of 20 years.

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

b. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements

In May 2006, the Accounting Standards Board of Japan (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". PITF No. 18 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 of America 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) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; 3) expensing capitalized development costs of R&D; 4) cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting; 5) recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to financial statements have been incorporated; and 6) exclusion of minority interests from net income, if contained. PITF No. 18 was effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

The Company applied this accounting standard effective April 1, 2008. In addition, the Company adjusted the beginning balance of retained earnings at April 1, 2008 as if this accounting standard had been retrospectively applied.

The effect of this change was immaterial.

c. 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.

d. Inventories
Prior to April 1, 2008, inventories were stated at cost, determined by the average method. In July 2006, the Accounting Standards Board of Japan (ASBJ) issued ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories", which was 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 Company applied the new accounting standard for measurement of inventories effective April 1, 2008. The effect of this change was immaterial.

e. 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.

f. 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.

g. 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. Pursuant to the income tax reform in 2008, useful lives of machinery and equipment held by the domestic subsidiaries were reviewed and consequently some of them were changed. As a result of this change, operating income and income before income taxes and minority interests decreased by ¥1,047 million ($10,686 thousand) for the year ended March 31, 2009.

h. Software
Software is carried at cost less accumulated amortization, which is calculated by the straight-line method principally 5 years.

i. 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.

j. 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.

k. Research and Development Costs
Research and development costs are charged to income as incurred.

l. Leases
In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions", which revised the previous accounting standard for lease transactions issued in June 1993. 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.

Under the previous accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee were to be capitalized. However, other finance leases were 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 to recognize lease assets and lease obligations in the balance sheet.

In addition, the revised accounting standard permits leases which existed at the transition date and do not transfer ownership of the leased property to the lessee to be measured at the obligations under finance leases less interest expense at the transition date and recorded as acquisition cost of lease assets.

The Company applied the revised accounting standard effective April 1, 2008. In addition, the Company accounted for leases which existed at the transition date and do not transfer ownership of the leased property to the lessee as acquisition cost of lease assets measured at the obligations under finance leases less interest expense at the transition date. There was no effect of this change on the consolidated income.

m. 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.

n. 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.

o. 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.

p. 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, except those which qualify for hedge accounting, 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.

q. 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 63,832,109 shares for 2009, and 64,318,155 shares for 2008.

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.

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities at March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Current:			
Government and corporate bonds			
Trust fund investments and other	¥ 5,535	¥ 5,796	$ 56,478
Total	¥ 5,535	¥ 5,796	$ 56,478
Non-current:			
Marketable equity securities	¥ 8,419	¥11,913	$ 85,906
Government and corporate bonds	2,203	2,000	22,479
Trust fund investments and other	4,875	6,342	49,751
Total	¥15,497	¥20,255	$158,136

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2009 and 2008 were as follows:

	Millions of yen			
March 31, 2009	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 4,520	¥4,091	¥ 192	¥ 8,419
Debt securities and other	8,074		976	7,098
Held-to-maturity	2,203		181	2,022
Total	¥14,797	¥4,091	¥1,349	¥17,539

	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

	Thousands of U.S. dollars			
March 31, 2009	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	$ 46,120	$41,743	$ 1,957	$ 85,906
Debt securities and other	82,388		9,957	72,431
Held-to-maturity	22,479		1,845	20,634
Total	$150,987	$41,743	$13,759	$178,971

Available-for-sale securities and held-to-maturity securities whose fair value is not readily determinable as of March 31, 2009 and 2008 were as follows:

	Carrying Amount		
	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Available-for-sale:			
Equity securities	¥ 274	¥ 274	$ 2,793
Debt securities and other	39	1,060	402
Held-to-maturity (Commercial paper)	2,999	2,999	30,603
Total	¥3,312	¥4,333	$33,798

Proceeds from sales of available-for-sale securities for the years ended March 31, 2009 and 2008 were ¥5,021 million ($51,234 thousand) and ¥6,077 million, respectively. Gross realized losses on these sales, computed according to the moving-average cost, was ¥19 million ($199 thousand) for the year ended March 31, 2009. Gross realized gains on and losses on these sales, computed according to the moving average cost, were ¥41 million and ¥0 million, respectively, for the year ended March 31, 2008.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2009, were 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	¥2,536	¥2,999	$25,875	$30,603
Due after one year through five years	400	203	4,082	2,071
Due after five years through ten years				
Due after ten years	4,162	2,000	42,474	20,408
Total	¥7,098	¥5,202	$72,431	$53,082

4. INVENTORIES

Inventories at March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Merchandise and finished products	¥12,904	¥10,168	$131,671
Work in process	342	317	3,491
Raw materials	8,222	7,627	83,895
Supplies	1,223	1,188	12,485
Total	¥22,691	¥19,300	$231,542

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 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.

