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

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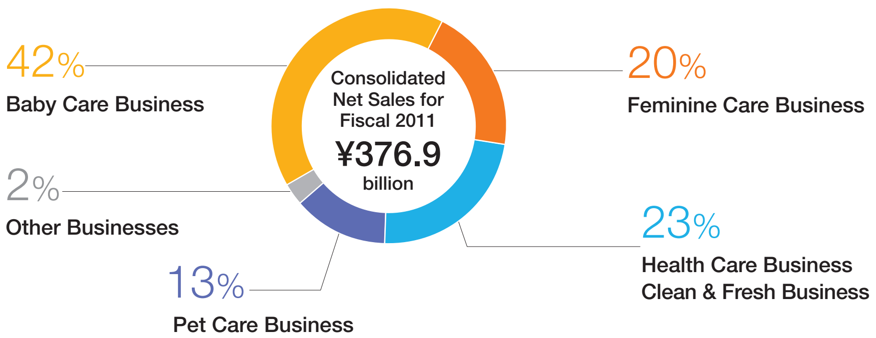


For more details about our business operations, please click here. Click

unicharm
NOLA&DOLA
Unicharm Corporation

Our Potential

Annual Report 2011

Year Ended March 31, 2011

Results of Seventh Medium-Term Management Plan

Growth in consolidated earnings driven by business expansion in Asia

Under our seventh Medium-Term Management Plan, which ended in fiscal 2011, our goal was to build a dominant market share in Asia, the world's largest market for nonwoven fabric and absorbent material products. We see this as a key step in capturing the leading share in the global market. Specifically, we expanded our presence in Asian markets and reinforced our product supply framework. During the period of the plan, we clearly enhanced Unicharm's position in Asia, and this supported strong growth in consolidated earnings.

[Groupwide earnings driven by growth in overseas business centered on Asia]

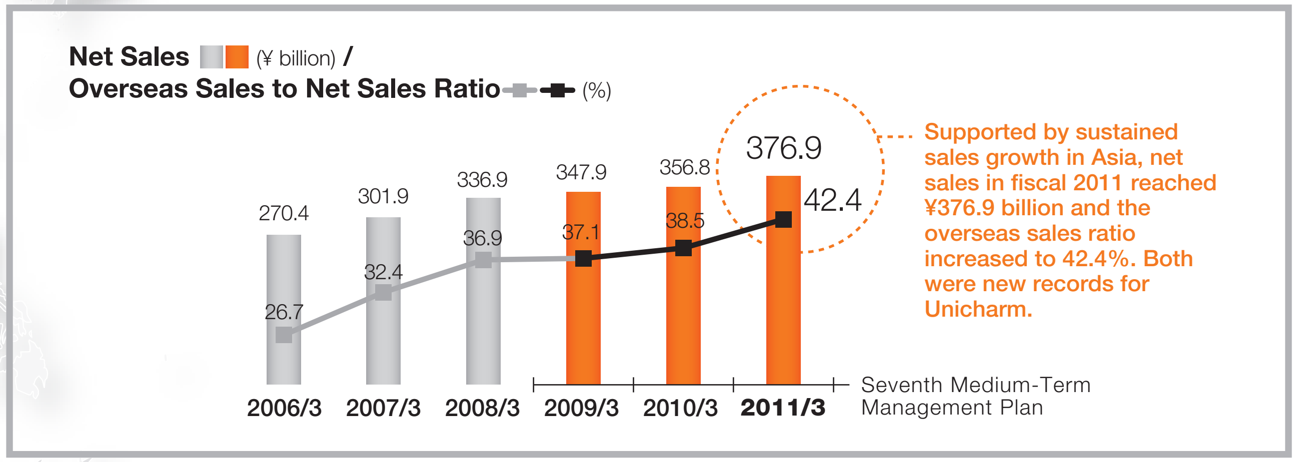
Earnings in Asia have increased sharply over the past three years. In the plan's final year, net sales were 1.6-times the level in fiscal 2008 and operating income was 2.1-times higher. Overseas sales now account for a record 42.4% of consolidated net sales, compared with 36.9% in fiscal 2008. As a result of this sales growth, we reported record sales and operating income for the fourth consecutive fiscal year in fiscal 2011, with consolidated net sales totaling ¥376.9 billion and operating income coming in at ¥46.6 billion.

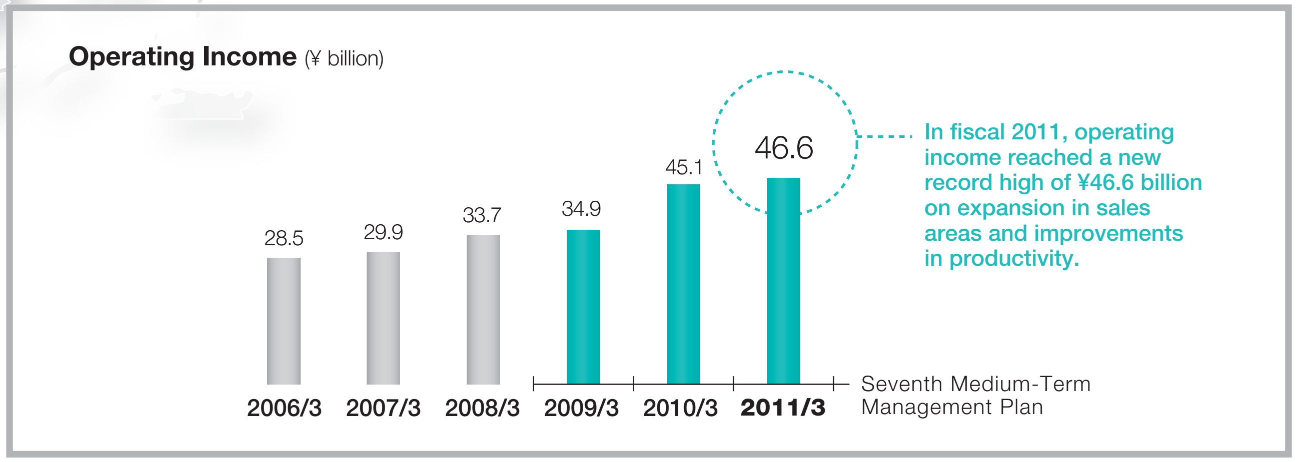
[Earnings contribution from growth in domestic health care and pet care businesses]

