unicharm
NOLA&DOLA
Unicharm Corporation

Our Vision

Annual Report 2010

Year Ended March 31, 2010

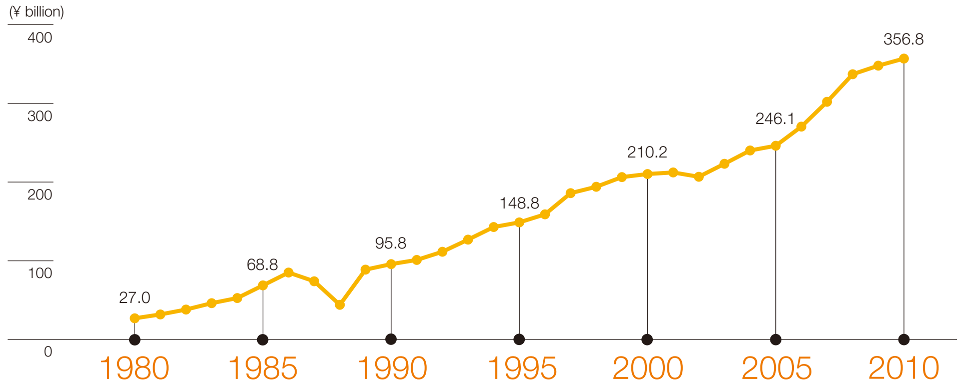
Our Vision

Our vision is to continue delivering world-first, finest products and services to people worldwide to enhance comfort and inspire and delight.

Unicharm supplies a wide range of products that support the mind and the body, helping to make life easier for ordinary people everywhere. Leveraging the nonwoven fabric and absorbent material processing and forming technology developed since the first days of the Company, we lead the market in delivering new value to consumers. Since 1980, we have actively expanded our business worldwide, and today we operate in over 80 countries. With advanced economies facing aging societies and emerging economies tackling hygiene issues, the areas where Unicharm can make a difference continue to increase. Unicharm will continue to aim even higher, striving to make its corporate ideals a reality.

For more details about our corporate philosophy, please click here. Click

Net Sales



Building an International Business by Moving into New Markets

1984	Taiwan	Established joint ventures
1987	Thailand	Established joint ventures
1993	Saudi Arabia	Formed technology alliance with a local company
1993	Netherlands	Established joint ventures
1994	South Korea	Established joint ventures
1995	China	Established joint ventures
1997	Indonesia	Established joint ventures
1997	Malaysia	Established a wholly owned subsidiary
2002	Philippines	Established joint ventures
2005	Saudi Arabia	Made local company a subsidiary
2007	Vietnam	Established a wholly owned subsidiary
2008	Australia	Acquired second biggest company in the sector
2008	India	Established a wholly owned subsidiary

For more details about our overseas operations, please click here. Click

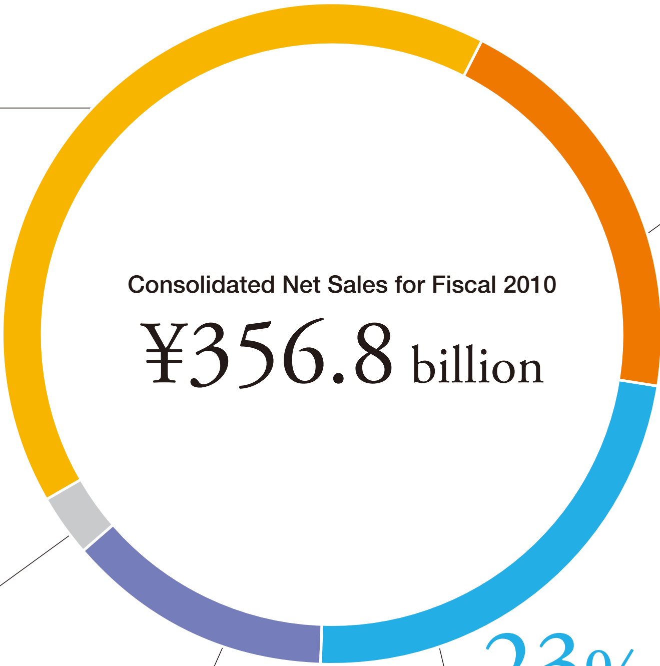
For more details about our history of growth, please click here. Click

41%

Baby Care Business
- Paper diapers for babies
- Wet tissues, etc.

3%

Other Businesses



Consolidated Net Sales for Fiscal 2010

¥356.8 billion

20%

Feminine Care Business
- Sanitary napkins
- Tampons
- Sanitary shorts, etc.

23%

Health Care Business
- Incontinence pads
- Adult paper diapers
- Hygiene masks, etc.

13%

Pet Care Business
- Pet food
- Pet toilet sheets
- Paper diapers for pets, etc.

Clean & Fresh Business
- Home care products
- Personal care products
- Kitchen care products, etc.

For more details about our business operations, please click here. Click

Unicharm's corporate logo, the Charm Ring, consists of two shapes inside a ring. The design is meant to signify a warm relationship based on trust between somebody being supported by another person, such as a mother and her baby, a caregiver and the person being cared for, or an owner and their pet. The logo represents the corporate image that Unicharm is striving for, to embrace customers tenderly and support them in maintaining healthy, comfortable lives.

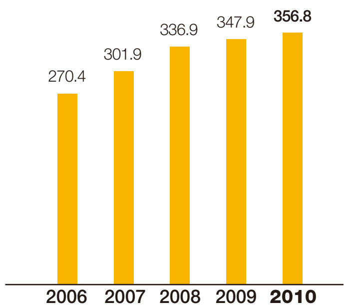
Contents

Financial Highlights

Unicharm Corporation and Subsidiaries

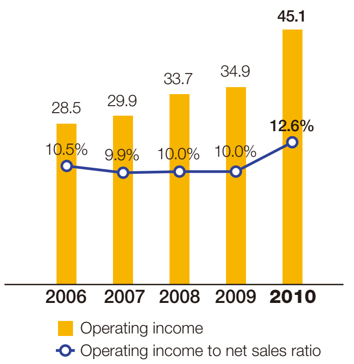
Net Sales

(¥ billion)



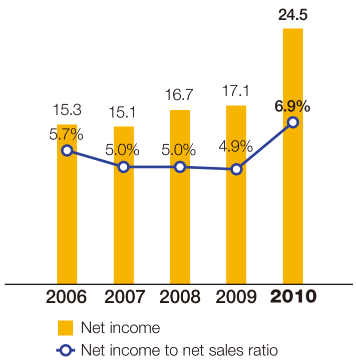
Operating Income/Operating Income to Net Sales Ratio

(¥ billion)



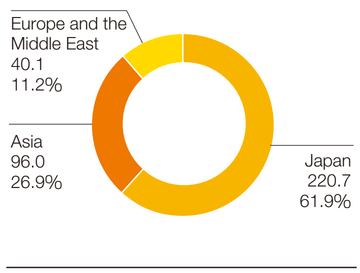
Net Income/ Net Income to Net Sales Ratio

(¥ billion)



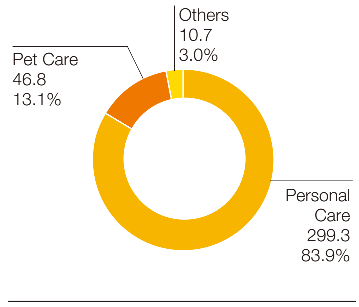
Net Sales by Geographic Segment

(¥ billion)



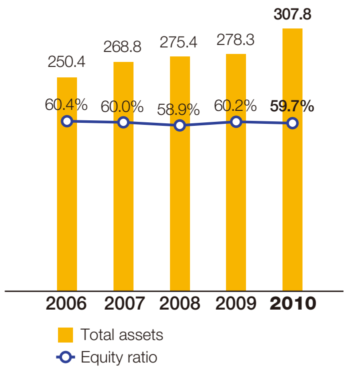
Net Sales by Business Segment

(¥ billion)



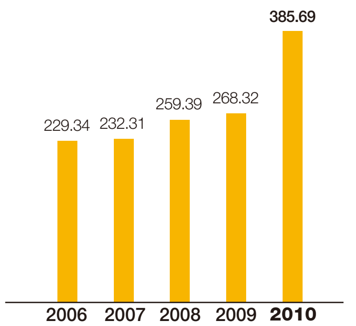
Total Assets/Equity Ratio

(¥ billion)



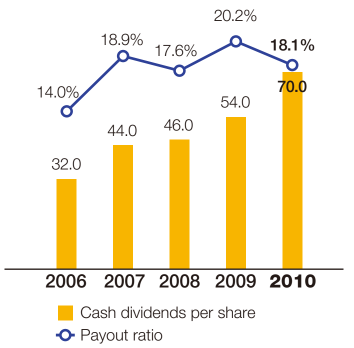
Net Income per Share

(¥)



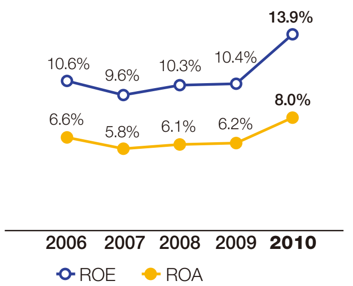
Cash Dividends per Share/ Payout Ratio

(¥)



ROE/ROA

(%)



For more details about our financial data, please click here. Click

Overview of Fiscal 2010

1. Record sales and operating income for the fifth straight fiscal year; operating income cleared the ¥45 billion mark
2. Continued double-digit growth in key entry markets in Asia and the Middle East; the Chinese business achieved growth in excess of 30%
3. Earnings recovered in Japan on the back of expansion in the health care and pet care businesses
4. Mask demand grew sharply as the custom of wearing masks to prevent infection became increasingly accepted amid the new influenza virus outbreak
5. Manufacturing costs declined owing to a drop in raw material prices as crude oil prices fell

	Millions of yen (Except per share figures)			Thousands of U.S. dollars (Except per share figures)
	2010	2009	2008	**2010**
FOR THE FISCAL PERIOD:				
Net sales	**¥356,825**	¥347,850	¥336,864	**$3,836,838**
Operating income	**45,066**	34,884	33,731	**484,586**
Net income	**24,464**	17,128	16,684	**263,054**
Capital expenditures	**24,750**	14,574	17,370	**266,130**
Depreciation and amortization	**16,393**	17,101	15,041	**176,271**
Research and development costs	**4,558**	4,459	4,505	**49,013**
AT FISCAL YEAR-END:				
Total assets	**¥307,773**	¥278,314	¥275,436	**$3,309,391**
Property, plant and equipment	**95,357**	84,248	86,463	**1,025,344**
Long-term debt—less current maturities	**944**	1,306	1,452	**10,146**
Net assets	**207,413**	185,591	179,171	**2,230,252**
Equity ratio	**59.7%**	60.2%	58.9%	**—**
PER SHARE DATA:				
Net income	**¥385.69**	¥268.32	¥259.39	**$4.15**
Cash dividends applicable to the year	**70.00**	54.00	46.00	**0.75**

Note: U.S.dollar amounts are translated from yen at the rate of ¥93=U.S.$1, the approximate rate on the Tokyo Foreign Exchange Market on March 31, 2010.

For more details about our financial data, please click here. Click

Message from the President

The global markets in our core businesses are expected to expand sharply. Leveraging our competitiveness in nonwoven fabric and absorbent material processing and forming technologies, we plan to extend our reach worldwide to deliver sustained growth.

Takahisa Takahara
President and CEO

Sustained growth supported by a business portfolio centered on nonwoven fabric and absorbent material processing and forming technologies

In fiscal 2010, ended March 31, 2010, consolidated net sales totaled ¥356.8 billion, a record high for the eighth consecutive fiscal year, and operating income totaled ¥45.1 billion, also reaching a record level for the fifth consecutive fiscal year. Aware early on that the domestic market was maturing, we turned our attention to active expansion in overseas markets from the late 1990s, positioning the promising growth markets of Asia as our main target. This has driven our expansion in recent years.

In addition, Unicharm's underlying strength is its portfolio of five businesses centered on processing and forming technologies for nonwoven fabric

For more details about our overseas operations, please click here. Click

and absorbent materials—the source of our competitiveness. Based on the view that speed and differentiation would be key to ensuring Unicharm's sustained growth in the face of global competition, we began channeling our management resources into businesses related to nonwoven fabric and absorbent materials. This approach has allowed us, as a specialist manufacturer of these materials, to launch high-quality products that accurately meet the needs of customers ahead of competitors, and this has supported our success in winning the top market share in Japan as well as in other key markets we have moved into, mainly in Asia.

We have expanded our operations in the baby care business, feminine care business, health care business, clean & fresh business, and pet care business—all fields where we can leverage our strengths in nonwoven fabric and absorbent material processing and forming technologies. As a result, we now have a wide-ranging product portfolio covering people and pets of all ages. Regionally, we have aggressively channeled our resources into emerging markets mainly in Asia, where we have built our own manufacturing and sales infrastructure to secure high returns. Meanwhile in the large but maturing markets of North America and Europe, we are generating stable earnings from minimal investment by licensing out our technology.

Solidifying our position in Asia and boosting global market share

For fiscal 2013, ending March 31, 2013, we have set medium-term targets of ¥500 billion in net sales, an 8.9% share of the global nonwoven fabric and absorbent material market, and a 14.1% operating income to net sales ratio. Based on market trends, we plan to expand our sales reach and upgrade our product supply network to solidify our position in Asia and boost our global market share.

In China, which we have positioned as our priority market for the near future, our sales have been growing in regional inland cities, as well as in coastal cities, which have been the main source of our sales in the country to date. In China, paper diapers are not yet widely used, and we thus expect demand to grow. We plan to expand our sales network into regional inland cities on the continent to boost sales further.

We are currently reinforcing our supply infrastructure in order to respond to this anticipated increase in demand. We started up our third plant in China in December 2009, and our second plant in Indonesia came on stream in May 2010. In India, which has a large population that is likely to use paper diapers more widely in the future, we began sales in April 2009 and plan to start up our own plant in 2010. Moreover, we began operating our own plants in Russia and the U.S. in August 2010 and we also have plans to construct a new plant in Egypt, which we have selected as our supply base for the fast-growing post-BRICs markets of the Middle East and Africa.

Unicharm's ratio of domestic to overseas sales currently stands at 6:4, but we think this ratio will be reversed in the near future. In response to this change, we plan to drastically reform the Company's management platform, including decision-making systems and the organization itself. The first step in this process will be the shift to a new management system in fiscal 2012.

For more details about our segment information, please click here. Click

A New Management Plan Based on Forecasts for the Market Ten Years from Now

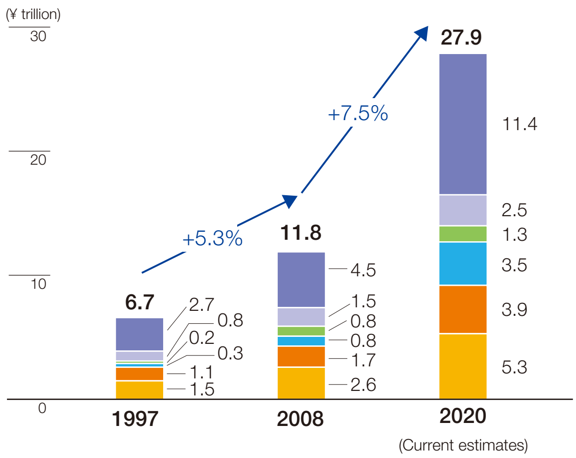
The use of paper diapers and feminine care products is becoming increasingly widespread in emerging markets amid rising income levels, while demand for adult paper diapers and pet care products is projected to increase.

Specifically, we forecast that the global pet care market will expand from roughly ¥6 trillion at the moment to around ¥14 trillion by 2020, with demand already gradually emerging in some countries in Asia with high per capita GDP. Unicharm decided to absorb Unicharm PetCare Corporation through a merger in September 2010, and this decision was made on the basis of growth opportunities we see for the pet care market over the next ten years. The merger will enable us to grow the pet care business into another key pillar of earnings, together with the personal care business, further strengthening our business portfolio.

To ensure we tap the major business opportunities that lie ahead over the next ten years, we will create a product development, manufacturing, and sales infrastructure and cultivate the personnel resources we need so that we can respond rapidly and flexibly to the needs of the market. We will also change the way we formulate management plans—instead of creating estimates by extrapolating from current conditions, as we do now, we will strive to accurately forecast the market ten years into the future, then work backwards to identify what steps we need to take in the subsequent three years.

Global Market Expansion (2008–2020)

The market is forecast to be 2.4 times larger than the current size in 2020



Product category	Average annual growth rates (%) 1997-2008	2008-2020
Pet food	4.8%	8.1%
Pet care products	5.4%	4.5%
Wet tissues (retail use)	11.6%	4.3%
Adult incontinence care products	7.5%	13.5%
Feminine care products	4.1%	7.3%
Baby care products	4.9%	6.2%
Total	**5.3%**	**7.5%**

*Assuming U.S.$1 = ¥90, retail basis

Source: Unicharm Corporation, based on Boston Consulting Group analysis and data from Euromonitor International

Strategy execution capabilities supported by proprietary SAPS Management

At Unicharm, we believe that the ability to execute strategy is the key to success in our business activities, and this is where our proprietary SAPS Management* approach plays an important role.

As an organization, we pinpoint the first priority issues, with each department and individual selecting the first priority issue in order to resolve those issues. In this way, the entire company heads in the same direction, and the mismatch in the agility of each part of our organization is eliminated, maximizing the Company's all-round capabilities. The system also encourages our frontline employees to think and act for themselves, without waiting for instructions from their superior, allowing us to respond rapidly to changes in the market environment and market needs.