In the year ended March 31, 2009, the Company reviewed collectibility of deferred tax assets relating to land revaluation difference and, as a result, a valuation allowance of ¥223 million ($2,271 thousands) was provided. The effect is included in land revaluation surplus.

As at March 31, 2009, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥567 million.

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

Short-term bank loans at March 31, 2009 and 2008 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 3.3% to 3.5% and 4.1% to 5.3% at March 31, 2009 and 2008, respectively.

Long-term debt at March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Loans from banks and municipal corporations, due serially to 2014 with interest rates ranging from 3.6% to 4.3% in 2009 and from 2.0% to 6.9% in 2008	¥1,577	¥1,636	$16,090
Obligations under finance leases	183		1,872
Total	1,760	1,636	17,962
Less current portion	(454)	(184)	(4,633)
Long-term debt, less current portion	¥1,306	¥1,452	$13,329

Annual maturities of long-term debt, excluding finance leases (see Note 13), at March 31, 2009 were as follows:

Year Ending March 31	Millions of yen	Thousands of U.S. dollars
2010	¥ 370	$ 3,777
2011	462	4,714
2012	547	5,586
2013	147	1,504
2014 and thereafter	51	509
Total	¥1,577	$16,090

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 banks. The Company has never been requested to provide any additional collateral for loans.

7. RETIREMENT AND PENSION PLANS

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

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

The liability for employees' retirement benefits at March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Projected benefit obligation	¥ 22,675	¥ 21,464	$ 231,378
Fair value of plan assets	(13,810)	(16,309)	(140,915)
Unrecognized actuarial loss	(8,184)	(3,771)	(83,515)
Unrecognized prior service cost	(106)	(191)	(1,085)
Prepaid pension cost	5,586	4,913	57,000
Net liability	¥ 6,161	¥ 6,106	$ 62,863

The components of net periodic benefit costs for the years ended March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Service cost	¥1,537	¥1,468	$15,682
Interest cost	429	416	4,380
Expected return on plan assets	(489)	(522)	(4,992)
Recognized actuarial loss	599	261	6,113
Amortization of prior service cost	143	143	1,461
Net periodic benefit costs	¥2,219	¥1,766	$22,644

Assumptions used for the years ended March 31, 2009 and 2008 were set forth as follows:

	2009	2008
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	3.0%	3.0%
Recognition period of actuarial gain/loss	10 years	10 years
Amortization period of prior service cost	5 years	5 years
Amortization method of projected benefit obligation	The straight-line method	The straight-line method

Prior service costs have been incurred by ¥59 million ($597 thousand) since the system related to the level of benefits of Unicharm Corporate Pension Fund was changed during the year ended March 31, 2009.

8. EQUITY

Since May 1, 2006, Japanese companies have been subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

a. Dividends

Under the Companies Act, 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 Companies Act 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 Companies Act 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 Companies Act 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 Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act 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 Companies Act 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 Companies Act, stock acquisition rights are now presented as a separate component of equity.

The Companies Act 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.

9. STOCK OPTIONS

The stock options outstanding as of March 31, 2009 were 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 Options)	10 company's directors and corporate auditors 6 subsidiaries' directors and corporate auditors 1,037 company's employees 705 subsidiaries' employees 107 others***	Common stock 526,400 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 Options)	11 company's directors and corporate auditors 2 subsidiaries' directors and corporate auditors 1,174 company's employees 1,169 subsidiaries' employees 126 others***	Common stock 682,600 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 Options)	3 directors and 169 employees	Common stock 1,436,000 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 was as follows:

	Unicharm Corporation		Unicharm PetCare Corporation
	2003 Stock Options	2004 Stock Options	2002 Stock Options
		(Shares)	
For the year ended March 31, 2009			
Non-vested			
March 31, 2008—Outstanding	526,400	682,600	
Granted			
Forfeited	526,400	3,200	
Vested			
March 31, 2009—Outstanding		679,400	
Vested			
March 31, 2008—Outstanding			
Vested		679,400	32,000
Exercised		618,300	32,000
Forfeited		100	
March 31, 2009—Outstanding		61,000	
Exercise price	¥5,731 ($58)	¥5,702 ($58)	¥150 ($2)
Average stock price at exercise		¥7,997 ($82)	¥3,191 ($33)
Fair value price at grant date			