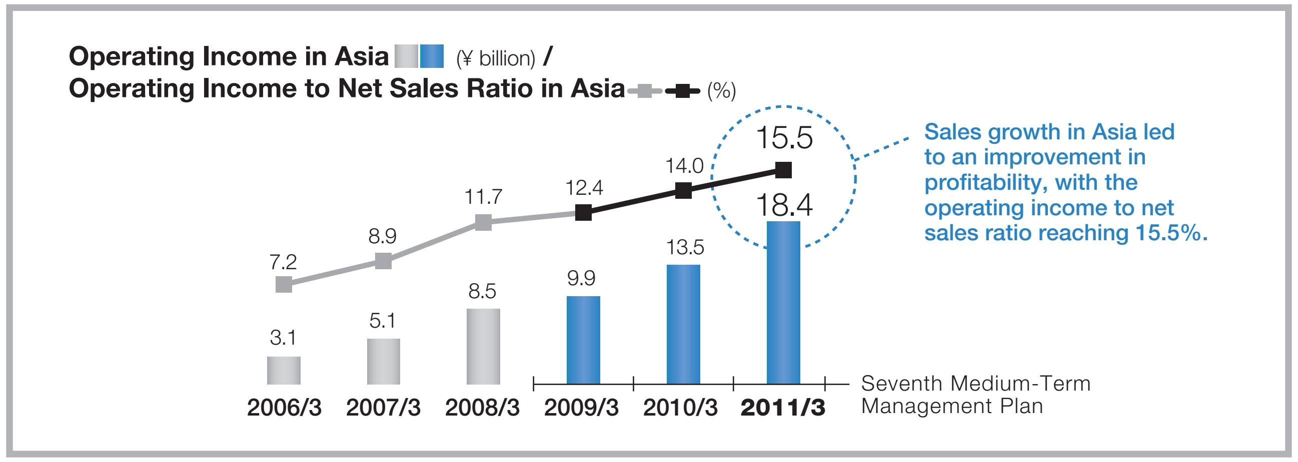
In Japan, the baby care business and feminine care business have been affected by the falling birthrate, but the health care business and pet care business have continued to grow as the population ages. Based on the assumption that Japanese society will continue to age, we moved rapidly into new business fields with growth potential. This has supported business expansion in Japan, despite the mature market.

[Establishing a business model targeting middle-class consumers in growth markets]

In 2007 in Indonesia, we launched our first ever disposable diaper aimed at middle-class consumers. Sales subsequently expanded strongly, helping us to secure the dominant share in the Indonesia market. In 2010, we also launched disposable diapers for the middle-class market in China, where growth is very strong. Unicharm has leveraged its strengths in the premium segment, but is now seeing solid gains in market share in the economy segment as well.