If we can integrate how we think and act under SAPS Management, I am confident that Unicharm will be able to succeed in the face of global competition.

* SAPS: Schedule (think about then create a plan of action) ➔ Action (implement the plan) ➔ Performance (assess the impact of the plan and identify any issues) ➔ Schedule (reflect on the outcomes and incorporate any changes needed in the following week's plan).

Industry-leading levels of investor returns

For fiscal 2010, we have increased the dividend per share by ¥16 year on year, to ¥70. Also, in December 2009, we spent a total of ¥6,490 million on share buybacks. Our Corporate Principles of Action state that "We pledge to distribute industry leading returns to shareholders." At Unicharm, we put priority on returning profits to our shareholders. We think it is important to pay stable returns while at the same time boosting earnings and reinforcing our financial position. Going forward, we will continue to work to generate cash flows to maximize corporate value, and underpinned by earnings, seek to maintain stable and consistent dividend payments to shareholders.

Every one of our employees has to discard out-dated thinking to create new demand and push ahead with business reform

My key phrase for 2010 is "winds of change." Although we reported strong earnings for fiscal 2010, thanks to the increasingly global nature of our operations, I know many employees, like me, are concerned that we could lose our sense of urgency. With the global economy having entered a period of considerable uncertainty, we need to accurately interpret dizzying changes in the current situation and grasp the confidence to change ourselves and our organization. In order to turn the current shift in the economy to our advantage, we must constantly keep the consumer in mind. And to ensure we accurately read and adapt to the winds of change around us, every one of our employees has to discard out-dated thinking to create new demand and push ahead with the reform of our business. My aim is to contribute to the further development of our industry and win an even greater level of support from our customers.

September 2010

Takahisa Takahara
President and CEO

For more details about our stock information, please click here. Click

To Realize Our Vision

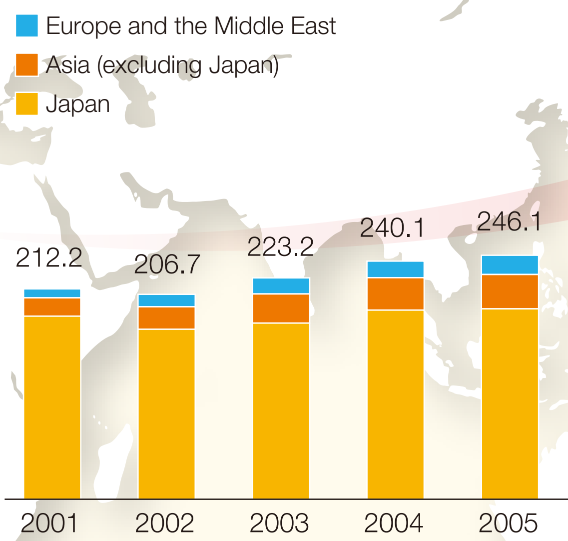
Aiming to solidify our position in the fast-growing Asian market and increase our global market share

Unicharm's vision is to deliver world-first, finest products and services to people worldwide to enhance comfort and inspire and delight. Guided by this vision, we have formulated a new Medium-Term Management Plan taking the Group through to fiscal 2013, ending March 31, 2013.

We are still a challenger on the global stage. As such, we are aiming to build a dominant share in the fast-growing Asia market to build our global presence. To achieve this, we are extending our market reach and reinforcing our product supply infrastructure. Under our new Medium-Term Management Plan, we plan to roll out growth strategies in Asia, where demand is set to expand dramatically, in our home market of Japan, and in the pet care business, where we have reinforced our position through a merger with Unicharm PetCare Corporation. We believe these efforts will give us the base we need to secure the leading global share in our sector.

Also, in parallel with this Medium-Term Management Plan, we have formulated a long-term vision based on forecasts for our market ten years from now. We will work toward realizing sustained growth and our corporate ideal, constantly guided by this longer-term perspective.

Net Sales (¥ billion)



Growth Strategy 1

The Chinese Market

Generate further growth by expanding our market reach in China to regional inland cities

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Growth Strategy 2

The Japanese Market

Revitalize the maturing domestic market by launching innovative new products

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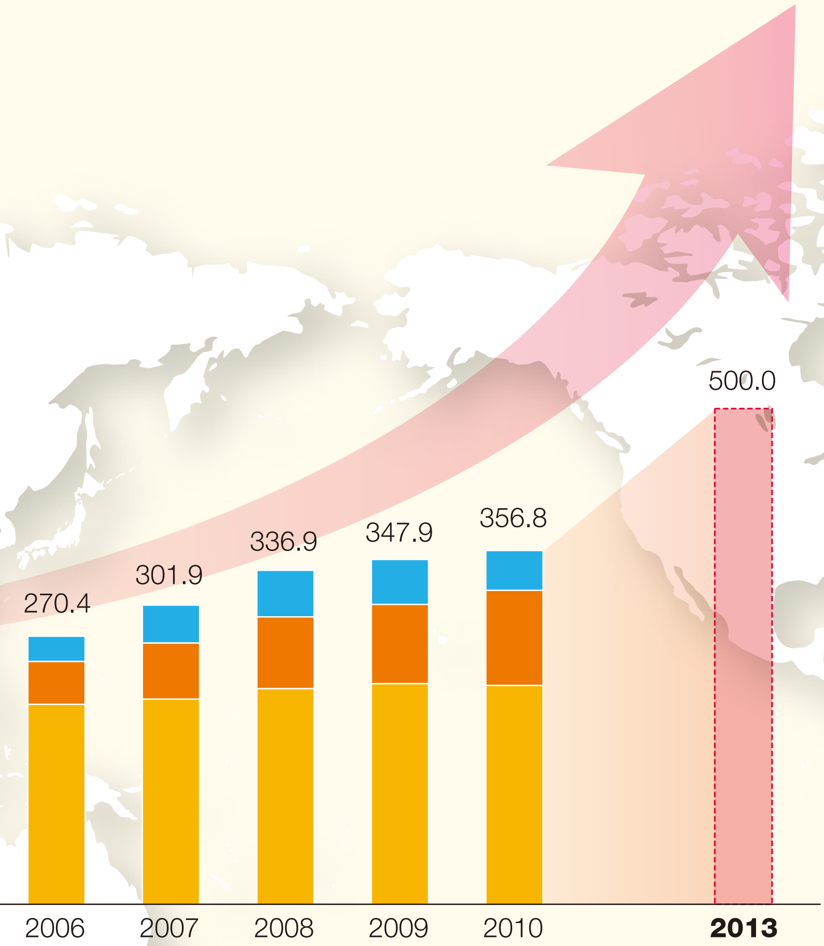
New Medium-Term Management Plan Ending in Fiscal 2013

	Fiscal 2010 (results)	Fiscal 2013 (targets)
Net sales	¥356.8 billion	¥500 billion
Operating income to net sales ratio	12.6%	14.1%
Market share*	7.5%	8.9%

*Share of global nonwoven fabric and absorbent material market



Growth Strategy 3

Pet Care Business

Grow the pet care business into another key source of earnings as quickly as possible along with the personal care business by maximizing synergies from the merger with Unicharm PetCare

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Growth Strategy 4

Vision 2020

Aim for sustained growth by effectively tapping the projected sharp increase in worldwide demand

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Growth Strategy 5

SAPS Management

Further developing proprietary SAPS Management to support strategy execution

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Growth Strategy 1

The Chinese Market

Generate further growth by expanding our market reach in China to regional inland cities

The rapidly expanding Chinese market

Unicharm moved into China in 1995 and is currently building its presence in the market supported by its *Sofy* sanitary napkins and the *Mamy Poko* paper diapers. In China, the average market penetration rate for paper diapers is still only around 30%. Given the number of infants in China stands at just under 40 million, or about 10 times Japan's figure, we think the key to growth in the country is the development of the paper diaper market.

Amid rising income levels, Unicharm's sales have expanded rapidly in China, growing at an average rate of more than 30% over the last five years, and the market is becoming increasingly important for the Group.

Extending our sales reach into regional inland cities holds the key to growth

Markets are rapidly being established in regional inland cities, in addition to coastal cities where Unicharm has focused on selling its products to date.

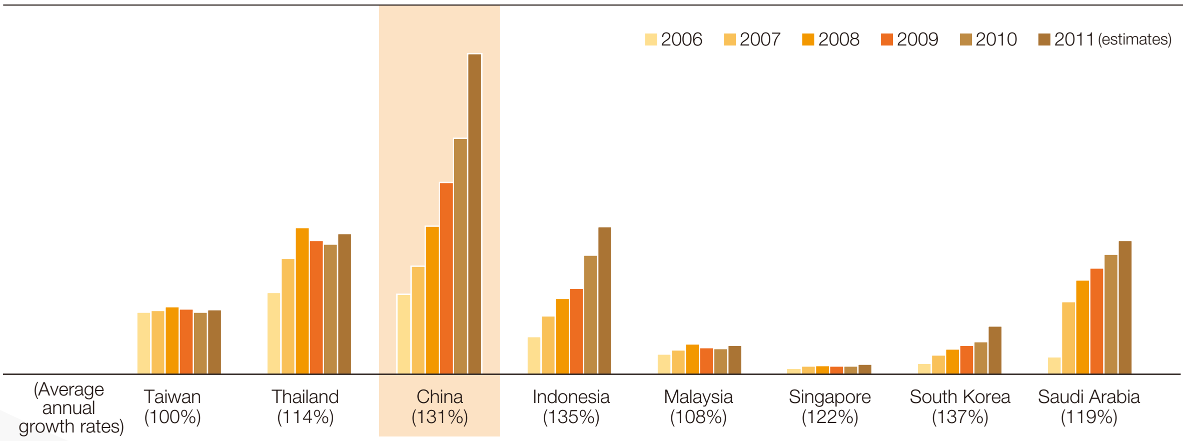
In response to surging demand, we are aggressively extending our sales reach into inland areas and building a network of distributors to further boost sales.

Developing products tailored to the Chinese market

In China, we currently focus on the premium segment, where we sell our highest quality products. However, in order to boost sales in regional inland cities, we have recognized that we need to supply products in the economy segment, where products are priced attractively so anybody can buy them.

We plan to rapidly roll out products designed to satisfy the needs of each market while maintaining at a high level the non-leak, stay-dry qualities our products are known for. At the same time, we will work to boost efficiency in production and distribution, thereby securing margins in the economy segment as well.

Unicharm's Sales in Major Markets



Detailed research into consumer lifestyles and consumption habits

One of the elements of our corporate DNA since Unicharm was founded has been a desire to “Maintain our No.1 position through continued and dedicated service.” We believe that by constantly striving to deliver the highest level of satisfaction to customers directly translates into higher profits and market share. During the product development process, we repeatedly carry out doorstep surveys and consumer behavior monitoring as part of detailed research into consumer lifestyles and consumption habits, in an effort to identify what consumers really want. We are employing this approach of closely focusing on the customer in overseas markets as well, leading to the development of popular products such as *Mamy Poko Pants Standar* in Indonesia. In China, the improvements we have made to existing products to tailor them to local needs through repeated doorstep surveys, consumer behavior monitoring, and prototype development, have been welcomed in the market.

Three initiatives to realize growth while generating profits

Although the Chinese market continues to grow rapidly, we are facing intensifying competition from major U.S. and European firms and local companies. To maintain our growth, we need to implement three reforms.

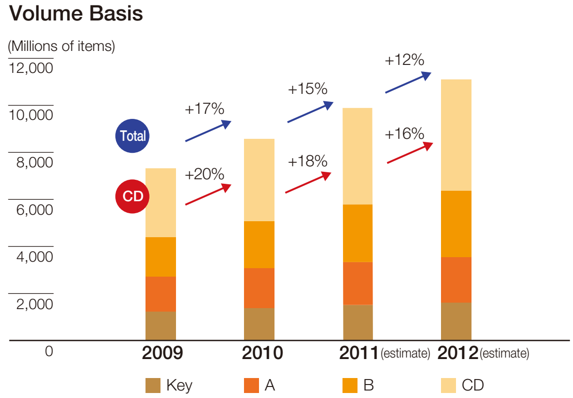
First, we have to expand our product portfolio. Amid rising living standards and an aging society, China, like Japan, is seeing emerging demand for adult paper diapers, cleaning products, and pet care products. Using the brand power and sales networks cultivated in the sanitary napkin and baby paper diaper market categories, we plan to begin rolling out adult paper diapers and pet care products in earnest to offer Chinese consumers a wider choice.

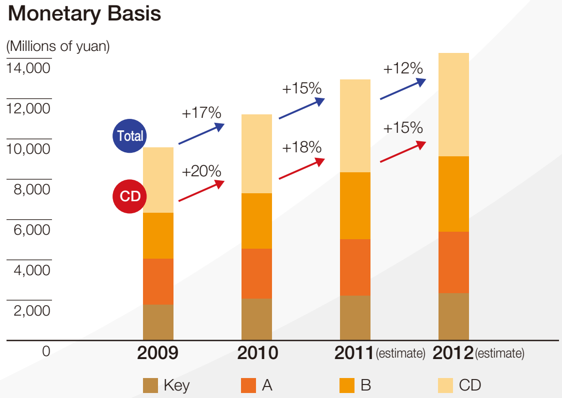
Second, we have to change our cost structure. Fifteen years has passed since we first moved into the Chinese market and the sharp rise in Unicharm’s sales during that period means we now have to rebuild our corporate infrastructure. Specifically, we are working to develop systems to restructure and integrate our work flow processes, reducing lead times from product order through to delivery by optimizing supply chains, and boosting output and reducing costs by enhancing the efficiency of our manufacturing sites.

Third, we have to make sure our corporate culture continues to be passed on. Our organization has undergone rapid expansion over the last few years, illustrated by the completion in March 2010 of our third plant in China and one of the Group’s largest manufacturing sites to date. Against this backdrop, we plan to extend the reach of our proprietary SAPS Management* system so that “Unicharmism,” the source of Unicharm’s growth since it was founded, reaches all corners of the Company. As part of these efforts, we are raising awareness of our corporate culture among local employees in China.

* SAPS: Schedule (think about then create a plan of action) → Action (implement the plan) → Performance (assess the impact of the plan and identify any issues) → Schedule (reflect on the outcomes and incorporate any changes needed in the following week’s plan).

The Baby Care Products Market in China: Market Size by City





Key cities: Shanghai, Beijing, Guangzhou and Chengdu
A cities: Provincial capitals
B cities: Regional cities
CD cities: Prefectural level cities

Source: Unicharm Corporation

Growth Strategy 2

The Japanese Market

Revitalize the maturing domestic market by launching innovative new products

Baby care business: promoting the development of a healthy market by leveraging two brands

The price of paper diapers continues to decline in Japan. At the same time, customers are calling for even higher levels of quality. In addition to the basic non-leak, stay-dry qualities of our diapers, our *Moony* paper diapers offer the highest level of quality in areas such as comfort, while our *Mamy Poko* brand is based on an excellent balance between quality and price. Leveraging the strengths of these two brands, we are working to revitalize the domestic market.

Moony

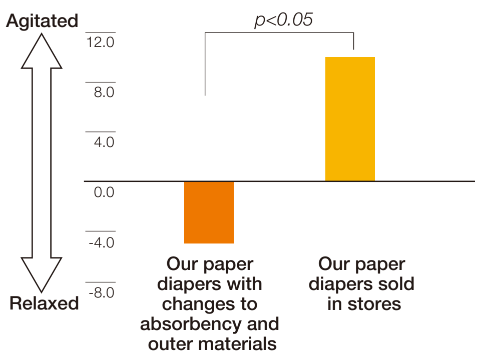
Our *Moony* range, underpinned by the nonwoven fabric and absorbent material processing and forming technologies we have cultivated since the Company was founded, has featured a large number of innovative products over the years, including pants-type paper diapers (diaper shape innovation), ultra-thin pants-type paper diapers (absorbency innovation), and pants-type paper diapers specifically designed for babies at the crawling stage (usage innovation). In June 2010, we also launched *Moony Pants Shitagi Jitate*, which incorporate a new type of soft, stretchy nonwoven fabric. The new paper diapers give babies and infants the feel of wearing soft underwear (materials innovation) and offer consumers new value in the diaper market. We plan to increase sales further using this new product.

Mamy Poko

There have been growing calls for more attractive paper diaper designs amid an increase recently in the number of mothers who enjoy dressing up their babies. In April 2010, in response to these needs, we changed the brand color of our *Mamy Poko* range to bright yellow, the first such change in 10 years, to

Differences in paper diaper softness that even babies can feel

At Unicharm, we have established a method of objectively measuring the stress babies are under without putting the babies themselves under any duress. This approach enables us to measure the everyday stress babies feel from their paper diapers. Our research shows that babies aged 8-11 months can sense the difference between soft diapers and those that are not so soft, showing that their stress levels during diaper changing times can be reduced by using softer material for the diaper waste bands. We plan to use the results of this research in the development of future diaper products.



communicate a more fun image of childcare. This change to the packaging, which also shows diagrams of the high-level basic non-leak, stay-dry performance of the range, has made *Mamy Poko* paper diapers more attractive to consumers.

Feminine care business: Launching new products in growth segments

In the feminine care business, we have been working to reenergize the market by launching new products centered on the growth categories of skin care and nighttime use.

In the skin care segment, we are enhancing our lineup of *Sofy Hada Omoi* sanitary napkins, which feature a new type of surface material called fluid control layer (FCL) sheet that is kind on the skin like nonwoven fabric and demonstrates excellent absorbency like existing mesh material. We are offering a wider choice of sizes with the launch of new sizes: 21cm, in July 2009, and 40cm for nighttime use, in March 2010.