The stock options outstanding as of March 31, 2008 were 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 Options)	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 Options)	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 Options)	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 was as follows:

	Unicharm Corporation		Unicharm PetCare Corporation
	2003 Stock Options	2004 Stock Options	2002 Stock Options
		(Shares)	
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	¥5,702	¥300
Average stock price at exercise			¥5,261
Fair value price at grant date			

10. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Sales promotion	¥ 36,062	¥ 37,280	$ 367,982
Advertising	9,790	10,519	99,896
Shipping and storage expenses	18,330	17,977	187,036
Employees' salaries	11,293	11,276	115,239
Depreciation	2,253	1,613	22,991
Other	29,029	28,338	296,210
Total	¥106,757	¥107,003	$1,089,354

11. 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, 2009 and 2008. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

The tax effects of significant temporary differences, which resulted in deferred tax assets and liabilities at March 31, 2009 and 2008, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Deferred tax assets-current:			
Accrued bonuses	¥ 1,213	¥ 1,149	$ 12,377
Accrued enterprise tax	311	514	3,179
Accrued sales promotion	1,807	1,175	18,439
Unrealized gains	82	137	836
Other	543	552	5,538
Total	3,956	3,527	40,369
Deferred tax assets-non-current:			
Investment securities	438	1,060	4,473
Pension and severance costs	2,687	2,678	27,418
Allowance for doubtful accounts	58	76	594
Impairment loss	107	138	1,091
Tax loss carryforwards	530	159	5,412
Other	836	154	8,529
Less valuation allowance	(958)	(339)	(9,780)
Total	3,698	3,926	37,737
Deferred tax liabilities-current:			
Other	173	2	1,771
Total	173	2	1,771
Deferred tax liabilities-non-current			
Net unrealized gain on available-for-sale securities	1,583	1,320	16,157
Undistributed earnings of subsidiaries	552	2,668	5,628
Prepaid pension cost	2,284	1,999	23,309
Other	49	30	506
Total	4,468	6,017	45,600
Net deferred tax assets-current	¥ 3,783	¥ 3,525	$ 38,598
Net deferred tax assets- non-current	¥ 786	¥ 424	$ 8,017
Net deferred liabilities-non-current	¥(1,556)	¥(2,515)	$(15,880)
Deferred tax assets-land revaluation		¥ 223	

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, 2009 is as follows:

	2009
Normal effective statutory tax rate	40.7%
Expenses not deductible for income tax purposes	0.7
Lower income tax rates applicable to income in certain foreign countries	(11.9)
Other—net	(4.7)
Actual effective tax rate	24.8%

For the year ended March 31, 2008, it was not required to be disclosed because the difference is less than 5% of the normal effective statutory tax rate.

12. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥4,459 million ($45,500 thousand) and ¥4,505 million for the years ended March 31, 2009 and 2008, respectively.

13. LEASES

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

Total rental expenses including lease payments under finance leases for the years ended March 31, 2009 and 2008 were ¥444 million ($4,530 thousand) and ¥346 million, respectively, including ¥107 million ($1,094 thousand) and ¥107 million of lease payments under finance leases.

Obligations under finance leases and future minimum payments under noncancelable operating leases were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2009		2009	
	Finance leases	Operating leases	Finance leases	Operating leases
Due within one year	¥ 84	¥ 3	$ 856	$ 30
Due after one year	99	7	1,015	72
Total	¥183	¥10	$1,871	$102

Pro forma information for the year ended March 31, 2008

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

	Millions of yen
	2008
	Machinery, Furniture and Fixtures
Acquisition cost	¥371
Accumulated depreciation	195
Net leased property	¥176

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 for the year ended March 31, 2008.

14. 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, 2009 and 2008 are excluded from the disclosure of market value information.

The Group had the following derivatives contracts outstanding at March 31, 2009:

	Millions of yen			Thousands of U.S. dollars		
		2009			2009	
	Contract Amount	Fair Value	Unrealized Gain	Contract Amount	Fair Value	Unrealized Gain
Forward exchange contracts—						
Buying yen forward	¥2,340	¥2,646	¥306	$23,879	$27,002	$3,122

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 the part of the 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.