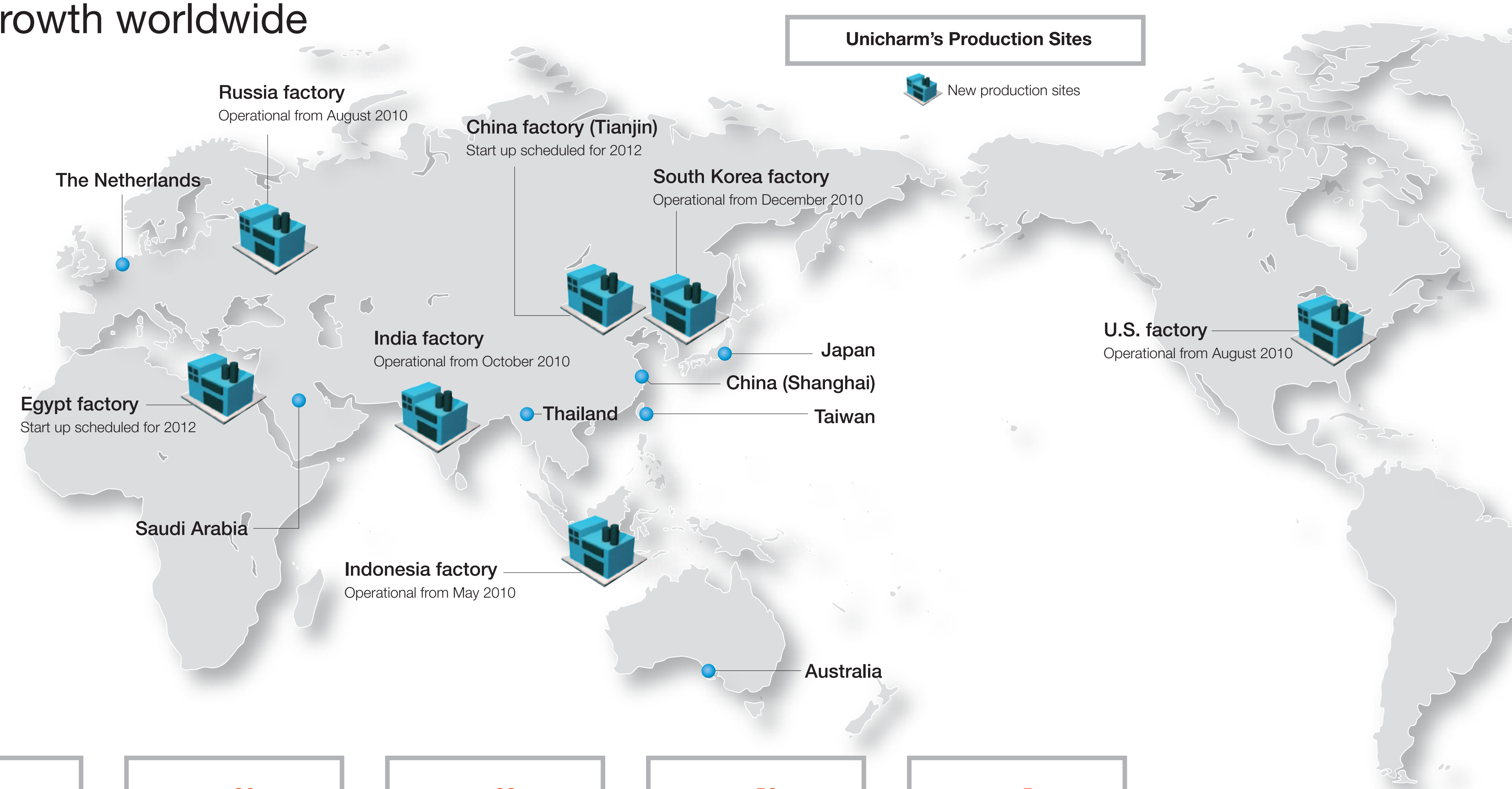


Results of Seventh Medium-Term Management Plan

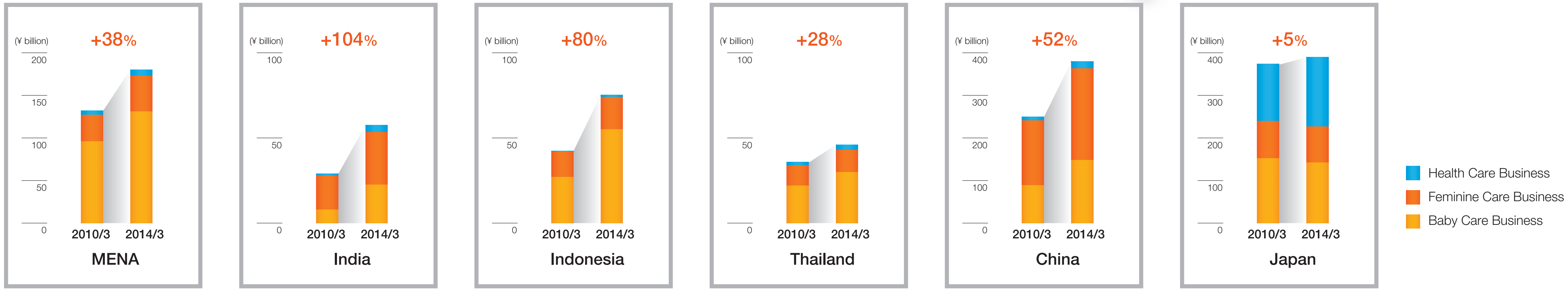
Reinforcing our production framework in areas of demand growth worldwide

Demand for sanitary napkins and disposable diapers for babies is growing in emerging markets worldwide in Asia, the Middle East and North Africa (MENA), Eastern Europe, and South America. Unicharm is reinforcing its production framework around the world to ensure it is well positioned to tap into these market growth opportunities.

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



Projected Market Size



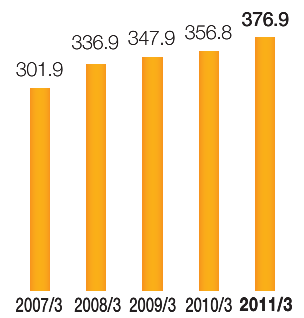
Source: Unicharm Corporation

Consolidated Financial Highlights

Unicharm Corporation and Subsidiaries

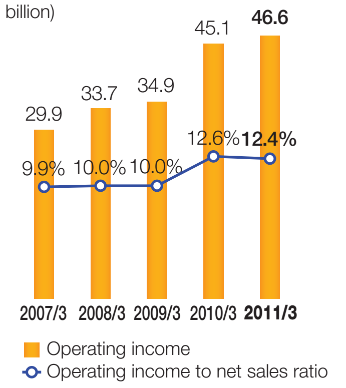
Net Sales

(¥ billion)



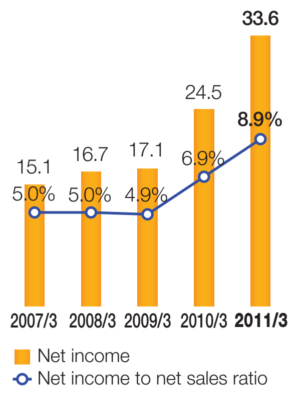
Operating Income/ Operating Income to Net Sales Ratio

(¥ billion)



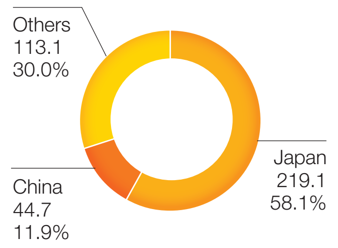
Net Income/ Net Income to Net Sales Ratio

(¥ billion)



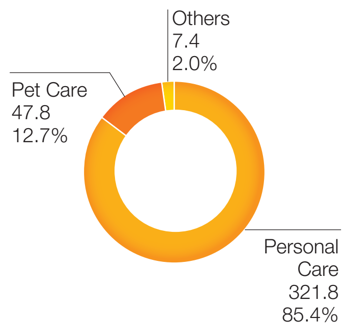
Net Sales by Geographic Segment

(¥ billion)



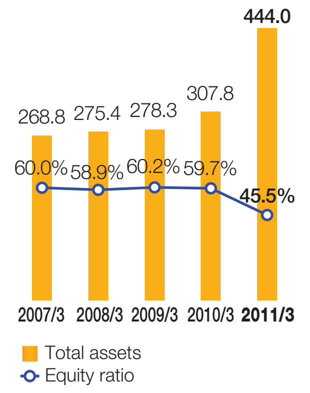
Net Sales by Business Segment

(¥ billion)



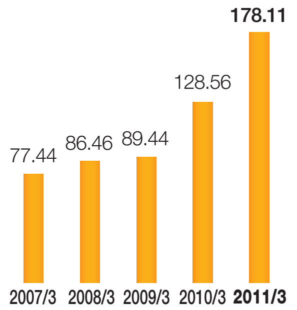
Total Assets/Equity Ratio

(¥ billion)



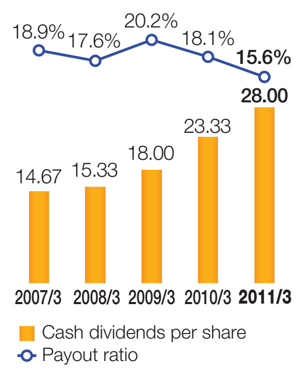
Net Income per Share

(¥)