In September 2009, in the nighttime use segment, we rolled out *Sofy Super-Sound Sleep Guard* with a new anti-overflow function and a drier fit.

Health care business: Generating new demand by raising issue awareness

In the health care business, a growing field, we have offered products under the *Lifree* brand since launching our first pants-type adult paper diaper in 1995 and now have a lineup that is carefully tailored to the activities of daily living. Also, in November 2009, we began nationwide sales of a welfare robot equipped with an automatic urine collection system. This robot is designed to reduce the burden on both carers and those receiving care, and is also attracting attention as a new approach for helping care for patients with impaired excretory functions by reducing the volume of waste in disposable diapers to one tenth of existing levels.

At the same time, we have launched a number of new initiatives at the retail store level to create sales areas that make it easier for shoppers to select the products they need. Specifically, we are helping retailers to design sales areas suited to the activities of daily living and offering something called Right Counseling, which provides stores with advice about how to interact with shoppers and help them choose the right product.

Moony Pants Shitagi Jitate

New packaging for *Mamy Poko*

Growth Strategy 3

Pet Care Business

Grow the pet care business into another key source of earnings as quickly as possible along with the personal care business by maximizing synergies from the merger with Unicharm PetCare

Targeting four trends: caring for pets kept indoors, small-sized dogs, aging pets, and overweight pets

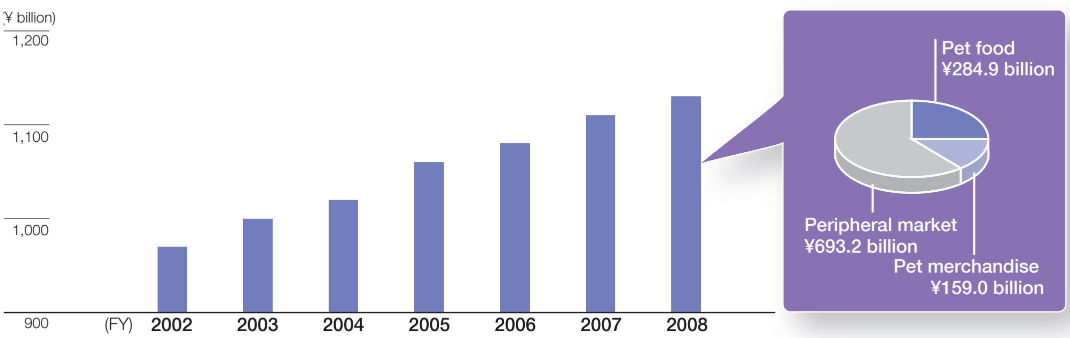
Interest in pets as a source of comfort and companionship continues to rise in Japan, where society is aging and people are tending to have fewer children and marry later. Pet ownership is also becoming easier thanks to developments such as an increase in the number of condominiums that allow pets, centered on the Tokyo metropolitan area.

At Unicharm, we are focusing our resources on the four main trends in the Japanese pet market—caring for pets kept indoors, small-sized dogs, aging pets, and overweight pets. At the same time, we have launched products tailored to consumer needs and trends in pet ownership, helping us to secure the top market shares in the pet toiletry and pet food categories.

In pet toiletry products, we have used the nonwoven fabric and absorbent material processing and forming technologies developed since the first days of Unicharm to launch highly absorbent toilet sheets that are ideal for pets kept indoors.

In pet food products, we supply a range of products tailored to pet ages. For example in our main *Aiken Genki* dog food brand and *Silver Spoon* cat food brand, we offer products for pets aged seven and older and ten and older, and in a world first, we began selling products for dogs and cats that are 13 and older. This lineup of age-based products, which contain the right balance of nutritional ingredients and calories for the changing bodies and appetites of aging dogs and cats, is driving market expansion. Moreover, in response to a marked rise in demand for higher quality pet food in recent years, we have

Domestic Pet-related Market Size



Note: Estimates used for FY2008
Source: Yano Research Institute Ltd.

launched a premium range of tasty and nutritionally balanced products that have led to the creation of the soup pouch market category and high added-value pet foods.

Using the merger to grow the pet care business into another key source of earnings along with the personal care business

The global pet care-related market is projected to continue expanding strongly on the back of rising demand in Japan, Europe and the U.S., as well as in emerging markets. Pet ownership continues to gain ground in Japan, where pets are now seen as part of the family. We expect growth to remain robust as society ages and more people chose to live by themselves. Moreover, with the top five companies still controlling less than 50% of the market, we expect competition to intensify and a handful of companies to end up dominating the market. Overseas, amid rising incomes, market expansion is expected in Asia, especially China, as well as in South America and other emerging markets.

Against this backdrop, we plan to strengthen our business base in Japan and expand our business in promising overseas growth markets. We decided that the best way to achieve this was to combine Unicharm and Unicharm PetCare Corporation into a single organization, resulting in the decision to absorb Unicharm PetCare through a merger in September this year. Maximizing synergies from the merger, we will work to grow the pet care business into another key source of earnings along with the personal care business as rapidly as possible.

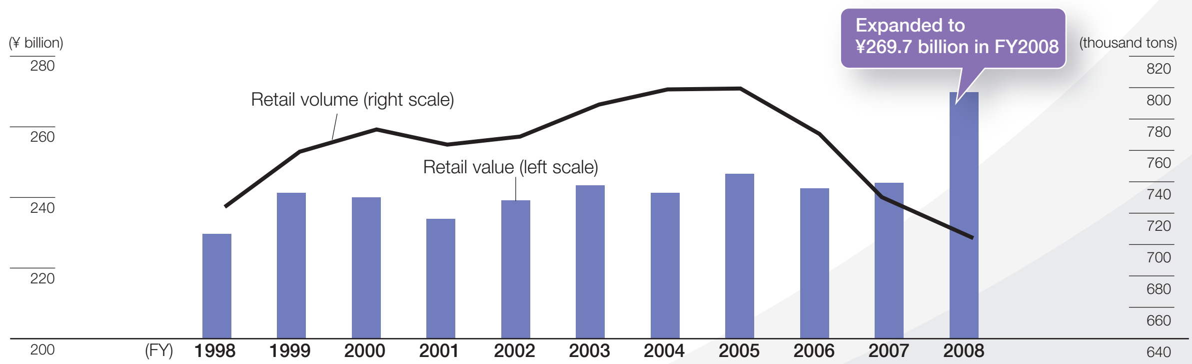
Japan: aiming to become the undisputed market share leader

Since last year's consumer slump and the return of deflation in Japan, consumers have been looking for even higher levels of quality in their pet care products, but at even more competitive prices. Working closely together, Unicharm and Unicharm PetCare will carry out product development and marketing to reinforce the Group's pet care product lineup with high value-added products that satisfy consumer needs and respond to growing demand. By continuing to target our resources on the four main market trends—caring for pets kept indoors, small-sized dogs, aging pets, and overweight pets—we plan to raise our domestic market share.

Overseas: entry into the Chinese market using Unicharm's infrastructure

In overseas markets currently undergoing growth, we plan to use Unicharm's existing marketing bases and sales channels to rapidly ramp up our pet care business. We believe early entry into Asia is the key to achieving growth. Primarily in coastal areas in China where incomes are high, demand for pet food is already on the rise. Leveraging our brand and its reputation for quality, we plan to offer distinctive products in the Chinese market.

Domestic Pet Food Market Size



Source: *Pet Food Retail Volume Survey*, Japan Pet Food Association

Growth Strategy 4

Vision 2020

Aim for sustained growth by effectively tapping the projected sharp increase in worldwide demand

The market is forecast to be 2.4 times larger than the current size in 2020

Unicharm operates five main businesses—the baby care business, feminine care business, health care business, clean & fresh business, and pet care business—which all utilize our nonwoven fabric and absorbent material processing and forming technologies. By supplying these products, Unicharm's mission is to help realize clean and comfortable living environments for people at different stages of life, such as babies and infants, the elderly receiving care, and people living with pets.

Demand for Unicharm products tends to grow in incremental steps as income levels rise. For example, when per capita GDP breaks through the $1,000 level, the sanitary napkin market takes off and begins to expand, and the same is true for paper diapers when per capita GDP rises above $3,000. In Asia (excluding Japan), the Middle East and North Africa, Eastern Europe, South America and other markets, the market for sanitary napkins and paper diapers is expanding rapidly. Over the longer term, we expect markets for pet care products and adult paper diapers to be established as societies age.

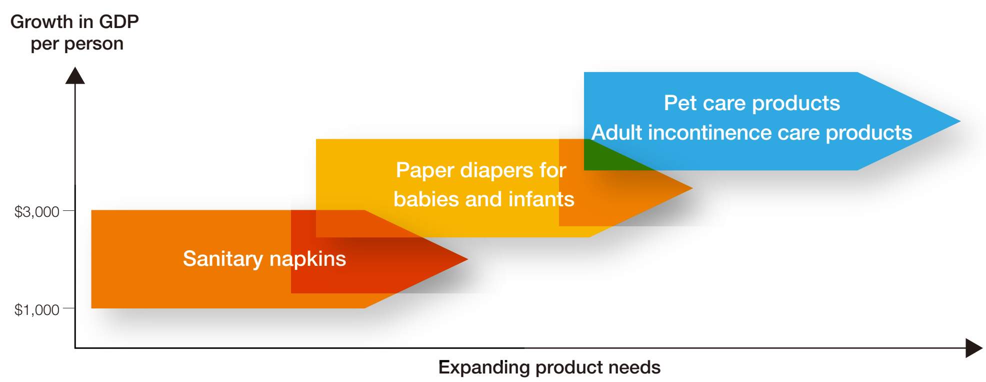
In both expanding and maturing markets, we think sustained growth is possible by launching products that match the specific needs of each market and their stage of development in a timely manner.

Asia excluding Japan

In Asia, demand for sanitary napkins and paper diapers for babies and infants has been growing strongly in recent years. Accounting for 30% of global demand, Asia is set to become the biggest market worldwide. We also expect demand to expand as the middle class grows across the region.

We have positioned China as our priority market and are expanding our sales reach in the country. In anticipation of this increase in demand, we started up our third plant in China in December 2009. The

Economic Development and Expanding Needs for Unicharm Products



Chinese plant is the biggest in the Unicharm Group to date. We also expect demand for pet care products and adult paper diapers to rise over the longer term.

By accelerating the expansion of our sales areas, we are aiming to build a dominant market share in Asia.

The Middle East and Africa

In the fast-growing post-BRICs markets of the Middle East and North Africa, we forecast rising demand for feminine care products and baby care products. The region is a very attractive market, where per capita GDP is high, the population stands at more than 300 million, and over seven million children are born annually. Our plant in Saudi Arabia currently exports products to 18 countries in the region, but targeting rising demand across Africa, we have made the decision to complete construction of a new plant in Egypt in 2012.

Russia and Eastern Europe

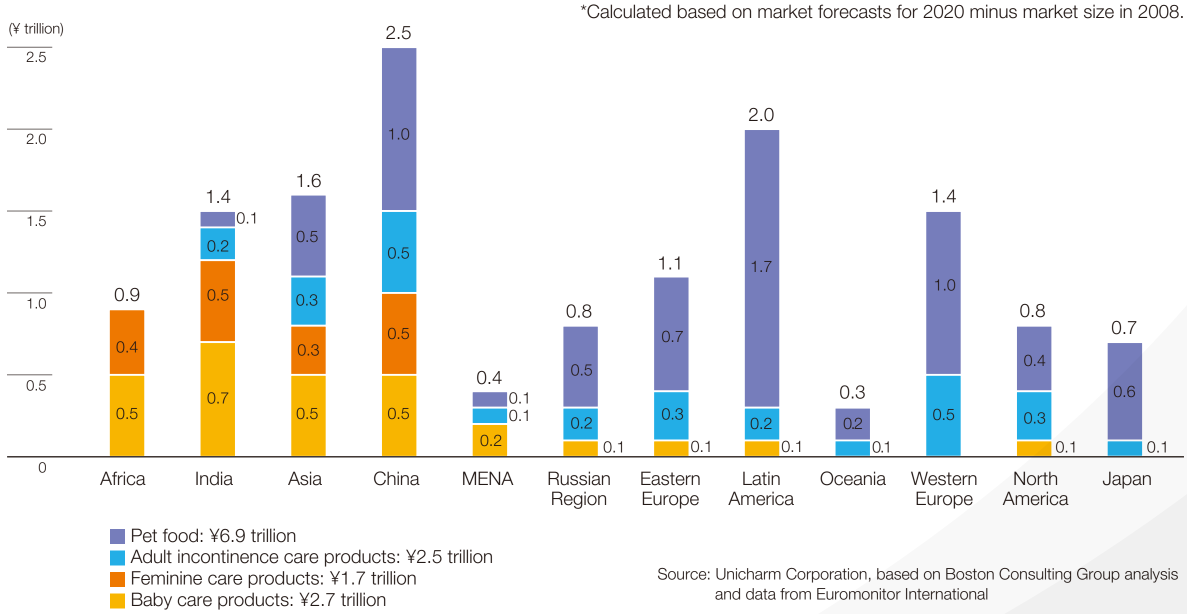
The baby care product market, centered on Russia, is expanding strongly. Previously, we had imported products from our subsidiary in Europe, but amid expanding sales and prospects for growth, we have established a plant in Russia to boost supply volume and cut costs. Over the longer term, we forecast rising sales of pet care products and adult paper diapers.

North America and Western Europe

In the large but maturing markets of North America and Western Europe, our business is based on the licensing out of our nonwoven fabric and absorbent material technology. With demand for adult paper diapers also expected to expand, we have built a plant in North America to satisfy this demand.

Forecasts for Emerging Demand Through 2020

*Calculated based on market forecasts for 2020 minus market size in 2008.



Source: Unicharm Corporation, based on Boston Consulting Group analysis and data from Euromonitor International

Growth Strategy 5

SAPS Management

Further developing proprietary SAPS Management to support strategy execution

Boosting the capabilities of the Unicharm organization is the key to success

We believe the capabilities of our organization, not just our people, give Unicharm an advantage over its competitors, because our organization enables the experience and knowledge of our people to be multiplied many times over. With this organizational structure, we are aiming to bring all our employees together as unified team to create an unlimited capability that is far greater than the sum of its parts.

Channeling our employees' time and action into resolving first priority issues

In 2003, we began implementing a proprietary management system called SAPS Management in order to build an organization that ensures all our employees share and work toward achieving the same goals. SAPS Management is based on the concept of time-based competition strategy,* which determines the first priority issues for the organization then concentrates the time and action of all the people in the organization on resolving those issues to achieve the greatest possible results in the shortest possible time. Based on the organization's first priority issues, each division and individual ranks their specific issues by order of priority so that unproductive activities are eliminated from daily tasks.

* Time-based competition strategy is based on the idea that companies that can deliver value to customers faster than competitors will also achieve higher rates of business expansion and profit growth.

Devoting half of our energy to analyzing current issues

A strategy based on the mistaken analysis of current conditions will take the organization in the wrong direction. To ensure thinking and acting vectors head in the right direction, our employees are told to devote 50% of their energy to analyzing current issues. If each of our employees at the frontline thinks and acts rigorously, we can accurately grasp changes and issues in the market and in customer needs, allowing us to respond rapidly.

Assessing progress with issue resolution on a weekly basis

Under SAPS Management, we implement plan, do and check controls on a weekly basis. To achieve the goals in medium-term management plan, we break down strategy into half-yearly, monthly and weekly units and implement a weekly cycle based on creating a plan of action, implementing the plan, and assessing the impact of the plan. Each division then reflects on the outcomes and incorporates any changes needed in the following week's plan.

Every employee is given one week to reflect on the previous week's plan so that they can identify any goals they failed to achieve and determine why they failed to achieve them. They then ask themselves what they need to do to resolve the outstanding issues and incorporate them in the subsequent week's plan. At weekly meetings, each employee highlights the areas they would like to improve on and presents their next plan and a daily schedule to achieve it. Managers and other colleagues then provide advice. By sharing information in this way, communication in each division is enhanced and ideas for resolving issues are born out of discussions between employees. Progress and action plans are also assessed on a weekly basis, so if a large gap emerges between current conditions and stated goals, the plans can immediately be recalibrated.

Developing the strategic capabilities of all our employees

Under SAPS Management, we conduct management using behavioral goals rather than numerical goals such as sales figures. One example is setting a target for visiting a certain number of customers in one week. Employees are not forced to deliver results, but certain behaviors are required, so anybody with the right motivation can achieve their goals regardless of skills or capabilities. Simply following the behavioral goals helps to boost an individual's capabilities, thereby increasing the capabilities of the entire organization.