15. CONTINGENT LIABILITIES

At March 31, 2009, the Group had the following contingent liabilities:

	Millions of yen	Thousands of U.S. dollars
Guarantees and similar items of bank loans	¥55	$560

16. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2009 and 2008 is as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars
Year Ended March 31, 2009	Net Income	Weighted-average Shares	EPS	
Basic EPS—Net income available to common shareholders	¥17,128	63,832	¥268.32	$2.74
Effect of dilutive securities-Adjustment of warrants of company		26		
Diluted EPS—Net income for computation	¥17,128	63,858	¥268.21	$2.74

	Millions of yen	Thousands of shares	Yen
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
Effect of dilutive securities-Adjustment of warrants of company	(5)		
Diluted EPS—Net income for computation	¥16,679	64,318	¥259.31

17. SUBSEQUENT EVENTS

The following appropriations of retained earnings at March 31, 2009 were approved at the Board of Directors of the Company meeting held on May 27, 2009:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥27 ($0.28) per share	¥1,719	$17,537

18. RELATED PARTY TRANSACTIONS

(1) Transactions of the Company with related parties for the years ended March 31, 2009 and 2008 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
	2009	2008	2009
Insurance premium	¥20	¥2	$209

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
	2009	2008	2009
Rental expenses	¥13	¥25	$136

(2) Transactions of the consolidated subsidiaries of the Company with related parties for the year ended March 31, 2009 are as follows:

a. Unitec Corporation

	Millions of yen	Thousands of U.S. dollars
	2009	2009
Rental expenses	¥119	$1,215

Note 1: Effective the year ended March 31, 2009, information on transactions of the consolidated subsidiaries with related parties is required by ASBJ Statement No. 11, "Accounting Standard for Related Party Disclosures" and Implementation Guidance No. 13 issued on October 17, 2006.

Note 2: As a result, added newly the information on transactions of the consolidated subsidiaries with related parties to the current disclosures' scope.

19. 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 others.

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

	2009				
	Industry A	Industry B	Industry C	Eliminations	Consolidated
Sales to customers	¥291,715	¥44,583	¥11,552	¥	¥347,850
Intersegment sales	2		4	(6)	
Total sales	291,717	44,583	11,556	(6)	347,850
Operating expenses	264,210	38,001	10,841	(86)	312,966
Operating income	¥ 27,507	¥ 6,582	¥ 715	¥ 80	¥ 34,884

b. Assets, Depreciation, Impairment Loss and Capital Expenditures

Millions of yen

	2009				
	Industry A	Industry B	Industry C	Corporate	Consolidated
Assets	¥195,235	¥27,395	¥27,612	¥28,072	¥278,314
Depreciation	16,170	559	372		17,101
Capital expenditures	13,962	442	170		14,574

a. Sales and Operating Income

Thousands of U.S. dollars

	2009				
	Industry A	Industry B	Industry C	Eliminations	Consolidated
Sales to customers	$2,976,679	$454,928	$117,879	$	$3,549,486
Intersegment sales	24		38	(62)	
Total sales	2,976,703	454,928	117,917	(62)	3,549,486
Operating expenses	2,696,016	387,765	110,629	(879)	3,193,531
Operating income	$ 280,687	$ 67,163	$ 7,288	$ 817	$ 355,955

b. Assets, Depreciation, Impairment Loss and Capital Expenditures

Thousands of U.S. dollars

	2009				
	Industry A	Industry B	Industry C	Corporate	Consolidated
Assets	$1,992,191	$279,537	$281,758	$286,447	$2,839,933
Depreciation	165,001	5,707	3,794		174,502
Capital expenditures	142,466	4,506	1,733		148,705

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	131		17,370

(2) GEOGRAPHIC SEGMENTS

a. Sales and Operating Income

	Millions of yen				
	2009				
	Japan	Asia (Excluding Japan)	Europe and the Middle East	Eliminations	Consolidated
Sales to customers	¥222,472	¥79,939	¥45,439	¥	¥347,850
Intersegment sales	11,314	2,658		¥(13,972)	
Total sales	233,786	82,597	45,439	(13,972)	347,850
Operating expenses	210,410	72,678	43,991	(14,113)	312,966
Operating income	¥ 23,376	¥ 9,919	¥ 1,448	¥ 141	¥ 34,884

b. Assets

	Millions of yen				
	2009				
	Japan	Asia (Excluding Japan)	Europe and the Middle East	Corporate	Consolidated
Assets	¥170,539	¥75,665	¥29,669	¥2,441	¥278,314

a. Sales and Operating Income

	Thousands of U.S. dollars				
	2009				
	Japan	Asia (Excluding Japan)	Europe and the Middle East	Eliminations	Consolidated
Sales to customers	$2,270,114	$815,706	$463,666	$	$3,549,486
Intersegment sales	115,448	27,119		(142,567)	
Total sales	2,385,562	842,825	463,666	(142,567)	3,549,486
Operating expenses	2,147,027	741,613	448,886	(143,995)	3,193,531
Operating income	$ 238,535	$101,212	$ 14,780	$ 1,428	$ 355,955

b. Assets

	Thousands of U.S. dollars				
	2009				
	Japan	Asia (Excluding Japan)	Europe and the Middle East	Corporate	Consolidated
Assets	$1,740,189	$772,089	$302,744	$24,911	$2,839,933