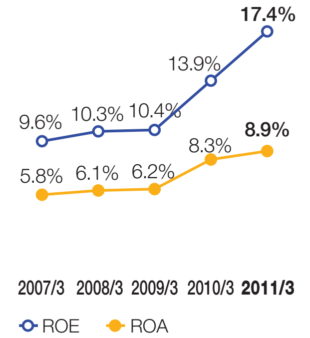
Cash Dividends per Share/ Payout Ratio

(¥)



ROE/ROA

(%)



Overview of Fiscal 2011

1. Merger carried out in the pet care business, which offers good prospects for long-term growth
2. New three-year Medium-Term Management Plan formulated; Unicharm Group commits to goal of accelerating sales growth
3. New manufacturing sites established overseas to support sustained growth
4. Strengthening of head office functions in the key Chinese market started
5. Operating income in overseas markets exceeds ¥20 billion for the first time
6. Consolidated earnings driven by continued strong sales growth in Asia
7. Record sales and operating income for the fourth straight year
8. Supply chains rapidly restored after the Great East Japan Earthquake

	Millions of yen (Except per share figures)			Thousands of U.S. dollars (Except per share figures) (Note 1)
	2011/3	2010/3	2009/3	2011/3
FOR THE FISCAL PERIOD:				
Net sales	¥376,948	¥356,825	¥347,850	$4,541,540
Operating income	46,561	45,066	34,884	560,981
Net income	33,560	24,464	17,128	404,343
Capital expenditures	27,570	24,750	14,574	332,169
Depreciation and amortization	14,620	16,393	17,101	176,147
Research and development costs	4,954	4,558	4,459	59,685
AT FISCAL YEAR-END:				
Total assets	¥444,016	¥307,773	¥278,314	$5,349,585
Property, plant and equipment	98,390	95,357	84,248	1,185,421
Long-term debt—less current maturities	47,354	944	1,306	570,533
Net assets	219,633	207,413	185,591	2,646,172
Equity ratio	45.5%	59.7%	60.2%	–
PER SHARE DATA (¥/$) (Note 2):				
Net income	¥178.11	¥128.56	¥89.44	$2.15
Cash dividends applicable to the year	28.00	23.33	18.00	0.34

Note 1. U.S. dollar amounts are translated from yen at the rate of ¥83=U.S.$1, the approximate rate on the Tokyo Foreign Exchange Market on March 31, 2011.
2. A 1-to-3 stock split was conducted on October 1, 2010. Per-share figures were retroactively adjusted to reflect this stock split.

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

Interview with the President

Global markets in Unicharm's business fields are projected to grow strongly. We plan to push ahead with the globalization of our business to drive sustained growth.

Q1. Please give us an overview of Unicharm's performance in fiscal 2011.

In fiscal 2011, ended March 31, 2011, Unicharm reported net sales of ¥376.9 billion and operating income of ¥46.6 billion, record-high figures for the fourth consecutive fiscal year. Net sales rose for the ninth consecutive fiscal year. Consolidated earnings were driven by growth in China, Indonesia and other Asian markets that we have moved into. Our business in China saw particularly strong growth, with net sales rising 30% year on year and operating income increasing 49%. As a result, overseas sales accounted for a record 42.4% of consolidated net sales, and operating income generated by overseas operations exceeded ¥20 billion for the first time.

Also, during the year under review, we continued to reinforce our production framework worldwide to support sustained growth. In India, Indonesia, South Korea, Russia, and the United States, where we expect demand to rise for products such as sanitary products, disposable diapers for babies, and adult disposable diapers, we set up new factories or upgraded existing ones. In 2012, we plan to start up a new factory in Tianjin, giving us a total of four production sites in China.

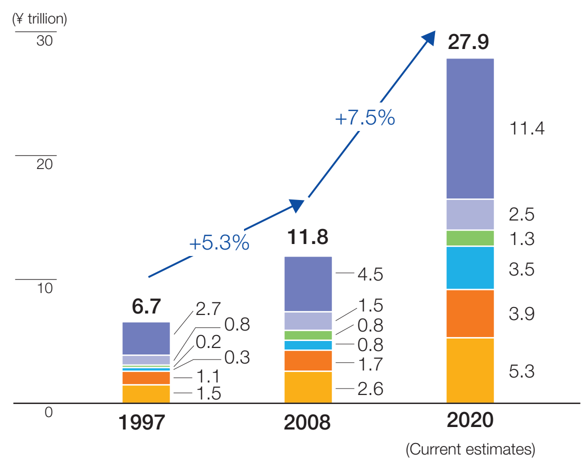
Takahisa Takahara
President and CEO

Also, in September 2010, we carried out a merger in the pet care business, which we think offers good prospects for long-term growth. We believe the global pet care market is very promising, with our projections showing it will expand to be worth around ¥14 trillion in retail sales by 2020. We will work to grow the pet care business into another key source of earnings to match the personal care business.

Q2. Please give us a summary of the eighth Medium-Term Management Plan and how it fits into your long-term vision for Unicharm.

When Unicharm marked its 50th anniversary in February 2011, all our employees committed to the goal of ensuring Unicharm stayed in business for at least another 50 years. Based on market projections for the first ten of those years, taking us through to 2020, we have clearly defined the kind of company we want Unicharm to become over the next decade. The business fields where Unicharm is active have considerable growth potential. We forecast that the total market for our products in 2020 will expand to ¥28 trillion, or 2.4 times larger than in 2008. Our goal is to increase market share in Asia and Middle East-North Africa (MENA) as a key step in capturing the leading share in the global market by 2020. With our eighth Medium-Term Management Plan, which is the first three-year plan on the road to this objective, we will implement a number of initiatives to achieve net sales of ¥570 billion and operating income of ¥85 billion by fiscal 2014. Specifically, we will develop our presence in emerging markets around the world by actively targeting the growing middle class, backed up by low-cost operating bases. We also plan to contribute to emerging needs for safe and hygienic lifestyles on the back of rising living standards. And with women playing a greater role in societies worldwide, our basic strategy will be to respond to needs for highly functional and diverse products that transcend differences in culture and customs.