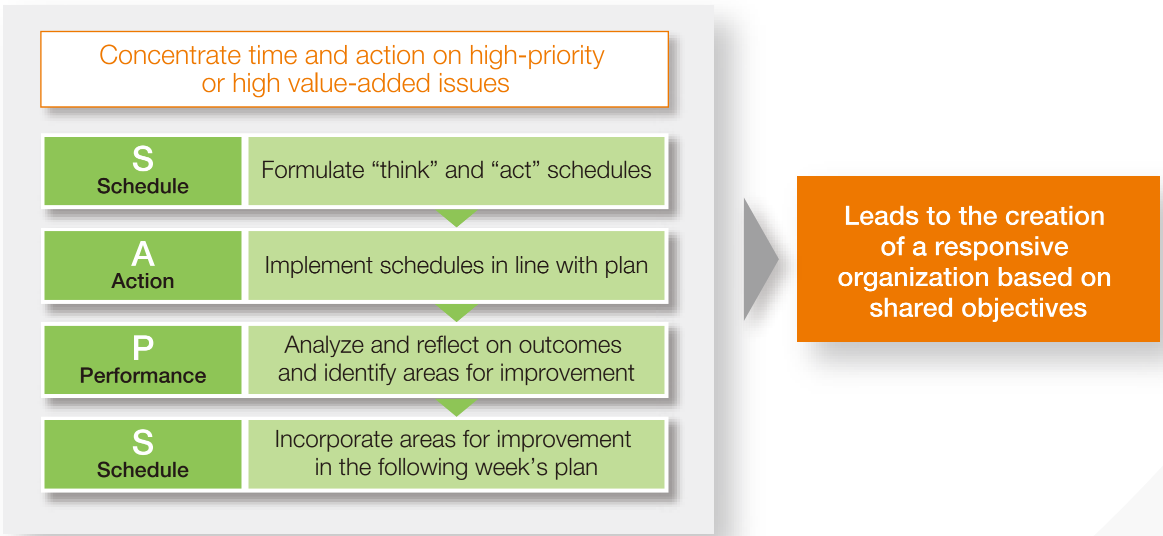
All of our employees can also derive a sense of achievement from attaining goals that they have set themselves.

Targeting sustained growth via further improvements to SAP Management

As our business activities become more global, we are also implementing SAPS Management at overseas subsidiaries. "The unicharm way," which systemizes our corporate ideals and behavioral guidelines, has been translated into a number of languages as part of efforts to create shared values on a global level.

We celebrate the Company's 50th year in business in 2011, but to ensure we are still operating after 100 or even 200 years, we plan to improve SAPS Management further and ensure Unicharm's corporate DNA is passed down to the next generation via SAPS Management.

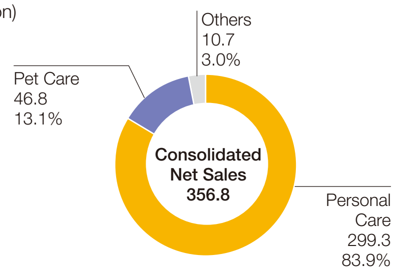
What is SAPS Management?



At a Glance

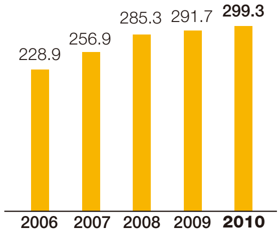
For more details about our segment information, please click here. Click

Net Sales by Business Segment

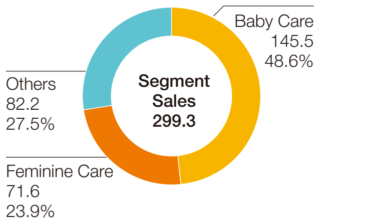


Personal Care Business

Net Sales (¥ billion)



Segment Sales by Category (¥ billion)



Personal Care Business

Baby Care Business

The Year Under Review

- In Japan, the baby care business worked to differentiate its product lineup and boost sales:
  - Launched new and improved M and L sizes of *Moony Okki Jitate* paper diapers, which incorporate a waist band that improves overall fit
  - Introduced *Mamy Poko* and *Mamy Poko Pants* with Chip 'n Dale packaging and paper diaper designs. Chip 'n Dale came top in a diaper design campaign that asked customers to chose their favorite Disney character
- Overseas, the business expanded its reach into more Chinese cities and worked to increase sales and earnings in Indonesia, the Middle East and North Africa, South Korea, and Taiwan.

Strategic Outlook

- The business plans to increase sales based on the following initiatives:
  - Launch *Moony Pants* incorporating Softretch® fabric, a newly developed soft fabric that removes the need for elastic tape and makes diapers kinder on delicate baby skin
  - Create a new brand color for the *Mamy Poko* brand, the first such change in roughly ten years
- Overseas, the business plans to increase *Mamy Poko* sales and boost supply capacity to reinforce the Unicharm brand and drive market expansion

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Feminine Care Business

The Year Under Review

- In Japan, the feminine care business strived to increase sales and boost earnings in the high value-added category:
  - Introduced new sizes to the *Sofy Hada Omoi* range of sanitary napkins that are kind on sensitive skin; launched improved versions of existing products
  - Launched new and improved *Sofy Super-Sound Sleep Guard* sanitary napkins with an anti-overflow function for nighttime use
  - Upgraded the *Center-In Compact* range of sanitary napkins with reinforced absorbency in an updated package
- Overseas, the business focused on increasing sales and boosting earnings:
  - In China, expanded its lineup of sanitary napkins and extended the sales area
  - In Asia entry markets, boosted sales of high value-added products such as nighttime-type and slim-type sanitary napkins

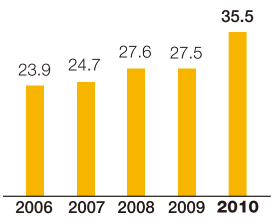
Strategic Outlook

- Create new demand with the launch of a new longer 40cm version of the *Sofy Hada Omoi* sensitive skin sanitary napkins for nighttime use
- As the top manufacturer in Japan, further enhance product performance and widen choice to drive market revitalization

For more details about our business operations, please click here. Click

For more details about our segment information, please click here. Click

Operating Income (¥ billion)



Health Care Business

The Year Under Review

- The health care business contributed to market expansion by tapping into emerging demand:
  - Launched new S and LL sizes of its *Lifree with Leak Stopper Tape* adult incontinence care products to increase the range of sizes
  - Introduced the *Lifree Comfortable Pad Slim* to its *Lifree Comfortable Pad* series of light incontinence care products; the new slim version is lighter at the front and back to enhance user comfort during everyday activity
  - Rolled out a new and improved version of *Charm Nap* containing deodorizing polymers
  - Bolstered sales promotions for the *Super 3D Masks* amid rising awareness among consumers of the need to prevent infection

Strategic Outlook

- Enhance the performance of light incontinence care product *Lifree Comfortable Pad* by adding deodorizing functions; the product upgrade will also be supported by an in-store and TV marketing campaign
- Reinforce the *Lifree* brand of adult paper diapers to lead the market

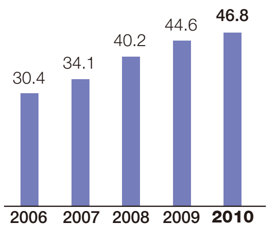
Clean & Fresh Business

The Year Under Review

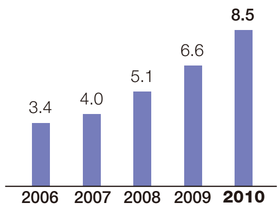
- The clean & fresh business targeted higher sales with the addition of an improved version of *Wave Fuwa Mimi Dust Absorber Handy*, which can collect more dust in all directions thanks to its double stick-type cleaners.

Pet Care Business

Net Sales (¥ billion)



Operating Income (¥ billion)



Pet Care Business

The Year Under Review

- The pet care business enhanced its product range and worked to boost sales in line with the four major pet trends in the domestic market—caring for pets kept indoors, small-sized dogs, aging pets, and overweight pets:
  - The pet food department launched pet food specifically designed to give puppies and kittens the optimum nutritional balance for growth, and with dogs and cats living longer, began selling products in the new age category of 13 and older
  - The pet toiletry department strengthened its lineup by upgrading existing products such as its dog sanitary sheet products marketed under the *Deo Sheet* brand; the *Deo Sheet* products now meet even tougher criteria in the three main areas of demand—leaks, damp legs, and deodorization

Strategic Outlook

- Reinforce the lineup of high value-added products to satisfy consumer needs and tap rising demand for pet care products by rolling out aggressive marketing activities

For more details about our business operations, please click here. Click

Corporate Governance and Internal Control

Fundamental Principles

The Unicharm Group strives to pursue correct corporate management principles, which brings together corporate growth, wellbeing among employees and the fulfillment of its social responsibilities. Guided by these established ideals, the Company works to create new value and promote a corporate management structure that consistently aims to create No. 1 value for all stakeholders, including investors, shareholders, customers, local communities, business partners and employees. 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 sustained increases in corporate value and the fulfillment of 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 system, 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 nine directors, including the Founder. In addition to its monthly ordinary meetings, the Board of Directors holds extraordinary meetings on an as-required basis (16 such meetings were held during the year ended March 31, 2010).

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 2010, the Company had 17 executive officers, 7 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 soundness and transparency of its corporate conduct through four corporate auditors, including two external 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 audit activities of corporate auditors are guided by policies, schedules, and tasks determined by the Board of Corporate 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 external corporate 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 business matters. 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 Kazuhiko Tomoda, Motohide Ozawa, Tsuyoshi Saito of the Pricewaterhouse Coopers Aarata auditing firm. In addition, corporate auditors and the Board of Corporate 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.

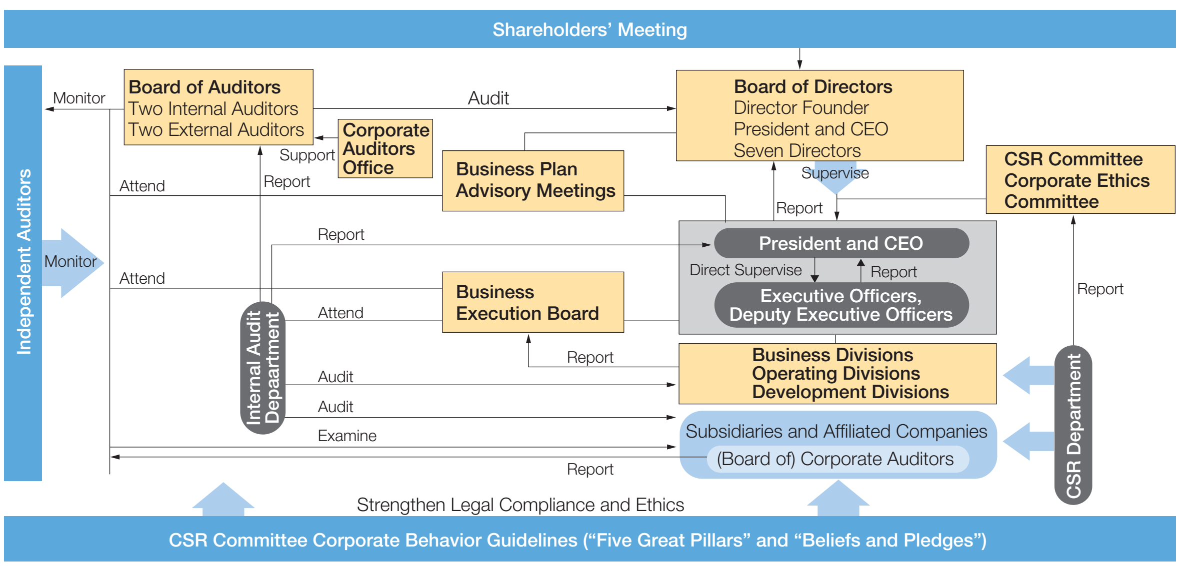
In accordance with requirements in relevant laws and regulations, the "Internal Control Upgrading Project" was initiated in April 2006. The maintenance of internal control systems has been conducted on both a companywide and a business process level. Related activities are detailed below.

(1) An evaluation of internal control systems on a companywide level was implemented throughout the Unicharm Group companies, including at Unicharm Corporation, Unicharm PetCare Corporation, Unicharm Product 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, and internal control managers have been appointed to oversee each business process and fully document all relevant procedures. In addition, once the effectiveness of a process has been verified, a simulated audit is conducted by the 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.

For more details about our corporate governance, please click here. Click

Internal Control Structure



(As of February 10, 2011)

Board of Directors, Corporate Auditors and Executive Officers

As of April 1, 2011

Directors

Keiichiro Takahara
Director
Founder

Takahisa Takahara
Representative Director
President and
Chief Executive Officer

Gumpei Futagami
Director
Vice President and
Managing Executive Officer

Kennosuke Nakano
Director
Managing Executive Officer

Eiji Ishikawa
Director
Managing Executive Officer

Shinji Mori
Director
Managing Executive Officer

Yoshiro Ando
Director
Managing Executive Officer

Masakatsu Takai
Director
Senior Executive Officer

Takaaki Okabe
Director

Full-time Corporate Auditors

Shigeki Maruyama
Kazuhira Ikawa

Corporate Auditors

Masahiko Hirata*
Kimisuke Fujimoto*

* External corporate auditors in accordance with requirements in Article 2, Item 16 of the Corporation Law.

Executive Officers

President and Chief Executive Officer
Takahisa Takahara

Vice President and Managing Executive Officer
Gumpei Futagami

Managing Executive Officer
Kennosuke Nakano

Managing Executive Officer
Eiji Ishikawa

Managing Executive Officer
Shinji Mori

Managing Executive Officer
Yoshiro Ando

Senior Executive Officer
Masakatsu Takai

Senior Executive Officer
Takamitsu Igaue

Senior Executive Officer
Yoshihiro Miyabayashi

Senior Executive Officer
Katsuhiko Sakaguchi

Senior Executive Officer
Shinya Takahashi

Senior Executive Officer
Shigeo Moriyama

Senior Executive Officer
Hiromitsu Kodama

Executive Officer
Kenji Takaku

Executive Officer
Yukihiro Kimura

Executive Officer
Norio Nomura

Executive Officer
Hidetoshi Yamamoto

Executive Officer
Atsushi Iwata

Executive Officer
Masaaki Takahashi

Executive Officer
Yasushi Akita

Executive Officer
Itsumi Matsuoka

Shareholder Returns

Fundamental Policy on Shareholder Returns

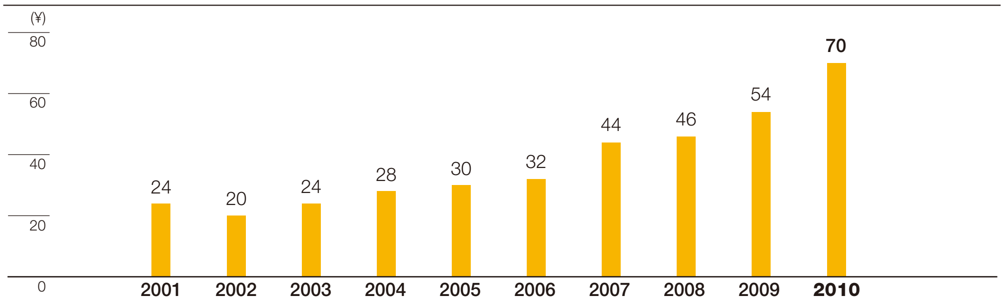
Unicharm considers the distribution of profits to shareholders as one of its most important management policies and therefore works to increase corporate value by generating cash flow. To boost earnings, the Company is reinforcing its corporate structure and aggressively increasing its business investment to drive growth, while at the same time maintaining a policy of stable and sustainable dividend growth.

The Company's policy on distributing profits to shareholders is to use 50% of net income each fiscal year for shareholder dividends and share buybacks. In line with this policy, between December 1, 2009 and December 22, 2009, Unicharm purchased 722,000 of its own shares (total acquisition price of ¥6,490 million) on the Tokyo Stock Exchange (market purchase through trust).

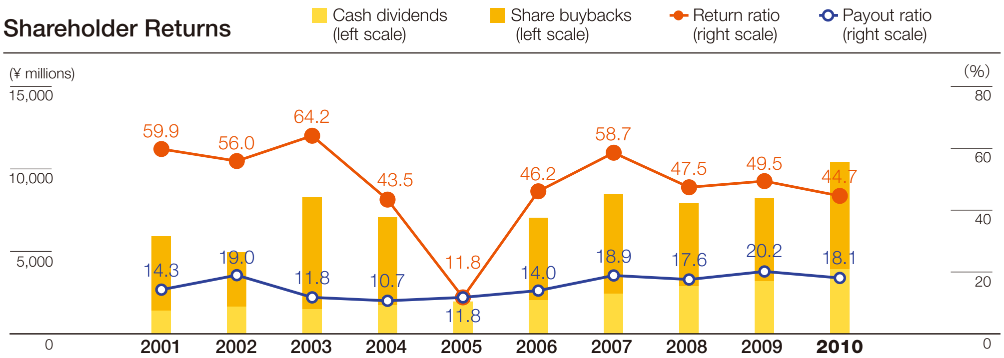
For fiscal 2010, the Company increased the dividend per share by ¥16 year on year, to ¥70.

Also, in order to make it easier for investors to invest in Unicharm, a three-for-one stock split for ordinary shares will be conducted for shareholders of record as of September 30, 2010. This move is intended to boost the liquidity of Unicharm stock and expand the Company's base of investors.

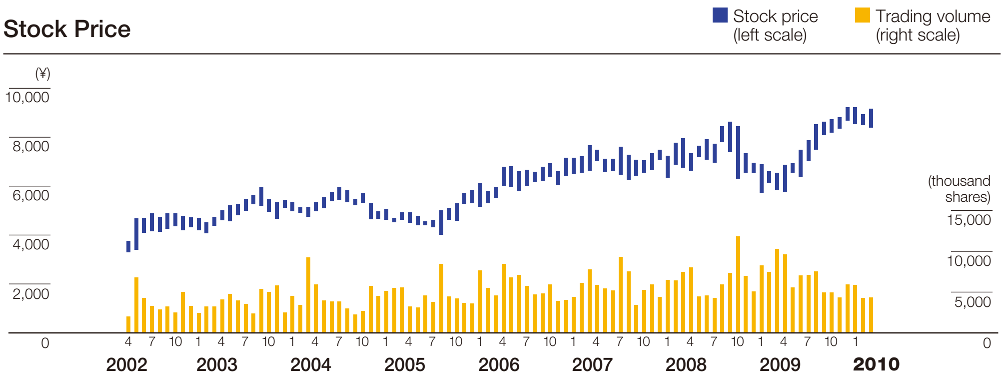
Cash Dividends per Share



Shareholder Returns



Stock Price



For more details about our stock information, please click here. Click

CSR Activities

Promoting CSR

The basis of Unicharm's corporate social responsibility (CSR) activities is to encourage all its employees to think about and help realize the goal of sustainable development while contributing to a better quality life by offering the finest products and services for people in Japan and worldwide.