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

(3) SALES TO FOREIGN CUSTOMERS

Sales to foreign customers for the years ended March 31, 2009 and 2008 amounted to ¥129,023 million ($1,316,563 thousand) and ¥124,309, respectively.

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, 2009 and 2008, and the related consolidated statements of income, changes in equity, and cash flows for the years then ended, 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, 2009 and 2008, and the consolidated results of their operations and their cash flows for the years then ended 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 24, 2009

Member of
Deloitte Touche Tohmatsu

Subsidiaries and Affiliated Companies

As of March 31, 2009

SUBSIDIARIES

		Major Operations	Percentage of Equity
Japan	Unicharm Product Co., Ltd.	Production of baby care, feminine care, and other products	100.0%
	Unicharm Material Co., Ltd.	Production and sales of nonwoven and other materials	100.0
	Kokko Paper Mfg. Co., Ltd.	Production, processing and sales of paper, nonwoven and other materials	100.0
	Cosmotec Corporation	Processing and sales of photographic printing plates	100.0
	Unicharm PetCare Corporation	Production and sales of pet food and pet toiletry products	38.7
	Unicharm Mölnlycke K.K.	Sales of adult incontinence care products	51.0
Taiwan	United Charm Co., Ltd.	Production and sales of baby care, feminine care and other products	52.6
Thailand	Uni-Charm (Thailand) Co., Ltd.	Production and sales of baby care, feminine care and other products	94.2
People's Republic of China	Unicharm Consumer Products (China) Co., LTD.	Production and sales of baby care, feminine care and other products	98.0
Republic of Korea	LG Unicharm Co., Ltd.	Production and sales of baby care, feminine care and other products	51.0
Indonesia	PT Uni-Charm Indonesia	Production and sales of baby care, feminine care and other products	74.0
Netherlands	Uni-Charm Mölnlycke B.V.	Production control of baby care and adult incontinence care products	60.0
Saudi Arabia	Unicharm Gulf Hygienic Industries Ltd.	Production and sales of baby care, feminine care and other products	51.0
Malaysia	Uni-Charm Corporation Sdn. Bhd.	Sales of baby care, feminine care	100.0
India	Unicharm India Private Ltd.	Sales of baby care	100.0
Australia	Unicharm Australasia Pty Ltd	Production and sales of baby care, adult incontinence care and other products	100.0
			(Plus 14 others)

AFFILIATED COMPANIES

		Major Operations	Percentage of Equity
Japan	The Fun Co., Ltd.	Data storage, processing and disposal services	25.0%
			(Plus 1 other)

Investor Information

As of March 31, 2009

Fiscal Year-end	March 31, 2009
Annual Shareholders' Meeting	June 24, 2009
Common Stock	Authorized: 275,926,364 Issued: 68,981,591
Number of Shareholders	11,968
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	19.4%
Takahara Kosan K.K.	3,418	5.4
Takahara Kikin	3,120	4.9
Japan Trustee Services Bank, Ltd. (Trust Account)	3,111	4.9
The Master Trust Bank Japan of Japan, Ltd.(Trust Account)	2,790	4.4
Japan Trustee Services Bank, Ltd. (Trust Account 4G)	2,484	3.9
Nippon Life Insurance Company	1,934	3.0
The Master Trust Bank Japan of Japan, Ltd. (Trust Account of Retirement Benefit Trust Account)	1,920	3.0
Goldman Sacks and Company Regular Account	1,886	3.0
The Chase Manhattan Bank N.A. London S.L.. Omnibus Account	1,818	2.9

Equity Policy

November	2008	Repurchase of treasury stock pursuant to Article 459, paragraph 1, item 1 of the Corporation Law of Japan (total number of shares acquired: 697,300; aggregate amount of acquisition cost: ¥4,999,641,000)
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

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, 2009)
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 Seikatsu"
http://www.rakuten.ne.jp/gold/unicharm/

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