Global Market Expansion (2008–2020)
The market is forecast to be 2.4 times larger than 2008 size in 2020



Product category	Average annual growth rates 1997-2008	Average annual growth rates 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

Q3. You have positioned China as your most important market. What is your outlook for business in China?

The purchasing power of China's middle class is rising in tandem with the country's economic growth. Supported by this trend, we have expanded our sales reach from China's coastal cities, where we have already built a strong presence, to regional inland cities. However, our market share in China still only stands at roughly 20%, so we see plenty of scope for further market share gains going forward. We aim to increase our share by expanding sales areas further. Also, we plan to start up our fourth factory in China in 2012. This new factory in Tianjin will allow us to respond to rising demand and boost the efficiency of product distribution.

With our Chinese business likely to become larger than our Japanese business, we have been taking steps to reinforce management and administrative functions at our local subsidiary in China. By giving this company independence to make rapid business decisions, our goal is to accelerate business development in the Chinese market.

Q4. What is your outlook for other overseas markets?

Growing our business in China is vital, but we have to avoid giving it too much emphasis. Over-dependence on any single market, not just China, leads to higher risk. Consequently, Indonesia and MENA have very important roles to play during our eighth Medium-Term Management Plan. Like China, these markets have large populations but low market penetration rates for disposable diapers. This indicates considerable potential for market growth.

At the moment, demand for disposable diapers is growing in emerging markets in Asia and MENA. We plan to respond to this demand while rolling out strategies to develop our next target markets. In India, a market Unicharm moved into in 2009, we started up our first factory in 2010 and we now operate a full-scale business in the country. We are also preparing the ground for our first major move into Africa with a new factory in Egypt, construction of which is currently under way. This factory, together with our existing production site in Saudi Arabia, will supply the MENA region and its combined population of roughly 450 million people. There are still many markets worldwide where Unicharm does not yet have a presence, such as Latin America and South Africa. We plan to aggressively move into these new markets, in addition to our existing markets, to accelerate Unicharm's global business expansion.

Q5. Emerging markets are key to achieving the targets in the eighth Medium-Term Management Plan. What is your business model for these markets?

We plan to transfer our successful business model in Indonesia and China based on economy-type disposable diapers to other emerging markets. One of the achievements of our previous Medium-Term Management Plan was the establishment of a business model targeting middle-class consumers. By leading our competitors in launching high value-added products incorporating new technologies and distinctive features, we have been able to create new markets. This success has also been supported by our strengths in product development and marketing. However, in key markets going forward—the emerging markets of Asia and MENA—we will need to maintain the distinctiveness of our products while using low-cost operations to ensure they are priced at level that most people can afford. At the end of 2007, we started selling our first ever economy-type disposable diapers in Indonesia. Marketed as *Mamy Poko Pants Standar*, these diapers were launched at a price nearly 40% lower than our previous products, helping them to capture a dominant position in the market. We believe this business model will also prove successful in other countries and regions where disposable diapers are not yet widely used.

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

Q6. How are you responding to rising prices for raw materials?

To counter high raw material prices, we are revising product designs and reducing the volume of materials needed in our products. For products aimed at the middle class in Indonesia and China, we are cutting raw material usage compared with our premium products but still maintaining product functionality. This is mitigating the impact of raw material price rises and reducing the environmental impact of our operations.

In procurement, we are shifting from imports to domestic procurement sources to reduce costs and taking steps to hedge forex risks. We are also leveraging our buying power as the biggest user of raw materials for nonwoven fabric and absorbent materials in Asia to control procurement costs.

Other initiatives to absorb the impact of material price rises include minimizing disposal losses in production processes and transferring productivity improvements realized at individual factories to our entire production framework.

Q7. What is your stance on capital investment and M&As?

We plan to continue channeling capital investment into boosting production capacity in overseas markets. In fiscal 2011, we steadily upgraded production sites worldwide. In tandem with overseas business expansion, we will use capital investment to boost production capacity further and build a more efficient supply chain.

We also intend to look at a wide range of M&A opportunities, provided they offer the potential for synergies with our existing businesses and are in growth markets. In the year under review, we absorbed a listed subsidiary in the pet care field, where we see long-term growth potential. Also, we started negotiations with Sumitomo Corporation about acquiring a stake in its wholly owned U.S. pet care subsidiary, The Hartz Mountain Corporation, with a view to concluding partnership in October this year. We will be looking for ways to move into some of the many markets worldwide where Unicharm still does not have a presence, and M&A deals could play a role here.

Q8. How has Unicharm been able to report consecutive years of record earnings despite intensifying competition?

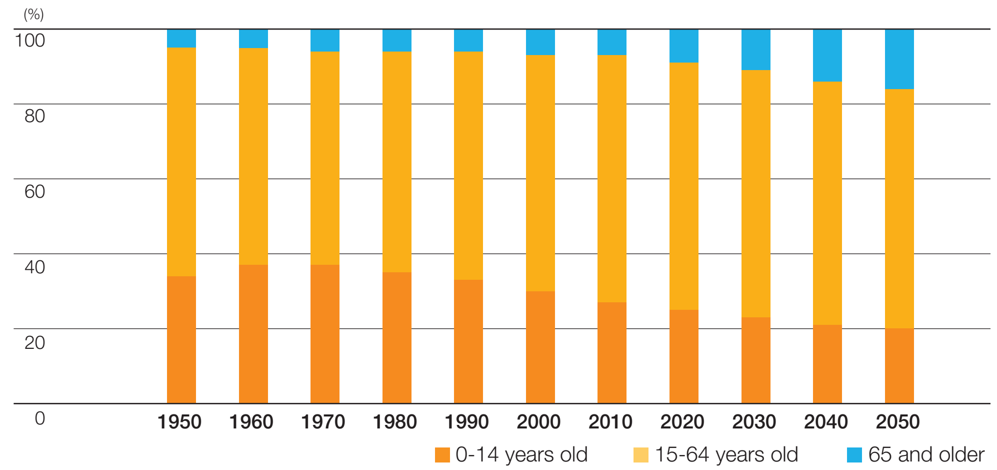
Unicharm's wide range of businesses that supply products for babies through to the elderly is the source of our sustained growth. We have achieved steady sales growth by launching the right products at the right time in each business field based on careful analysis of individual market characteristics and growth phases.