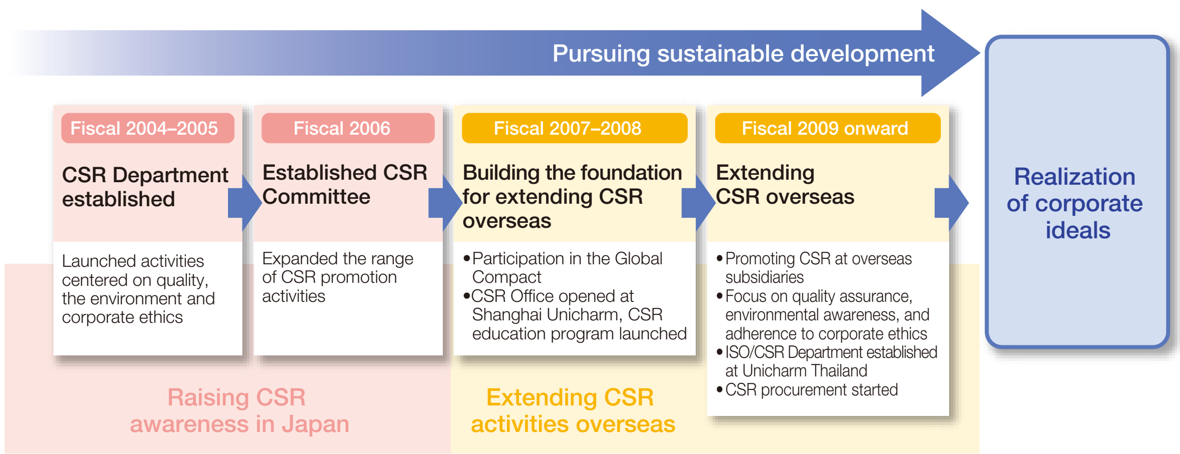
We view all the global employees in the Unicharm Group as stakeholders regardless of differences in culture and environment, and we look for them to fulfill their responsibilities as stakeholders to support Unicharm's continued growth as a trusted company.

Global CSR Initiatives

Raising awareness of CSR among our overseas employees is essential in order to expand Unicharm's worldwide market share through global business development. We are now extending our domestic CSR activities, which we launched in 2003 to raise awareness about product quality, environmental issues and corporate ethics, to our overseas operating sites. In particular, we are focusing on increasing awareness of the idea that the main business area of Unicharm is CSR, a concept that has not been widely understood overseas.

Last year, we held our first overseas CSR material procurement orientation session at a plant in China to explain Unicharm's technology and approach with respect to customer peace of mind and product safety. In addition to transferring our thinking on CSR from Japan to our overseas sites, we plan to work with local staff to develop localized CSR that is easier to understand for employees in each country where we operate, not just China, but also Thailand and Indonesia.

By combining best practice learned in Japan with overseas CSR activities, our aim is to make Unicharm's activities more open while improving the Group's CSR program through communication with all our stakeholders.



For more about our activities in this area, please visit the CSR section of our corporate website:
http://www.unicharm.co.jp/english/csr/ Click

CSR Report 2010

Five-Year Summary

Unicharm Corporation and Subsidiaries

	Millions of yen					Thousands of U.S. dollars
	2006	2007	2008	2009	**2010**	**2010**
FOR THE FISCAL PERIOD:						
Net sales	¥270,380	¥301,880	¥336,864	¥347,850	**¥356,825**	**$3,836,838**
Overseas sales to net sales ratio	26.7%	32.4%	36.9%	37.1%	**38.5%**	**–**
Cost of sales	153,264	173,239	196,130	206,209	**193,012**	**2,075,400**
Selling, general and administrative expenses	88,585	98,711	107,003	106,757	**118,747**	**1,276,852**
Operating income	28,531	29,930	33,731	34,884	**45,066**	**484,586**
Net income	15,288	15,059	16,684	17,128	**24,464**	**263,054**
Net income per share (yen)	229.34	232.31	259.39	268.32	**385.69**	**4.15**
Cash dividends per share (yen)	32.00	44.00	46.00	54.00	**70.00**	**0.75**
Consolidated payout ratio	14.0%	18.9%	17.6%	20.2%	**18.1%**	**–**
Net cash provided by operating activities	36,889	28,358	45,309	21,978	**55,032**	**591,752**
Net cash used in investing activities	(20,251)	(20,329)	(10,091)	(44,316)	**(22,239)**	**(239,138)**
Free cash flows	16,638	8,029	35,218	(22,338)	**32,793**	**352,613**
Capital expenditures	13,609	21,307	17,370	14,574	**24,750**	**266,130**
Depreciation and amortization	13,063	13,431	15,041	17,101	**16,393**	**176,271**
Research and development costs	4,018	4,332	4,505	4,459	**4,558**	**49,013**
AT FISCAL YEAR-END:						
Total assets	¥250,355	¥268,763	¥275,436	¥278,314	**¥307,773**	**$3,309,391**
Property, plant and equipment	77,111	86,725	86,463	84,248	**95,357**	**1,025,344**
Long-term debt —less current maturities	677	1,739	1,452	1,306	**944**	**10,146**
Net assets	151,183	177,049	179,171	185,591	**207,413**	**2,230,252**
Equity ratio	60.4%	60.0%	58.9%	60.2%	**59.7%**	**–**
Number of employees	6,030	6,265	6,461	6,904	**7,108**	**–**
RATIOS:						
Operating income to net sales ratio	10.6%	9.9%	10.0%	10.0%	**12.6%**	**–**
Net income to net sales ratio	5.7%	5.0%	5.0%	4.9%	**6.9%**	**–**
Gross profit to net sales ratio	43.3%	42.6%	41.8%	40.7%	**45.9%**	**–**
SG&A expenses to net sales ratio	32.8%	32.7%	31.8%	30.7%	**33.3%**	**–**
ROE	10.6%	9.6%	10.3%	10.4%	**13.9%**	**–**
ROA	6.6%	5.8%	6.1%	6.2%	**8.0%**	**–**
STOCK PRICES:						
High (yen)	¥6,110	¥7,670	¥7,960	¥8,630	**¥9,220**	**$99.14**
Low (yen)	4,000	5,800	6,240	5,740	**5,750**	**61.83**

Note: U.S.dollar amounts are translated from yen at the rate of ¥93=U.S.$1, the approximate rate on the Tokyo Foreign Exchange Market on March 31, 2010.

For more details about our financial data, please click here. Click

Management's Discussion and Analysis

Scope of Consolidation

The Unicharm Group (the Group) comprises the Unicharm Corporation, 29 consolidated subsidiaries and two affiliated companies, which mainly engage in business activities related to the manufacture and sale of baby care products, feminine care products and pet care products.

Operating Results

Sales

In fiscal 2010, ended March 31, 2010, consolidated net sales increased 2.6% from ¥347.9 billon in the previous fiscal year to a record-high ¥356.8 billion. On a regional basis, sales in Japan declined ¥1.8 billion or 0.8% year on year, to ¥220.7 billion, accounting for 61.8% of consolidated net sales.

In the domestic market, Unicharm worked to reinforce its earnings base and create new markets by bolstering product brands and launching new demand-generating products in the personal care and pet care product divisions. As a result, Unicharm's sales in growth areas, specifically the health care and pet care product divisions, expanded steadily.

In the core baby care business, Unicharm worked to differentiate its products from those of competitors with the launch of new and improved M and L sizes of *Moony Okki Jiitate* paper diapers for babies, which incorporate a newly developed elastic waist band that improves overall fit. In the feminine care business, Unicharm aimed to boost sales by introducing new sizes to the *Sofy Hada Omoi* range of sanitary napkins that are kind on sensitive skin and launched improved versions of existing products.

Sales in Asia (excluding Japan) increased 20.1% compared with the previous fiscal year to ¥96.0 billion, which accounted for 26.9% of consolidated net sales, marking a 3.9 percentage points increase. In Asian entry markets, the feminine care business and the baby care business both increased their market shares. In other regions, particularly Europe, sales of adult incontinence care products and paper diapers for babies grew. In the Middle East, sales of paper diapers for babies increased steadily. As a result, overseas sales rose ¥8.5 billion year on year, to ¥137.5 billion owing to higher sales at all Unicharm's overseas subsidiaries. Overseas sales accounted for 38.5% of consolidated net sales.

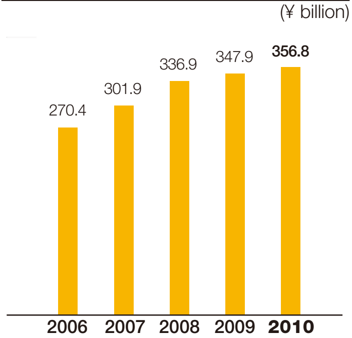
Geographic Segment Sales (¥ million)

	2009	2010
Japan	¥222,472	**¥220,674**
Asia (excluding Japan)	79,939	**96,041**
Europe and the Middle East	45,439	**40,110**
Total	¥347,850	**¥356,825**

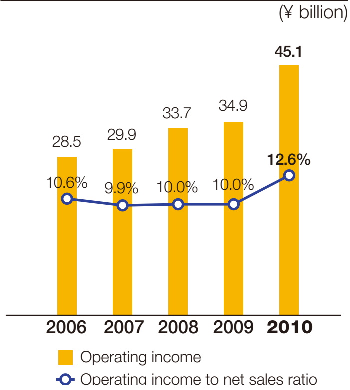
Cost of Sales and Selling, General and Administrative Expenses

Although net sales increased in fiscal 2010, the cost of sales declined by ¥13.2 billion, from ¥206.2 billion in the previous fiscal year to ¥193.0 billion, owing to a drop in raw material prices and other factors. The cost of sales to net sales ratio improved 5.2 percentage points, from 59.3% in fiscal 2009 to 54.1% in the fiscal year under review. Gross profit rose 15.7% year on year to ¥163.8 billion. Selling, general and

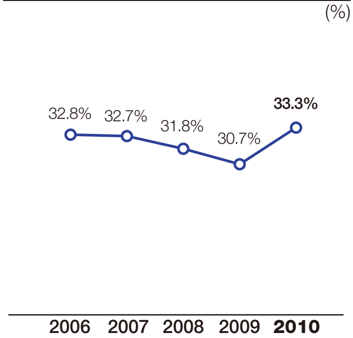
Net Sales



Operating Income/Operating Income to Net Sales Ratio



SG&A Expenses to Net Sales Ratio



administrative expenses increased by 11.2% to ¥118.7 billion, mainly reflecting increases of ¥3.4 billion for advertising costs and ¥6.8 billion for sales promotion costs. The selling, general and administrative expenses to net sales ratio declined 2.6 percentage points to 33.3%.

Research and Development Costs

Research and development costs totaled ¥4.6 billion.

Income and Expenses

In the fiscal year under review, expenses increased owing to higher advertising costs for brand cultivation and an increase in sales promotion costs to strengthen competitiveness. However, income rose on the back of sales expansion, mainly in growth businesses, steps were taken to reduce costs, and raw material prices declined. As a result, operating income rose 29.2% year on year, from ¥34.9 billion to ¥45.1 billion, and the operating income to net sales ratio improved by 2.6 percentage points, from 10.0% to 12.6%. Net other expenses improved from ¥7.4 billion in fiscal 2009 to ¥1.1 billion in the year under review, mainly reflecting a sharp drop in loss on write-down of investment securities and foreign exchange gain on the valuation of loans denominated in Australian dollars.

As a result, income before income taxes and minority interests rose 60.1% year on year to ¥43.9 billion. Current income taxes increased ¥8.7 billion, from ¥7.9 billion to ¥16.6 billion, while deferred income taxes rose to negative ¥2.7 billion from the previous fiscal year's negative ¥1.1 billion. Net income increased 42.8% year on year to ¥24.5 billion, with net income per share amounting to ¥385.69, an increase of ¥117.37.

Financial Position and Liquidity

Assets, Liabilities and Net Assets

Total assets as of March 31, 2010 stood at ¥307.8 billion, an increase of ¥29.5 billion compared with the end of the previous fiscal year. Under current assets, cash and cash equivalents increased ¥23.8 billion to ¥84.3 billion. Marketable securities declined ¥4.0 billion to ¥1.5 billion. In notes and accounts receivable, trade receivables amounted to ¥41.6 billion, an increase of ¥0.7 billion from the end of the previous fiscal year. Inventories fell ¥2.6 billion, from ¥22.7 billion to ¥20.1 billion. Other current assets fell ¥1.7 billion to ¥19.3 billion.

Net property, plant and equipment as of March 31, 2010 totaled ¥95.4 billion, an increase of ¥11.1 billion compared with the end of the previous fiscal year. Buildings and structures rose ¥3.9 billion to ¥57.5 billion and machinery and equipment increased ¥13.3 billion to ¥154.3 billion. Construction in progress rose ¥2.7 billion to ¥10.3 billion.

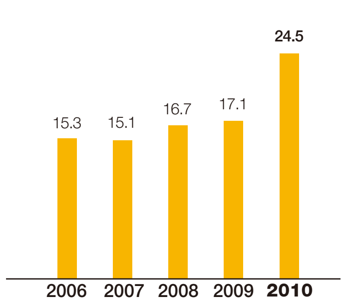
Investments and other assets rose ¥0.4 billion to ¥40.2 billion. Investment securities increased ¥2.4 billion to ¥17.9 billion, while goodwill totaled ¥12.0 billion.

As of March 31, 2010, current liabilities amounted to ¥92.3 billion, a drop of ¥11.8 billion compared with the end of the previous fiscal year. Short-term bank loans rose ¥1.6 billion to ¥5.9 billion. Trade payables under notes and accounts payable declined ¥24.9 billion to ¥36.1 billion.

Total long-term liabilities as of the end of the fiscal year amounted to ¥8.0 billion, a decline of ¥4.2 billion from the end of fiscal 2009. This included a decline of ¥0.4 billion in long-term debt to ¥0.9 billion and a

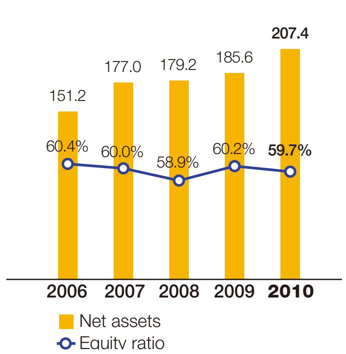
Net Income

(¥ billion)



Net Assets/Equity Ratio

(¥ billion)



drop of ¥3.8 billion to ¥2.3 billion in provision for retirement benefits.

Within total net assets, retained earnings rose ¥20.4 billion to ¥188.7 billion.

As a result, total net assets increased ¥21.8 billion, or 11.8%, to ¥207.4 billion, while the equity ratio declined 0.5 percentage point to 59.7%.

Capital Expenditures and Depreciation

Capital expenditures amounted to ¥24.8 billion in fiscal 2010, an increase of ¥10.2 billion from ¥14.6 billion in the previous fiscal year. Major components of this spending included investment to expand overseas facilities, build new product facilities for core domestic businesses, and renovate facilities in line with productivity enhancements. Depreciation and amortization amounted to ¥16.4 billion, representing a drop of ¥0.7 billion year on year from ¥17.1 billion.

Cash Flows

Net cash provided by operating activities increased ¥33.0 billion compared with the previous fiscal year to ¥55.0 billion. Income before income taxes and minority interests rose ¥16.5 billion to ¥43.9 billion and depreciation and amortization declined ¥0.7 billion to ¥16.4 billion. Trade receivables fell ¥0.6 billion, inventories dropped ¥3.0 billion, and trade payables decreased ¥2.6 billion.

Net cash used in investing activities declined ¥22.1 billion year on year to ¥22.2 billion. Cash inflows mainly included ¥46.1 billion in proceeds from sales and redemption of marketable securities, and ¥2.5 billion in proceeds from sales and redemption of investment securities, while major outflows comprised ¥42.3 billion for purchases of marketable securities, ¥24.2 billion for acquisition of property, plant and equipment, and ¥2.8 billion for purchases of investment securities.

Net cash used in financing activities rose ¥6.3 billion year on year, from ¥3.2 billion to ¥9.5 billion. This mainly comprised cash outflows of ¥6.5 billion for the repurchase of Unicharm stock and ¥3.9 billion for cash dividends paid.

As a result of the above, cash and cash equivalents at the end of fiscal 2010 totaled ¥84.3 billion, an increase of ¥23.9 billion from the end of the previous fiscal year.

Outlook for Fiscal 2011

In the Unicharm Group's operating environment, there are prospects for growth in Asian entry markets. In Japan, Unicharm projects stable demand for high value-added products that satisfy customer needs. However, there is a likelihood that raw material prices will begin to rise again amid rising demand in emerging markets.

The Group, continuing its efforts from the previous fiscal year, implemented corporate restructuring by placing the highest priority on promoting revitalization of the domestic market and market growth overseas—particularly in Asia—and took steps to expand its operations. As a result, it achieved a steady increase in earnings.