Also, we have been able to supply first-class products and services by focusing on product categories primarily based on our strengths in nonwoven fabric and absorbent material processing and forming technology. Unrestricted expansion into markets worldwide has also supported Unicharm's recent growth. This approach is the realization of our corporate ideals.

However, our people have been behind Unicharm's recent success more than any other factor. Each of our employees has had to raise their individual performance for Unicharm to achieve its targets. I believe our team, which is underpinned by common goals and a commitment to cooperation, is a powerful organization because of its shared values. This has been achieved through the implementation of SAPS Management*, which maximizes the capabilities of the entire organization by ensuring the whole Company heads in the same direction. Since introducing this approach in 2003, we have sharply increased the opportunities for employees to communicate, including meetings to discuss ways of resolving issues faced by the Company. At Unicharm, we also strive to ensure that the expertise of previous employees and the secret of past successes are instilled in our corporate culture so that they are passed onto and used by all Unicharm employees worldwide. In this way, we are seeking to promote wider understanding of the Unicharm Way in order to cultivate the next generation of leaders overseas, as well as in Japan.

* Unicharm's proprietary management approach.
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).

Global Population by Age Group



Source: Statistics Bureau, Ministry of Internal Affairs and Communications

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

Q9. How did the Great East Japan Earthquake on March 11, 2011 affect Unicharm and what responses did you implement?

The Great East Japan Earthquake damaged our Fukushima factory and Sendai sales office. Repair costs totaled roughly ¥1 billion, which were booked under extraordinary losses in the year under review. Unicharm operates three factories in Japan for distribution efficiency and to mitigate risk. As a result, our Shikoku and Shizuoka factories were able to cover the production shortfall due to the shutdown of the Fukushima factory, allowing us to maintain stable supplies. We also imported some products from our overseas factories. In preparation for future disasters, we plan to reinforce disaster prevention measures for facilities and personnel at our sites in Japan and overseas and also accelerate overseas expansion as part of efforts to mitigate the risk of earthquakes in Japan.

The recent disaster made us realize again the vital role Unicharm products play in society and how deeply connected they are to everyday life. Because disposable diapers and sanitary products are now essential daily products, we feel responsible to ensure that supplies are maintained during disasters.

Consumer sentiment changed after the earthquake, with consumers seeking to save money and turning to reliable leading brands. As the leading manufacturer in our field, we plan to respond to these changes in consumer sentiment by supplying customers with products that give them peace of mind.

Q10. Finally, please tell us about your stance on shareholder returns.

To boost earnings, Unicharm is reinforcing its financial structure and aggressively increasing business investment to drive continued growth, while at the same time maintaining a policy of stable and sustainable dividend growth. We also plan to continue implementing share buybacks.

For fiscal 2011, we increased the dividend per share by ¥4.67* year on year, to ¥28. This represents the ninth consecutive fiscal year of dividend hikes since fiscal 2002.

Going forward, the Company will continue to work as one to actively extend Unicharm's global reach and expand its business while striving to meet the expectations of all shareholders and investors.

*Adjusted for the stock split.

September 2011

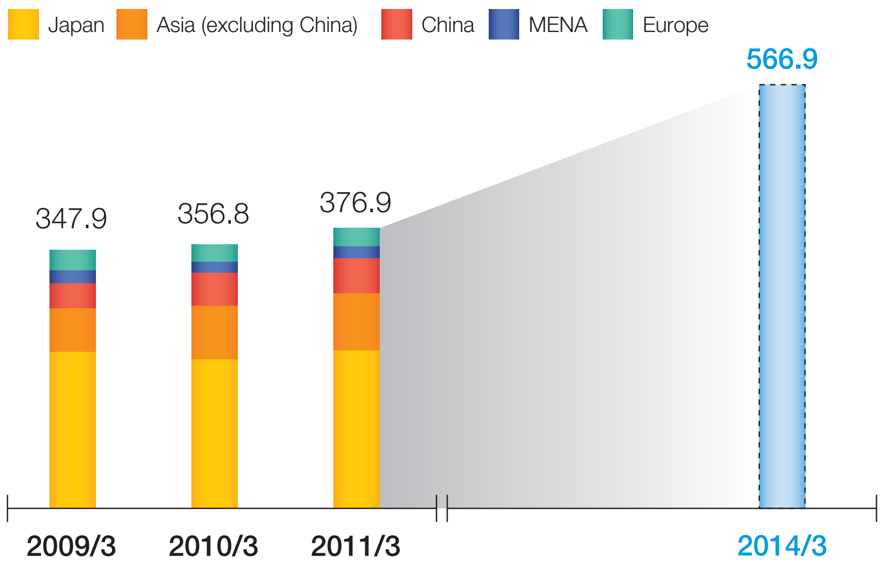
Takahisa Takahara
President and CEO

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

Unicharm's eighth Medium-Term Management Plan (April 2011 – March 2014)

Stepping up overseas expansion and reinforcing the business base to support a major new phase of growth over the next decade

Net Sales by Area (¥ billion)



Seventh Medium-Term Management Plan (April 2008 – March 2011)	Fiscal 2011 Results
Net sales	¥376.9 billion
Operating income to net sales ratio	12.4%

Achievements

- Gains in market share achieved by expanding business reach into Asian markets where growth is strong and by reinforcing the production framework; growth in consolidated earnings driven by expansion in Asia
- Merger with Unicharm PetCare Corporation aimed at tapping growth opportunities over the next decade

Eighth Medium-Term Management Plan (April 2011 – March 2014)	Fiscal 2014 Targets
Net sales	¥566.9 billion
Operating income to net sales ratio	15.0%

Basic Strategies

- Step up efforts to tap demand from the middle class in emerging economies using low-cost operations
- Strengthen Unicharm's business base in pet care products and adult incontinence care products, two areas where demand is expected to grow strongly over the medium and long term

Unicharm's global markets in each business field are projected to expand sharply over the next ten years. Demand for sanitary napkins and disposable diapers for babies is growing rapidly in emerging markets in Asia on the back of rising incomes. In advanced economies, we are seeing rising demand for high value-added sanitary napkins and disposable diapers for babies. Over the medium and long term, we forecast sharp growth in demand for pet care products and adult incontinence care products such as adult disposable diapers, as societies age around the world.

We have positioned our new three-year Medium-Term Management Plan, started in April 2011, as an important period for putting the foundations in place to support growth over the next decade. In order to tap into sharply rising demand for sanitary napkins and disposable diapers for babies, we plan to accelerate business expansion in emerging markets. At the same time, we intend to launch innovative new products in advanced economies, to revitalize these markets. In parallel, we will reinforce our business base in pet care products and adult incontinence care products, where demand is expected to increase strongly over the medium and long term.

[Accelerate Business Expansion in Growth Markets]

Strategy 1: Chinese Market P. 08
Accelerate growth by expanding the product lineup and sales channels

[Build Business Foundations to Support Future Growth]

Strategy 2: Pet Care Business P. 09
Develop the pet care business into a source of earnings on par with the personal care business by leveraging Group synergies

Strategy 3: Health Care Business P. 10
Target new demand by launching products that help alleviate the burden of those being cared for and the carers

[Increase Profits in Mature Markets]

Strategy 4: Domestic Feminine Care Business P. 11
Deliver profit growth in a mature market by putting more emphasis on product value in marketing

[Strategy 1: Chinese Market]

Accelerate growth by expanding the product lineup and sales channels

Unicharm's growth driven by expansion in the Chinese market

Unicharm moved into China in 1995 and is currently building its presence in the market with its *Sofy* sanitary napkin and *Mamy Poko* disposable diaper brands. Demand for disposable diapers has been rising rapidly in recent years as incomes increase. Against this backdrop, Unicharm's sales in China have grown by over 30% on average in the last five years. In fiscal 2011, sales in China grew to account for 28% of total overseas sales, and our Chinese business is now a major source of growth for the entire Unicharm Group.

Economy-type disposable diapers launched

In addition to sales growth in coastal cities, Unicharm sales are now rising in regional inland cities. This followed the autumn 2010 launch of economy-type disposable diapers aimed at middle-class consumers.

We have been selling our highest quality products in the premium segment for some time in China, so the launch of our economy segment products, which offer a good balance between quality and price, means we now have a product lineup that meets the needs of many types of consumers.

Significant growth potential

In China, the average market penetration rate for disposable diapers is still only around 20%. Given that the number of infants in China stands at just under 40 million, or more than 10 times Japan's figure, we think the market offers considerable growth potential. We are targeting further growth by continuing to expand sales through large urban retailers, which has been our main sales approach so far, while also continuing to focus on boosting sales in regional inland cities. In these inland cities, we plan to expand sales channels via small retailers, and also through specialist baby product retailers, which are growing strongly.

Optimizing our supply chain by increasing production sites

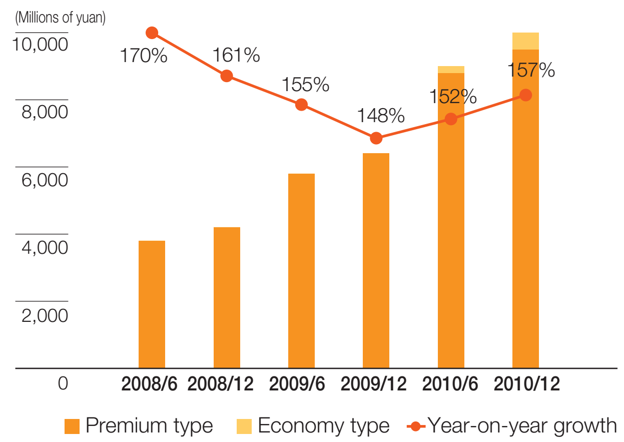
In China, which continues to grow at a rapid pace, we plan to start up a new plant in Tianjin in 2012. This will be our fourth plant in the country. By building this new plant, we will be able to increase shipments to the North of China and reduce distribution costs. This supply chain optimization will allow us to cut the time from order to delivery.

Reinforcing management functions to speedup decision making

Amid intensifying competition with leading U.S. and European firms and local companies in China, we have reinforced the management functions of our local subsidiary in an effort to speed up business planning and implementation in our Chinese operations. We also plan to dispatch some of our leading domestic personnel to China to ensure the Unicharm DNA we have cultivated since the Company was founded is passed on to local employees through human resources development.

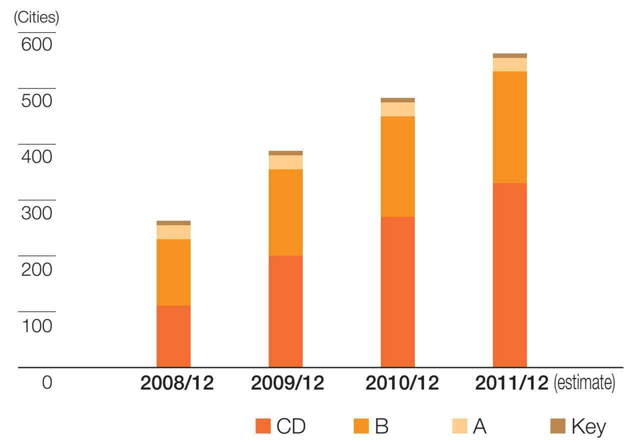
China's society is aging and this is driving growth in categories such as adult disposable diapers and pet care products. We plan to leverage the brand power and know-how we have created through sales of sanitary products and disposable diapers for babies to expand our business in these markets as well.

Sales of Unicharm Disposable Diapers in China



Source: Unicharm Corporation

Number of Chinese Cities Where Unicharm is Active



Source: Unicharm Corporation

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

[Strategy 2: Pet Care Business]

Develop the pet care business into a source of earnings on par with the personal care business by leveraging Group synergies

Merger with Unicharm PetCare aimed at maximizing synergies across the Group

The pet care market continues to expand worldwide. We estimate it will grow to be worth around ¥14 trillion in sales by 2020, comparable in size to the personal care market. Japan's pet care market is projected to grow on the back of an increase in the number of single-person households. We also forecast growth overseas in the advanced economies of the U.S. and Europe, but also in emerging markets in Asia, particularly China, and South America, where rising incomes and aging societies are likely to drive market expansion.