In the fiscal year under review, Unicharm worked to expand the overseas business in tandem with the upturn in economies in Asia, and in Japan, where a sluggish recovery in consumer spending affected performance, the Group strived to boost sales and cut costs amid intensifying competition.

In order to promote further corporate changes, the Group will focus its efforts on boosting added value in all its businesses by ceaselessly undertaking product innovation. 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

Unicharm and its group companies (the Group) are subject to a variety of potential risks that could have a substantial impact on business performance. Listed below are risk factors identified as potentially affecting the Group's operations.

Forward-looking statements in this annual report are based on risk information available to management as of the end of the consolidated fiscal year.

1. Market Competition

The Group anticipates both product and price competition to become increasingly severe in its core markets, both overseas and in Japan.

Given the nature of consumer products, the Group's core products are constantly exposed to fierce price competition and successive new product releases by competitors.

The selling environment is heavily impacted by the Group's marketing and other efforts as well as those of its competitors. The Group'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, the Group's business performance may be affected by a decline in domestic demand for the Group's mainstay baby care and feminine care products.

3. Overseas Operations

The Group currently undertakes manufacturing in Thailand, Indonesia, Taiwan, South Korea, China, the Netherlands, Saudi Arabia, Vietnam and Australia. The Group 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 environment and regulatory changes by foreign governments. There is also a possibility of political or social instability in overseas countries. The Group's business performance may be affected by any or all of these factors.

4. Raw Material Price Fluctuation

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

5. Market Response to Product Reliability

As a manufacturer and purveyor of consumer products, the Group considers the market's view of 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 the Group's business results. Although the Group 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, the Group's business performance may be affected.

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

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

7. Environmental Issues

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

The Group 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, the Group will engage in business acquisitions and capital subscriptions, tie-ups with other companies, business eliminations and consolidations, and/or rationalizations and spin-offs. These developments could have an impact on the Group's future business performance and its operating structure.

9. Information Leaks

The Group is in possession of a range of information that includes not only data generated within the Group but personal information acquired through confidentiality agreements or with the consent of customers and clients. Accordingly, the Group 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 the Group's legal responsibility with regard to information management, the Group may lose credibility and its business performance may be affected.

CONSOLIDATED BALANCE SHEETS

Unicharm Corporation and Subsidiaries
March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
ASSETS			
Current Assets:			
Cash and cash equivalents	¥ 84,270	¥ 60,421	*$ 906,131*
Marketable securities (Note 3)	1,499	5,535	*16,128*
Notes and accounts receivable:			
Trade	41,643	40,929	*447,782*
Allowance for doubtful accounts	(75)	(84)	*(810)*
Inventories (Note 4)	20,086	22,691	*215,977*
Deferred tax assets (Note 11)	5,485	3,783	*58,989*
Other current assets	19,343	21,016	*207,974*
Total current assets	172,251	154,291	*1,852,171*
Property, Plant and Equipment:			
Land (Note 5)	12,022	10,254	*129,266*
Buildings and structures	57,453	53,596	*617,776*
Machinery and equipment	154,260	140,919	*1,658,713*
Furniture and fixtures	6,521	6,427	*70,115*
Leased assets	223	253	*2,398*
Construction in progress	10,317	7,574	*110,935*
Total	240,796	219,023	*2,589,203*
Accumulated depreciation	(145,439)	(134,775)	*(1,563,859)*
Net property, plant and equipment	95,357	84,248	*1,025,344*
Investments and Other Assets:			
Investment securities (Note 3)	17,928	15,497	*192,769*
Investments in affiliates	125	113	*1,346*
Goodwill	12,030	12,735	*129,351*
Intangibles	2,534	2,389	*27,249*
Deferred tax assets (Note 11)	1,104	786	*11,870*
Prepaid pension cost (Note 7)	5,534	5,586	*59,506*
Other assets	1,936	2,833	*20,816*
Allowance for doubtful accounts	(1,026)	(164)	*(11,031)*
Total investments and other assets	40,165	39,775	*431,876*
Total	¥ 307,773	¥ 278,314	*$ 3,309,391*

The accompanying notes are an integral part of these financial statements.
The Consolidated Financial Statements of the Company as of March 31, 2009 and for the year then ended were audited by predecessor auditor.

CONSOLIDATED BALANCE SHEETS—(Continued)

Unicharm Corporation and Subsidiaries
March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
LIABILITIES AND NET ASSETS			
Current Liabilities:			
Short-term bank loans (Note 6)	¥ 5,918	¥ 4,297	*$ 63,633*
Current portion of long-term debt (Note 6)	388	454	*4,168*
Notes and accounts payable			
Trade	36,135	61,039	*388,554*
Others	28,109	1,264	*302,252*
Income taxes payable	10,390	4,333	*111,721*
Accrued expenses	10,502	8,237	*41,488*
Other current liabilities	883	898	*80,923*
Total current liabilities	92,325	80,522	*992,739*
Long-Term Liabilities:			
Long-term debt (Note 6)	944	1,306	*10,146*
Provision for retirement benefits (Note 7)	2,325	6,161	*25,004*
Deferred tax liabilities (Note 11)	1,378	1,556	*14,825*
Other long-term liabilities	3,388	3,178	*36,425*
Total long-term liabilities	8,035	12,201	*86,400*
Commitments and Contingent Liabilities (Notes 13 and 16):			
NET ASSETS			
Shareholders' equity (Note 18):			
Common stock, authorized: 275,926,364 shares in 2010 and 2009 issued: 68,981,591 shares in 2010 and 2009	15,993	15,993	*171,964*
Capital surplus	18,802	18,802	*202,176*
Retained earnings	188,697	168,283	*2,028,998*
Treasury stock — at cost shares: 6,052,515 in 2010 and 5,329,376 in 2009	(36,330)	(29,830)	*(390,644)*
Valuation and translation adjustments			
Net unrealized gains on available-for-sale securities, net of taxes (Note 3)	2,796	1,746	*30,064*
Net gains (losses) on deferred hedges, net of tax	9	(28)	*96*
Land revaluation difference, net of tax (Note 5)	(618)	(547)	*(6,650)*
Foreign currency translation adjustments	(5,460)	(6,751)	*(58,707)*
Total	183,889	167,668	*1,977,297*
Minority interests	23,524	17,923	*252,955*
Total net assets	207,413	185,591	*2,230,252*
Total	¥307,773	¥278,314	*$3,309,391*

The accompanying notes are an integral part of these financial statements.
The Consolidated Financial Statements of the Company as of March 31, 2009 and for the year then ended were audited by predecessor auditor.

CONSOLIDATED STATEMENTS OF INCOME

Unicharm Corporation and Subsidiaries
Years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
Net Sales	¥356,825	¥347,850	*$3,836,838*
Cost Of Sales (Note 12)	193,012	206,209	*2,075,400*
Gross profit	163,813	141,641	*1,761,438*
Selling, General and Administrative Expenses (Notes 9, 12 and 19)	118,747	106,757	*1,276,852*
Operating income	45,066	34,884	*484,586*
Other Income (Expenses):			
Interest and dividend income	753	967	*8,097*
Foreign exchange gain (loss)	2,235	(2,668)	*24,042*
Interest expense	(155)	(311)	*(1,662)*
Sales discount	(2,527)	(1,887)	*(27,178)*
Loss on disposal of property, plant, and equipment	(730)	–	*(7,855)*
Loss on write-down of investment securities	(8)	(3,455)	*(96)*
Provision for doubtful account	(824)	–	*(8,870)*
Other — net	138	(74)	*1,499*
Other income (expenses) — net	(1,118)	(7,428)	*(12,023)*
Income Before Income Taxes and Minority Interests	43,948	27,456	*472,563*
Income Taxes (Note 11):			
Current	16,640	7,883	*178,926*
Deferred	(2,729)	(1,076)	*(29,340)*
Total income taxes	13,911	6,807	*149,586*
Minority Interests In Net Income	5,573	3,521	*59,923*
Net Income	¥ 24,464	¥ 17,128	*$ 263,054*

	Yen		U.S. dollars
	2010	2009	2010
Per Share of Common Stock (Notes 2 and 17):			
Net income	¥ 385.69	¥ 268.32	*$ 4.15*
Diluted net income	385.66	268.21	*4.15*
Cash dividends applicable to the year	70.00	54.00	*0.75*

The accompanying notes are an integral part of these financial statements.
The Consolidated Financial Statements of the Company as of March 31, 2009 and for the year then ended were audited by predecessor auditor.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Unicharm Corporation and Subsidiaries
Years ended March 31, 2010 and 2009

	Thousands	Millions of yen										
	Outstanding number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized gains on available-for-sale securities net of tax	Net gains (losses) on deferred hedges net of tax	Land revaluation surplus	Foreign currency translation adjustments	Total	Minority interests	Total net assets
Balance, April 1, 2008	63,733,288	¥15,993	¥18,591	¥154,332	¥(28,129)	¥1,910	¥(46)	¥(324)	¥ (75)	¥162,252	¥16,919	¥179,171
Adjustment of retained earnings due to an 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)
Treasury stock acquired, net (Note 8)	(81,073)	–	211	–	(1,701)	–	–	–	–	(1,490)	–	(1,490)
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	¥(29,830)	¥1,746	¥(28)	¥(547)	¥(6,751)	¥167,668	¥17,923	¥185,591
Net income	–	–	–	24,464	–	–	–	–	–	24,464	–	24,464
Cash dividends, ¥62.00 per share	–	–	–	(3,946)	–	–	–	–	–	(3,946)	–	(3,946)
Purchase of treasury stock	(723,139)	–	–	–	¥ (6,500)	–	–	–	–	(6,500)	–	(6,500)
Net change in the year	–	–	–	(104)	–	1,050	¥ 37	¥ (71)	¥ 1,291	2,203	5,601	7,804
Balance, March 31, 2010	62,929,076	¥15,993	¥18,802	¥188,697	¥(36,330)	¥2,796	¥ 9	¥(618)	¥(5,460)	¥183,889	¥23,524	¥207,413

	Thousands of U.S. dollars (Note 1)										
	Common stock	*Capital surplus*	*Retained earnings*	*Treasury stock*	*Net unrealized gains on available-for-sale securities net of tax*	*Net gains (losses) on deferred hedges net of tax*	*Land revaluation surplus*	*Foreign currency translation adjustments*	*Total*	*Minority interests*	*Total net assets*
Balance, March 31, 2009	*$171,964*	*$202,176*	*$1,809,496*	*$(320,749)*	*$18,770*	*$(303)*	*$(5,881)*	*$(72,597)*	*$1,802,876*	*$192,725*	*$1,995,601*
Net income	–	–	*263,054*	–	–	–	–	–	*263,054*	–	*263,054*
Cash dividends, $0.67 per share	–	–	*(42,435)*	–	–	–	–	–	*(42,435)*	–	*(42,435)*
Purchase of treasury stock	–	–	–	*(69,895)*	–	–	–	–	*(69,895)*	–	*(69,895)*
Net change in the year	–	–	*(1,117)*	–	*11,294*	*399*	*(769)*	*13,890*	*23,697*	*60,230*	*83,927*
Balance, March 31, 2010	*$171,964*	*$202,176*	*$2,028,998*	*$(390,644)*	*$30,064*	*$ 96*	*$(6,650)*	*$(58,707)*	*$1,977,297*	*$252,955*	*$2,230,252*

The accompanying notes are an integral part of these financial statements.
The Consolidated Financial Statements of the Company as of March 31, 2009 and for the year then ended were audited by predecessor auditor.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Unicharm Corporation and Subsidiaries
Years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
Operating Activities:			
Income before income taxes and minority interests	¥ 43,948	¥ 27,456	$ 472,563
Adjustments for:			
Income taxes — paid	(10,694)	(13,801)	(114,997)
Income taxes-refunded	3,845	–	41,348
Depreciation and amortization	16,393	17,101	176,273
Net periodic retirement benefit costs	(3,853)	(502)	(41,422)
Loss on write-down of investment securities	2	3,455	25
Loss on disposals and sales of property, plant and equipment	649	–	6,980
Decrease (increase) in trade receivables	574	(5,526)	6,168
Decrease (increase) in inventories	3,045	(3,828)	32,739
(Decrease) increase in trade payables	(2,583)	680	(27,777)
Increase (decrease) in other current liabilities	4,400	(5,716)	47,317
Other — net	(694)	2,659	(7,465)
Total adjustments	11,084	(5,478)	119,189
Net cash provided by operating activities	55,032	21,978	591,752
Investing Activities:			
Proceeds from sales and redemption of marketable securities	46,057	66,065	495,239
Proceeds from sale of property, plant and equipment	247	78	2,663
Payment for purchase of marketable securities	(42,325)	(65,706)	(455,111)
Payment for acquisition of a property, plant and equipment	(24,168)	(14,791)	(259,878)
Purchase of time deposits	(18,297)	(25,157)	(196,746)
Repayment of time deposits	17,022	11,706	183,034
Payment for purchase of investment securities	(2,839)	(207)	(30,529)
Payment for purchase of shares in a subsidiary	–	(1,682)	–
Payment for acquisition of a subsidiary	–	(15,651)	–
Proceeds from sales and redemption of investment securities	2,452	1,000	26,372
Decrease in other assets	(388)	29	(4,182)
Net cash used in investing activities	(22,239)	(44,316)	(239,138)
Financing Activities:			
Increase (decrease) in short-term bank loans	1,532	1,878	16,477
Proceeds from long-term debt	183	241	1,974
Repayments of long-term debt	(344)	(274)	(3,708)
Cash dividends paid	(3,941)	(3,200)	(42,384)
Proceeds from sales of the Company's stock	–	3,525	–
Repurchase of the Company's stock	(6,500)	(5,015)	(69,895)
Cash dividends paid to minority shareholders	(1,036)	(934)	(11,140)
Paid-in capital from minority shareholders	744	–	8,001
Others	(93)	581	(999)
Net cash used in financing activities	(9,455)	(3,198)	(101,674)
Foreign Currency Translation Adjustments on Cash and Cash Equivalents	511	(1,361)	5,498
Net Increase (Decrease) in Cash and Cash Equivalents	23,849	(26,897)	256,438
Cash and Cash Equivalents, Beginning of Year	60,421	87,318	649,693
Cash and Cash Equivalents, End of Year	¥ 84,270	¥ 60,421	$ 906,131

The accompanying notes are an integral part of these financial statements.
The Consolidated Financial Statements of the Company as of March 31, 2009 and for the year then ended were audited by predecessor auditor.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unicharm Corporation and Subsidiaries
Years ended March 31, 2010 and 2009

1. Basis of Presenting Consolidated Financial Statements

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

In preparing these consolidated financial statements, certain reclassifications have been made to the consolidated financial statements issued domestically in order to present them in a form that is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2009 consolidated financial statements to conform to the classifications used in 2010.

The consolidated financial statements are expressed in Japanese yen, the currency of the country in which Unicharm Corporation (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥93 to $1, the approximate rate of exchange at March 31, 2010. 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 of its 29 (30 in 2009) 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, 2009, the Company established Unicharm India Private Ltd., Unicharm Mölnlycke 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.

During the fiscal year ended March 31, 2009, three subsidiaries in China were merged into one subsidiary effective January 1, 2009.

During the fiscal year ended March 31, 2010, Unicharm Material Co., Ltd. and Kokko Paper Mfg.Co., Ltd. were merged into Unicharm Kokko Nonwoven Co., Ltd. effective April 1, 2009. Furthermore, the procedures necessary to liquidate Uni-Charm (Singapore) Pte. Ltd were completed during the fiscal year ended March 31, 2010 and this company was excluded from the scope of consolidation as of the fiscal year.

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

The reporting period of other consolidated subsidiaries and equity method affiliates is the same as the Company's reporting period. However, thirteen overseas subsidiaries and one domestic subsidiary close accounts on December 31. In the consolidated financial statements, therefore, the Company uses the financial statements of these subsidiaries as of December 31, and adjusts for material transactions that occurred during the three month period between December 31 and March 31.

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

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

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

The Consolidated Financial Statements of the Company as of March 31, 2009 and for the year then ended were audited by predecessor auditor.

b. Cash Equivalents

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

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

c. Inventories

Inventories held for sale in the ordinary course of business are measured at the lower of cost determined by the average method, 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.

d. Allowance for Doubtful Accounts

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

e. Marketable and Investment Securities

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

f. Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment, except for lease assets, 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.

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

g. Software

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

h. Long-lived Assets

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

The Consolidated Financial Statements of the Company as of March 31, 2009 and for the year then ended were audited by predecessor auditor.

i Retirement and Pension Plans

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

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

The Accounting Standards Board of Japan (ASBJ) issued ASBJ Statement No. 19 "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)" on July 31, 2009. The Company adopted the new accounting standard for the retirement benefits effective April 1, 2009. The adoption of the new standard did not have any material impact on operating income and income before income taxes and minority interests.

j. Research and Development Costs

Research and development costs are charged to income as incurred.

k. Leases

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

l. Income Taxes

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

m. Foreign Currency Transactions

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

n. Foreign Currency Financial Statements

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

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

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

o. Derivatives and Hedging Activities

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

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

The foreign currency forward contracts and currency options are utilized to hedge foreign currency exposures in procurement of raw materials from import purchases. Trade payables denominated in foreign currencies are

The Consolidated Financial Statements of the Company as of March 31, 2009 and for the year then ended were audited by predecessor auditor.

translated at the contracted rates if the forward contracts qualify for hedge accounting. Forward contracts applied for forecasted transactions are measured at fair value, and the unrealized gains/losses are deferred until the underlying transactions are completed.

p. Per Share Information

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

The weighted-average number of common shares used in the computation was 63,429,560 shares for 2010, and 63,832,109 shares for 2009.

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

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

q. Provision for bonuses

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

3. Marketable and Investment Securities

Marketable and investment securities at March 31, 2010 and 2009 consisted of the following:

	Millions of yen		*Thousands of U.S. dollars*
	2010	2009	*2010*
Current:			
Government and corporate bonds	¥ 1,499	–	*$ 16,128*
Trust fund investments and other	–	¥ 5,535	–
Total	¥ 1,499	¥ 5,535	*$ 16,128*
Non-current:			
Marketable equity securities	¥ 9,755	¥ 8,419	*$104,891*
Government and corporate bonds	2,203	2,203	*23,687*
Trust fund investments and other	5,970	4,875	*64,191*
Total	¥17,928	¥15,497	*$192,769*

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2010 and 2009 were as follows:

	Millions of yen			
March 31, 2010	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 4,674	¥5,251	¥170	¥ 9,755
Debt securities and other	5,216	157	513	4,860
Held-to-maturity	3,703	10	198	3,515
Total	¥13,593	¥5,418	¥881	¥18,130

The Consolidated Financial Statements of the Company as of March 31, 2009 and for the year then ended were audited by predecessor auditor.

March 31, 2009	Millions of yen 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

March 31, 2010	*Thousands of U.S. dollars* *Cost*	*Unrealized gains*	*Unrealized losses*	*Fair value*
Securities classified as:				
Available-for-sale:				
Equity securities	*$ 50,252*	*$56,462*	*$1,823*	*$104,891*
Debt securities and other	*56,098*	*1,683*	*5,522*	*52,259*
Held-to-maturity	*39,816*	–	*2,014*	*37,802*
Total	*$146,166*	*$58,145*	*$9,359*	*$194,952*

Available-for-sale securities and held-to-maturity securities whose fair value are not readily determinable as of March 31, 2010 and 2009 were as follows:

	Carrying amount: Millions of yen 2010	2009	*Thousands of U.S. dollars 2010*
Available-for-sale:			
Equity securities	¥364	¥ 274	*$3,916*
Debt securities and other	33	39	*357*
Held-to-maturity (Commercial paper)	500	2,999	*5,375*
Total	¥897	¥3,312	*$9,648*

Proceeds from sales of available-for-sale securities for the years ended March 31, 2010 and 2009 were ¥7,067 million ($75,989 thousand) and ¥5,021 million, respectively. Gross realized gains on and losses on these sales,as determined by the moving-average cost, were ¥72 million ($779 thousand) and ¥112 million ($1,201 thousand) respectively for the year ended March 31, 2010. Gross realized gains on and losses on these sales, as determined the moving average cost, were ¥0 million and ¥19 million, respectively, for the year ended March 31, 2009.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2010, were as follows:

	Millions of yen Available-for-sale	Held-to maturity	*Thousands of U.S. dollars Available-for-sale*	*Held-to maturity*
Due in one year or less	–	¥1,500	–	*$16,128*
Due after one year through five years	–	203	–	*2,182*
Due after five years through ten years	¥1,845		*$19,842*	
Due after ten years	1,987	2,000	*21,360*	*21,505*
Total	¥3,832	¥3,703	*$41,202*	*$39,815*

The Consolidated Financial Statements of the Company as of March 31, 2009 and for the year then ended were audited by predecessor auditor.

4. Inventories

Inventories at March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Merchandise and finished products	¥11,607	¥12,904	$124,808
Work in process	273	342	2,938
Raw materials	6,985	8,222	75,106
Supplies	1,221	1,223	13,125
Total	¥20,086	¥22,691	$215,977

5. Land Revaluation

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

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

As at March 31, 2010, the carrying amount of the land, net of the above one-time revaluation exceeded the market value by ¥618 million ($6,650 thousand).

6. Short-Term Bank Loans and Long-Term Debt

Short-term bank loans at March 31, 2010 and 2009 consisted of notes to banks and bank overdrafts. Short-term loans were made under general security agreements with banks. Loans from banks and municipal corporation, due serially to 2014 with interest rates ranging 2.6% to 2.8% in 2010 and 3.3% to 3.5% at March 31, 2009, respectively.

Long-term debt at March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Loans from banks and municipal corporations, due serially to 2014 with interest rates ranging 2.6% to 2.8% in 2010 and from 3.6% to 4.3% in 2009	¥1,331	¥1,577	$14,314
Obligations under finance leases	186	183	2,004
Total	1,517	1,760	16,318
Less current portion	(459)	(454)	(4,933)
Long-term debt, less current portion	¥1,058	¥1,306	$11,385

Annual maturities of long-term debt, excluding finance leases (see Note 13), at March 31, 2010 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2011	¥388	$ 4,168
2012	360	3,874
2013	328	3,531
2014	255	2,740
2015 and thereafter	–	–
Total	¥1,331	$14,313

The Consolidated Financial Statements of the Company as of March 31, 2009 and for the year then ended were audited by predecessor auditor.

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 provision for employees' retirement benefits at March 31, 2010 and 2009 consisted of the following:

	Millions of yen		*Thousands of U.S. dollars*
	2010	2009	*2010*
Projected benefit obligation	¥ 32,969	¥ 22,675	*$ 354,512*
Fair value of plan assets	(27,556)	(13,810)	*(296,302)*
Unrecognized actuarial loss	(8,475)	(8,184)	*(91,132)*
Unrecognized prior service cost	(147)	(106)	*(1,580)*
Prepaid pension cost	5,534	5,586	*59,506*
Provision for retirement benefits	¥ 2,325	¥ 6,161	*$ 25,004*

The components of net periodic benefit cost for the years ended March 31, 2010 and 2009 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2010	2009	*2010*
Service cost	¥1,529	¥1,537	*$16,442*
Interest cost	453	429	*4,876*
Expected return on plan assets	(436)	(489)	*(4,693)*
Recognized actuarial loss	1,102	599	*11,851*
Amortization of prior service cost	62	143	*667*
Net periodic benefit cost	¥2,710	¥2,219	*$29,143*

Assumptions used for the years ended March 31, 2010 and 2009 were set forth as follows:

	2010	2009
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	3.0%	3.0%
Amortization 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

The Consolidated Financial Statements of the Company as of March 31, 2009 and for the year then ended were audited by predecessor auditor.

8. Stock Options

The stock options for the year ended March 31, 2010 were as follows:

Unicharm Corporation

Meeting date	Persons granted	Number of options granted	Date of grant	Conditions for vesting	Vesting date	Exercisable period
June 29, 2004 (2004 Stock Option)	8 company's directors and corporate auditors 1 subsidiaries' directors and corporate auditors 52 company's employees 215 subsidiaries' employees 49 others***	Common stock 61,000 shares	October 1, 2004	* **	From October 1, 2004 to June 30, 2007	From July 1, 2007 to June 30, 2009

* 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 becomes 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 mandatory retirement age.

*** Others include retired directors and employees.

The activities of the stock option were as follows:

	Unicharm corporation 2004 Stock option (Shares)
For the year ended March 31, 2010	
Non-vested	–
March 31, 2009 — Outstanding	–
Granted	–
Forfeited	–
March 31, 2010 — Outstanding	–
Vested	–
March 31, 2009 — Outstanding	61,000
Exercised	–
Forfeited	61,000
March 31, 2010 — Outstanding	–
Exercise price	¥ 5,702 $ (61)
Average stock price at exercise	–
Fair value price at grant date	–

The Consolidated Financial Statements of the Company as of March 31, 2009 and for the year then ended were audited by predecessor auditor.

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 Option)	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 Option)	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 Option)	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 Consolidated Financial Statements of the Company as of March 31, 2009 and for the year then ended were audited by predecessor auditor.

The activities of the stock option were as follows:

	Unicharm Corporation		Unicharm PetCare Corporation
	2003 Stock option	2004 Stock option	2002 Stock option
		(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	0	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	0
Exercise price	¥ 5,731	¥ 5,702	¥ 150
	$ (58)	$ (58)	$ (2)
Average stock price at exercise	–	¥ 7,997	¥ 3,191
		$ (82)	$ (33)
Fair value price at grant date	–	–	–

9. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended March 31, 2010 and 2009 consisted of the following:

	Millions of yen		*Thousands of U.S. dollars*
	2010	2009	*2010*
Sales promotion	¥ 42,874	¥36,062	*$ 461,008*
Advertising	13,211	9,790	*142,058*
Shipping and storage expenses	18,305	18,330	*196,825*
Employees' salaries	11,826	11,293	*127,169*
Depreciation and amortization	1,890	2,253	*20,323*
Other	30,641	29,029	*329,469*
Total	¥118,747	¥106,757	*$1,276,852*

10. Loss on Disposal of Property, Plant and Equipment

Loss on disposal of property, plant and equipment for the years ended March 31, 2010 and 2009 consisted of the following:

	Millions of yen	*Thousands of U.S. dollars*
	2010	*2010*
Loss on removal of property, plant and equipment		
Buildings and structures	¥ 86	*$ 929*
Machinery and equipments	439	*4,725*
Removal costs	57	*612*
Others	20	*211*
Loss on sales of property, plant and equipment		
Buildings and structures	11	*120*
Machinery and Equipments	115	*1,232*
Removal costs	2	*24*

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	Millions of yen
	2009
Loss on removal of Property, Plant and Equipment	
Buildings and structures	¥ 45
Machinery and Equipments	644
Removal costs	9
Others	21

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, 2010 and 2009. 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, 2010 and 2009, were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2010	2009	2010
Deferred tax assets — current:			
Accrued bonuses	¥ 1,315	¥ 1,213	*$ 14,138*
Accrued enterprise tax	788	311	*8,469*
Accrued sales promotion	2,272	1,807	*24,435*
Unrealized gains	55	82	*596*
Valuation loss on inventory	435	–	*4,675*
Other	644	543	*6,926*
Total	5,509	3,956	*59,239*
Deferred tax assets — non-current:			
Investment securities	469	438	*5,047*
Pension and severance costs	2,755	2,687	*29,619*
Allowance for doubtful accounts	402	58	*4,320*
Depreciation	105	–	*1,129*
Impairment loss	94	107	*1,012*
Tax loss carryforwards	709	530	*7,624*
Other	750	836	*8,061*
Less valuation allowance	(859)	(958)	*(9,234)*
Total	4,425	3,698	*47,578*
Deferred tax liabilities — current:			
Other	8	173	*87*
Total	8	173	*87*
Deferred tax liabilities — non-current			
Net unrealized gain on available-for-sale securities	1,923	1,583	*20,676*
Undistributed earnings of subsidiaries	461	552	*4,957*
Prepaid pension cost	2,252	2,284	*24,217*
Other	79	49	*848*
Total	4,715	4,468	*50,698*
Net deferred tax assets — current	¥ 5,485	¥ 3,783	*$ 58,989*
Net deferred tax assets — non-current	¥ 1,104	¥ 786	*$ 11,870*
Net deferred liabilities — non-current	¥(1,378)	¥(1,556)	*$(14,825)*

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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, 2010 and 2009 were as follows:

	2010	2009
Normal effective statutory tax rate	40.7%	40.7%
Expenses not deductible for income tax purposes	0.4	0.7
Lower income tax rates applicable to income in certain foreign countries	(8.5)	(11.9)
Other — net	(0.9)	(4.7)
Actual effective tax rate	31.7%	24.8%

12. Research and Development Costs

Research and development costs charged to income were ¥4,558 million ($49,013 thousand) and ¥4,459 million for the years ended March 31, 2010 and 2009, respectively.

13. Leases

Obligations under non-cancellable leases accounted for as operating leases subsequent to March 31, 2010 were as follows:

	Millions of yen		*Thousands of U.S. dollars*	
	2010		*2010*	
	Finance leases	Operating leases	*Finance leases*	*Operating leases*
Due within one year	¥ 71	¥3	*$ 765*	*$31*
Due after one year	115	4	*1,239*	*44*
Total	¥186	¥7	*$2,004*	*$75*

14. Financial Instruments and Related Disclosures

The ASBJ revised ASBJ Statement No. 10 "Accounting Standard for Financial Instruments" and issued ASBJ Guidance No. 19 "Guidance on Disclosures about Fair Value of Financial instruments". The Company applied the revised standard effective April 1, 2009.

1. Disclosure on Financial Instruments

(1) Policy for financial instruments

With respect to fund management, cash surpluses, if any, are invested in low risk financial assets. Derivatives are used, not for speculative purposes, but to avoid the market risk of fluctuation in foreign exchange rates associated with receivables and payables denominated in foreign currencies.

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

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

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

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

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

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Derivative contracts employed by the Company and certain consolidated subsidiaries are foreign exchange forward contracts for the purpose of hedging against the market risk due to fluctuation in foreign exchange rates associated with the trade receivables and payables denominated in foreign currencies. The derivative transactions are executed and controlled in accordance with the internal rule and used for hedging actual transactions. For hedging instruments, hedged items, hedge method and hedge effectiveness of hedge accounting, please see Note 2o. "Derivatives and Hedging Activities".

(3) Supplementary explanation about fair value of financial instruments

Where no market price information is available, management use certain assumptions to determine the fair value of those financial instruments. Accordingly, the value of these instruments would vary if different assumptions were used. Note that contract amounts of derivatives presented in Note 15 "Derivatives" do not represent volume of underlying market risk of the derivative transactions.

2. Fair Value of Financial Instruments

Carrying amounts and fair values of financial instruments and their net differences as of March 31, 2010 were as follows:

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

	Millions of yen		
	Carrying amount	Fair value	Difference
Cash and cash equivalents	¥ 99,875	¥ 99,875	–
Notes and accounts receivable	41,643	–	
Allowance for doubtful accounts (*1)	(75)	–	–
	41,568	41,568	–
Marketable and investment securities	18,318	18,131	(187)
Total assets	¥159,761	¥159,574	(187)
Notes and accounts payable	¥ 36,135	¥ 36,135	–
Short-term bank loans	6,306	6,306	–
Other payables	28,110	28,110	–
Income taxes payable	10,390	10,390	–
Total liabilities	¥ 80,941	¥ 80,941	–
Derivative transactions (*2)			
To which hedge accounting is not applied	¥ (7)	¥ (7)	–
To which hedge accounting is applied	34	34	–
Total derivative transactions	¥ 27	¥ 27	–

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	Thousands of U.S. dollars		
	Carrying amount	*Fair value*	*Difference*
Cash and cash equivalents	*$1,073,930*	*$1,073,930*	–
Notes and accounts receivable	*447,782*	–	–
Allowance for doubtful accounts (*1)	*(810)*	–	–
	446,972	*446,972*	–
Marketable and investment securities	*196,966*	*194,952*	*(2,014)*
Total assets	*$1,717,868*	*$1,715,854*	*(2,014)*
Notes and accounts payable	*$ 388,554*	*$ 388,554*	–
Short-term bank loans	*67,801*	*67,801*	–
Other payables	*302,252*	*302,252*	–
Income taxes payable	*111,721*	*111,721*	–
Total liabilities	*$ 870,328*	*$ 870,328*	–
Derivative transactions (*2)			
To which hedge accounting is not applied	*$ (82)*	*$ (82)*	–
To which hedge accounting is applied	*369*	*369*	–
Total derivative transactions	*$ 287*	*$ 287*	–

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

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

Asset:

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

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

"Marketable and investment securities"

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

For further information, please see Note 3 "Marketable and investment securities".

Liabilities:

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

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

Derivative transactions:

Please see Notes 15 "Derivatives".

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

	Millions of yen	*Thousands of U.S. dollars*
Unlisted equity securities	¥ 364	*$ 3,916*
Investment in partnerships	33	*357*
Debt securities	838	*9,006*
Allowance for doubtful accounts (*1)	(838)	*(9,006)*
Total	¥ 397	*$ 4,273*

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

(*1) With respect to debt securities, allowance for doubtful accounts based on the estimated uncollectible amount, considering individual collectability, is deducted.

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

	Millions of yen			
March 31, 2010	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and cash equivalents	¥ 99,875	¥ –	¥ –	¥ –
Notes and accounts receivable	41,643	–	–	–
Marketable and investment securities:				
Held-to-maturity debt securities:				
Commercial paper	500	–	–	–
Debt securities	1,000	203	–	2,000
Available-for-sale securities with maturity:				
Debt securities	–	–	1,845	1,987
Total	¥143,018	¥203	¥1,845	¥3,987

	Thousands of U.S. dollars			
March 31, 2010	*Due in one year or less*	*Due after one year through five years*	*Due after five years through ten years*	*Due after ten years*
Cash and cash equivalents	*$1,073,930*	*$ –*	*$ –*	*$ –*
Notes and accounts receivable	*447,782*	–	–	–
Marketable and investment securities:				
Held-to-maturity debt securities:				
Commercial paper	*5,375*	–	–	–
Debt securities	*10,753*	*2,182*	–	*21,505*
Available-for-sale securities with maturity:				
Debt securities	–	–	*19,842*	*21,360*
Total	*$1,537,840*	*$2,182*	*$19,842*	*$42,865*

15. Derivatives

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

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

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

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

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

Foreign currency forward contracts and currency options that qualify for hedge accounting for the years ended March 31, 2010 and 2009 were excluded from the disclosure of market value information.

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

a. Derivatives to which hedge accounting is not applied:

	Millions of yen			*Thousands of U.S. dollars*		
	2010			*2010*		
	Contract amount	Fair value	Unrealized gain/loss	*Contract amount*	*Fair value*	*Unrealized gain*
Foreign exchange forward contracts — Buying USD..	¥263	¥(8)	¥(8)	*$2,830*	*$(81)*	*$(81)*

	Millions of yen		
	2009		
	Contract amount	Fair value	Unrealized gain/loss
Foreign exchange forward contracts — Buying JPY	¥2,340	¥2,646	¥306

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

b. Derivatives to which hedge accounting is applied:

		Millions of yen			
At March 31, 2010 **Hedge accounting method**	**Type of derivatives**	**Major hedged item**	**Contract amount**	**Contract amount due after one year**	**Fair value**
Hedged items are translated using the forward contract rates	Foreign exchange forward contracts: Buying USD	Accounts payable	¥2,168	¥–	¥19
Normal method..	Currency option contracts: Buying USD	Accounts payable	421	–	10
Normal method..	Currency option contracts: Buying EURO	Accounts payable	1,570	–	5
Total			¥4,159	¥–	¥34

		Thousands of U.S. dollars			
At March 31, 2010 ***Hedge accounting method***	***Type of derivatives***	***Major hedged item***	***Contract amount***	***Contract amount due after one year***	***Fair value***
Hedged items are translated using the forward contract rates	Forward exchange contracts: Buying USD	Accounts payable	*$23,316*	*$–*	*$209*
Normal method	Currency option contracts: Buying USD	Accounts payable	*4,527*	*–*	*108*
Normal method	Currency option contracts: Buying EURO	Accounts payable	*16,877*	*–*	*52*
Total			*$44,720*	*$–*	*$369*

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

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16. Contingent Liabilities

At March 31, 2010, the Group had the following contingent liabilities:

	Millions of yen	*Thousands of U.S. dollars*
Guarantees and similar items of bank loans	¥28	*$300*

17. Per Share Information

a. Basis for the computation of net asset per share at March 31, 2010 and 2009 was as follows:

	Millions of yen	Thousands of shares	Yen	*U.S. Dollars*
At March 31, 2010	Net asset	Number of shares of common stock	Asset per share	
Net asset	¥207,413	68,982		
Minority interests	23,524	6,053		
Net asset attributable to common stock	183,889	62,929	¥2,922	*$31.42*

	Millions of yen	Thousands of shares	Yen
At March 31, 2009	Net asset	Number of shares of common stock	Asset per share
Net asset	¥185,591	68,982	
Minority interests	17,923	5,329	
Net asset attributable to common stock	167,668	63,652	¥2,634

b. A reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2010 and 2009 was as follows:

	Millions of yen	Thousands of shares	Yen	*U.S. dollars*
Year ended March 31, 2010	Net income	Weighted-average shares	EPS	
Basic EPS — Net income available to common shareholders	¥24,464	63,430	¥385.69	*$4.15*
Effect of dilutive securities — Adjustment of warrants of company	(0)	4		
Diluted EPS — Net income for computation	¥24,464	63,434	¥385.66	*$4.15*

	Millions of yen	Thousands of shares	Yen
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
Effect of dilutive securities — Adjustment of warrants of company	(0)	26	
Diluted EPS — Net income for computation	¥17,128	63,858	¥268.21

18. Subsequent Events

a. Appropriations of Retained Earnings

The following appropriations of retained earnings at March 31, 2010 were approved at the Board of Directors of the Company meeting held on May 31, 2010:

	Millions of yen	*Thousands of U.S. dollars*
Year-end cash dividends, ¥35 $(0.38) per share	¥2,203	*$23,683*

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b. Stock Split

The Company's Board of Directors approved a resolution for the implementation of a stock split at a meeting held on April 30, 2010.

(1) Purpose

The stock split was intended to facilitate the investment in the shares of the Company so as to intensify the liquidity of the shares and to broaden investor's base.

(2) Overview of the stock split

Shares of common stock will be split at a ratio of 3 to 1 to the shareholders recorded on the September 30, 2010.

Total number of shares issued by the Company before the stock split	68,981,591
The increased number of shares from the stock split	137,963,182
Total number of shares issued by the Company after the stock split	206,944,773
Total number of shares authorized by the Company after the stock split	827,779,092

(3) Schedule of the stock split

Announcement date:	September 15, 2010
Record date:	September 30, 2010
Effective Date:	October 1, 2010

(4) Pro-forma effect of the stock split

Had the stock split been implemented at the beginning of the fiscal year ended March 2009, per share information would be as follows;

Net asset per share	
End of the fiscal year of 2009:	¥878.03 ($9.44)
End of the fiscal year of 2010:	¥974.05 ($10.47)
Net income per share	
For the period ended March 31, 2009:	¥89.44 ($0.96)
For the period ended March 31, 2010:	¥128.56 ($1.38)
Diluted net income per share	
For the period ended March 31, 2009:	¥89.40 ($0.96)
For the period ended March 31, 2010:	¥128.55 ($1.38)

c. Merger

The Company resolved at the meeting of its board of directors held on April 30, 2010, to merge Unicharm PetCare Corporation ("Unicharm PetCare") through the tender offer (the "Tender Offer") into Unicharm.

(1) Purpose of Tender Offer and merger

The Company aimed to be more strongly positioned in the domestic market and enhance the prospective overseas business of the both companies by enhancing managerial flexibility, optimizing the managerial resources including human resources of both companies, expanding the business through cooperative strategic investments, and achieving more rapid synergy effect. In order to achieve these goals, the Company reached to the conclusion that the both companies should operate their business as one entity.

The Consolidated Financial Statements of the Company as of March 31, 2009 and for the year then ended were audited by predecessor auditor.

(2) Overview of Tender Offer and merger

Schedule of Tender Offer:	
Base date of ordinary general meetings of shareholders (both companies)	March 31, 2010
Date of the resolution of the Board of directors (both companies)	April 30, 2010
Contract date (both companies)	April 30, 2010
Designated Unicharm PetCare as monitor for securities to be delisted	April 30, 2010
Tender Offer Period	May 6, 2010-June 16, 2010
Ordinary general meeting of shareholders (Unicharm)	June 24, 2010
Ordinary general meeting of shareholders (Unicharm PetCare)	June 29, 2010 (Scheduled)
Delisting date of Unicharm PetCare	July 25, 2010 (Scheduled)
Effective date of the merger	September 1, 2010 (Scheduled)
Payment date of the consideration for the merger	October 29, 2010 (Scheduled)

(3) Scheme of the merger

The merger will be executed by absorption method subject to the condition subsequent in the event of the failure of Tender Offer by the Company ("merging company"). Unicharm PetCare ("merged company") is scheduled to dissolve effective as of September 1, 2010.

(4) Result of Tender Offer

The Company has successfully completed the Tender Offer in compliance with Financial Instruments and Exchange Law for the period from May 6, 2010 to June 16, 2010 (30 business days).

The merging company paid in cash of ¥3,825($41) per share to the registered or recorded shareholders of Unicharm PetCare immediately before the effect of the merger. The Company did not issue new shares or allocate own shares.

Number of shares acquired	16,424,052
Price	¥3,825 ($41) per share, ¥62,821million ($675,494 thousand) in total
Shareholding ratio after the Tender Offer	92.86%
Finance source	portion of the fund, ¥60,000 million ($645,161 thousand), was financed by Bank of Tokyo-Mitsubishi UFJ subject to the success of Tender Offer.

(5) Description of the merged company

Name	Unicharm PetCare Corporation
Location	3-5-27, Mita, Minato-ku, Tokyo
Representative	President & CEO Gumpei Futagami
Major business	Production and sales of pet food and pet toiletry products
Common stock	¥2,371million ($25,500 thousand)
Founded	October 6, 1971
Number of the shares issued	29,360,000
Fiscal year end date	March 31

(6) Accounting treatment

The merger will be recorded as a transaction under common control in accordance with the Accounting Standards Board of Japan (ASBJ) Statement No. 21 "Accounting Standards for Business Combinations" issued on December 26, 2008 and ASBJ Guidance No10 "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business divestitures" issued on December 26, 2008. The amount of goodwill incurred by the merger has not yet been determined.

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19. Related Party Transactions

(1) Transactions of the Company with related parties for the years ended March 31, 2010 and 2009 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*
	2010	2009	*2010*
Insurance premium	¥25	¥20	*$265*

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*
	2010	2009	*2010*
Rental expenses	¥13	¥13	*$140*

(2) Transactions of the consolidated subsidiaries of the Company with related parties for the year ended March 31, 2010 are as follows:

a. *Unitec Corporation*

	Millions of yen	*Thousands of U.S. dollars*
	2010	*2010*
Rental expenses	¥119	*$1,280*

20. Segment Information

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

(1) Industry Segments

a. *Sales and operating income*

	Millions of yen				
	2010				
	Personal care	Pet care	Others	Eliminations or corporate	Consolidated
Sales to customers	¥299,334	¥46,781	¥10,710	¥	¥356,825
Intersegment sales	1	–	4	(5)	–
Total sales	299,335	46,781	10,714	(5)	356,825
Operating expenses	263,876	38,304	9,628	(49)	311,759
Operating income	¥ 35,459	¥ 8,477	¥ 1,086	¥ 44	¥ 45,066

b. *Assets, depreciation, impairment loss and capital expenditures*

	Millions of yen				
	2010				
	Personal care	Pet care	Others	Corporate	Consolidated
Assets	¥205,152	¥31,840	¥25,622	¥45,159	¥307,773
Depreciation	15,628	499	266	–	16,393
Capital expenditures	23,079	1,266	405	–	24.750

The Consolidated Financial Statements of the Company as of March 31, 2009 and for the year then ended were audited by predecessor auditor.

a. Sales and operating income

	Thousands of U.S. dollars				
	2010				
	Personal care	Pet care	Others	Eliminations or corporate	Consolidated
Sales to customers	$3,218,650	$503,018	$115,170	$ –	$3,836,838
Intersegment sales	8	–	41	(49)	–
Total sales	3,218,658	503,018	115,211	(49)	3,836,838
Operating expenses	2,837,372	411,868	103,543	(531)	3,352,252
Operating income	$ 381,286	$ 91,150	$ 11,668	$ 482	$ 484,586

b. Assets, depreciation, impairment loss and capital expenditures

	Thousands of U.S. dollars				
	2010				
	Personal care	Pet care	Others	Corporate	Consolidated
Assets	$2,205,933	$342,371	$275,506	$485,581	$3,309,391
Depreciation	168,046	5,366	2,859	–	176,271
Capital expenditures	248,157	13,618	4,355	–	266,130

a. Sales and operating income

	Millions of yen				
	2009				
	Personal care	Pet care	Others	Eliminations or corporate	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				
	Personal care	Pet care	Others	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

(2) Geographic Segments

a. Sales and operating income

	Millions of Yen				
	2010				
	Japan	Asia (excluding Japan)	Europe and the Middle East	Eliminations or corporate	Consolidated
Sales to customers	¥220,674	¥96,041	¥40,110	¥ –	¥356,825
Intersegment sales	14,362	2,073	–	(16,435)	–
Total sales	235,036	98,114	40,110	(16,435)	356,825
Operating expenses	205,722	84,628	37,728	(16,319)	311,759
Operating income	¥ 29,314	¥13,486	¥ 2,382	¥ (116)	¥ 45,066

The Consolidated Financial Statements of the Company as of March 31, 2009 and for the year then ended were audited by predecessor auditor.

b. Assets

	Millions of yen				
	2010				
	Japan	Asia (excluding Japan)	Europe and the Middle East	Corporate	Consolidated
Assets	¥170,764	¥95,690	¥33,506	¥7,813	¥307,773

a. Sales and operating income

	Thousands of U.S. dollars				
	2010				
	Japan	*Asia (excluding Japan)*	*Europe and the Middle East*	*Eliminations or corporate*	*Consolidated*
Sales to customers	*$2,372,836*	*$1,032,704*	*$431,298*	*$ –*	*$3,836,838*
Intersegment sales	*154,431*	*22,294*	*–*	*(176,725)*	*–*
Total sales	*2,527,267*	*1,054,998*	*431,298*	*(176,725)*	*3,836,838*
Operating expenses	*2,212,064*	*909,981*	*405,679*	*(175,472)*	*3,352,252*
Operating income	*$ 315,203*	*$ 145,017*	*$ 25,619*	*$ (1,253)*	*$ 484,586*

b. Assets

	Thousands of U.S. dollars				
	2010				
	Japan	*Asia (excluding Japan)*	*Europe and the Middle East*	*Corporate*	*Consolidated*
Assets	*$1,836,169*	*$1,028,927*	*$360,276*	*$84,019*	*$3,309,391*

a. Sales and operating income

	Millions of yen				
	2009				
	Japan	Asia (excluding Japan)	Europe and the Middle East	Eliminations or corporate	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

(3) Sales to Foreign Customers

Sales to foreign customers for the years ended March 31, 2010 and 2009 amounted to ¥137,506 million ($1,478,559 thousand) and ¥129,023 million, respectively.

The Consolidated Financial Statements of the Company as of March 31, 2009 and for the year then ended were audited by predecessor auditor.

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of
Unicharm Corporation

We have audited the accompanying consolidated balance sheet of Unicharm Corporation ("the Company") and its subsidiaries as of March 31, 2010, and the related consolidated statements of income, changes in net assets and cash flows for the year 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 audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of March 31, 2010, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following matters:

(1) As discussed in Note 18 to the consolidated financial statements, the Company's Board of Directors approved a resolution for the implementation of a stock split at a meeting held on April 30, 2010.

(2) As discussed in Note 18 to the consolidated financial statements, the Company resolved at the meeting of its board of directors held on April 30, 2010, to merge Unicharm PetCare Corporation through the tender offer ("the Tender Offer") subject to the condition subsequent in the event of the failure of Tender Offer by the Company. In addition, the Company has successfully completed the Tender Offer for the period from May 6, 2010 to June 16, 2010

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2010 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

PricewaterhouseCoopers Aarata
September 6, 2010

Subsidiaries and Affiliated Companies

As of March 31, 2010

SUBSIDIARIES

Company	Location	Major Operations	Percentage of Equity (%)
Unicharm Product Co., Ltd.	Japan	Production of baby care, feminine care, and other products	100.0
Unicharm Kokko Nonwoven Co., Ltd.	Japan	Production, processing and sales of paper, nonwoven and other materials	100.0
Cosmotec Corporation	Japan	Printing, processing and sales of photographic printing plates	100.0
Unicharm PetCare Corporation*	Japan	Production and sales of pet food and pet toiletry products	38.7
Unicharm Mölnlycke K.K.	Japan	Sales of adult incontinence care products	51.0
United Charm Co., Ltd.	China	Production and sales of baby care, feminine care and other products	52.6
Uni-Charm (Thailand) Co., Ltd.	Thailand	Production and sales of baby care, feminine care and other products	94.2
Unicharm Consumer Products (China) Co., Ltd.	China	Production and sales of baby care, feminine care and other products	98.0
LG Unicharm Co., Ltd.	Republic of Korea	Production and sales of baby care, feminine care and other products	51.0
PT Uni-Charm Indonesia	Indonesia	Production and sales of baby care, feminine care and other products	74.0
Uni.Charm Mölnlycke B.V.	Netherlands	Production control of baby care and adult incontinence care products	60.0
Unicharm Gulf Hygienic Industries Ltd.	Saudi Arabia	Production and sales of baby care, feminine care and other products	51.0
Unicharm India Private Ltd.	India	Sales of baby care products	100.0
Unicharm Australasia Pty Ltd	Australia	Production and sales of baby care, adult incontinence care and other products	100.0

(Other 15 companies)

* Corporation and Unicharm PetCare Corporation merged on September 1, 2010, with Unicharm Corporation as the surviving company.

AFFILIATED COMPANIES

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

(Other one company)

Investor Information/Corporate Data

As of March 31, 2010

Investor Information

Fiscal Year-end	March 31, 2010
Annual Shareholders' Meeting	June 24, 2010
Common Stock	Authorized: 275,926,364
	Issued: 68,981,591
Number of Shareholders	13,799
Date of Listing	August 1976
Stock Exchange Listing	First Section, Tokyo Stock Exchange
Transfer Agent	Mitsubishi UFJ Trust and Banking Corporation
	7-10-11, Higashisuna, Koto-ku, Tokyo 137-8081, Japan
Auditor	PricewaterhouseCoopers Aarata

Principal Shareholders

Shareholder	Number of Shares (Thousands)	Ratio of Number of Shares Held to Number of Shares Issued and Outstanding
Unitec Corporation	12,368	19.7
Takahara Kosan K.K.	3,418	5.4
Takahara Kikin	3,120	5.0
Japan Trustee Services Bank, Ltd. (Trust Account)	2,798	4.4
Goldman Sacks and Company Regular Account	2,524	4.0
The Master Trust Bank of Japan, Ltd. (Trust Account)	2,443	3.9
The Chase Manhattan Bank, N.A. London Secs Lending Omnibus Account	2,323	3.7
Nippon Life Insurance Company	1,934	3.1
The Master Trust Bank of Japan, Ltd. (Trust Account of Retirement Benefit Trust Account/ Hiroshima Bank Account)	1,920	3.1
The Iyo Bank, Ltd.	1,699	2.7

Notes: 1. Number of shares is rounded down to the nearest thousand shares.
2. Ratio of number of shares held was calculated by deducting shares of treasury stock (6,052,515 shares).

For more details about our stock information, please click here. Click

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 108-8575, Japan
Date of Establishment	February 10, 1961
Paid-in Capital	¥15,993 million
Number of Associates	988 (7,108 on a consolidated basis)
Information	Accounting and Finance Office
	Sumitomo Fudosan Mita Twin Bldg. West Wing,
	3-5-27, Mita, Minato-ku, Tokyo 108-8575, Japan
	Tel : +81-3-6722-1035
	Fax: +81-3-6722-1034

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