Against this backdrop, we absorbed Unicharm PetCare Corporation through a merger in September 2010 in order to grow our pet care business in Japan and overseas and maximize Group synergies.

Japan: targeting a dominant market share on the back of five main trends

In the pet care business, Unicharm has been focusing resources on four main trends in the Japanese pet market—caring for pets kept indoors, small-sized dogs, aging pets, and overweight pets. This has helped us to secure the top domestic market shares in both 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 sell 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. These aged-based products contain the right balance of nutritional ingredients and calories for the changing bodies and appetites of aging dogs and cats.

With pets now living longer, there has been a rise in recent years in the number of cases of pet obesity and pet disease such as disorders of the lower urinary tract. In response, we have enhanced our lineup of high value-added pet products to target a fifth trend—emphasis on pet health. We believe these products will also help us boost our share of the domestic market. In pet food products, we launched *Aiken Genki Best Life* as a product to help dogs maintain their immune systems, which tend to weaken with age. Also, in our *Neko Genki* and *Silver Spoon* ranges, we launched products for cats approaching their 15th year to help them maintain healthy kidney function. In pet toiletry products, we plan to continue developing products using the technologies we have cultivated in the personal care business to create a new market category of pet toilet products for small dogs.

China: aiming for rapid business expansion using the infrastructure in the personal care business

After our merger with Unicharm PetCare Corporation in September 2010, we began selling dried pet food for dogs and cats in Shanghai, China. Our market share there has been rising steadily as a result. Market penetration for pet food is low in China, but demand is growing in coastal cities, particularly among wealthy pet owners. With pet ownership in the country expected to rise, we forecast new demand worth around ¥1 trillion will emerge in the pet care-related market by 2020.

United States: targeting major expansion through synergies with the Hartz brand

In the U.S. pet care market, which accounts for roughly 40% of the global market, we started negotiations with Sumitomo Corporation in May 2011 on forging a capital and business alliance in the U.S. pet care business, including the acquisition of 51% of issued shares in Sumitomo's wholly owned U.S. subsidiary The Hartz Mountain Corporation. Hartz is the leading U.S. pet care brand in eight product categories.

The U.S. pet care market is the world's largest, estimated to be worth around $30 billion. We forecast continued strong growth in the market of around 5% annually. Pet ownership in the country is seeing similar trends to those we have identified in Japan, such as rising ownership of small-sized dogs and caring for pets kept indoors. Demand for premium pet food and indoor pet toiletry products is growing. We see prospects for rapid expansion in our U.S. pet care business by combining Unicharm's technological and product development capabilities in pet toiletry products and pet food products, which have already proved popular with Japanese consumers, with Hartz's brand power and marketing expertise.

[Strategy 3: Health Care Business]

Target new demand by launching products that help alleviate the burden of those being cared for and the carers

Health care business likely to continue expanding

Since moving into the adult disposable diaper market in 1987, Unicharm has led the industry in promoting wider use of adult incontinence products for nursing care. Sales of our products have continued to rise at a high annual rate in line with Japan's aging society, and we expect the target market for our products to continue expanding.

Dominant shares in the moderate and light adult incontinence markets

In 1989, we launched *Lifree Incontinence Pads*, the world's first product in the moderate adult incontinence category with changeable absorbent pads. By adopting a design with an outer diaper layer and a changeable inner absorbency sheet, we created a product that was comfortable for those being cared for, but also made diaper changing easier for carers and reduced diaper costs. Our product has since become the de facto standard for incontinence care in Japan. In 1995, we introduced the concept of rehabilitation to the incontinence care field with the launch of *Lifree Rehabili-Pants*. These pants-type diapers can be put on and taken off by the wearer, giving them more control over their condition. Our products have played a key role in encouraging care for the elderly that does not restrict them to bed.

We were also quick to identify demand in the light incontinence care market, launching our first product in 1994. This market mainly comprises the elderly and women that have had children who find it hard to talk about their problem with others. We still see significant potential demand in this market from many women who have been using sanitary napkins as an alternative to incontinence care products. By expanding our lineup of light incontinence care products and using active marketing to raise awareness of our brand, we are aiming to encourage these women to shift to and become regular users of dedicated products.

Launching more comfortable products and raising awareness

The number of people needing incontinence care products is expected to increase further as society ages. In September 2010, we launched *Lifree Ultra Thin Underwear-Type Diaper* in response to the growing number of active seniors that like travelling, shopping and other pastimes. These diapers are around 50% thinner than previous products and now offer the same level of comfort as underwear. Also, in June 2011 we launched *Lifree Hitobanju Ohada Anshin Pads* in response to market needs for products that reduce skin rash caused by diaper use.

In order to ensure consumers are not confused about which product to select, we teamed up with retailers to offer in-store counseling and create sales displays focused on the activities of daily living. We also worked to raise awareness of incontinence care products through TV commercials and online campaigns in an effort to generate new demand.

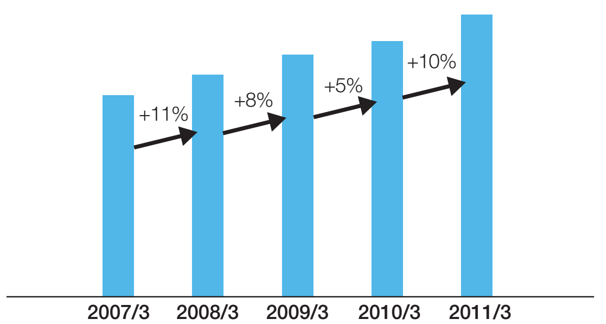
Significant potential in overseas markets

Many countries in Asia and around the world, not just the advanced economies of Europe and the U.S., are projected to see rapid societal aging. Leveraging the strengths we have cultivated in Japan, which leads the global trend in societal aging, we plan to establish our *Lifree* brand overseas and put the groundwork in place for future market expansion.

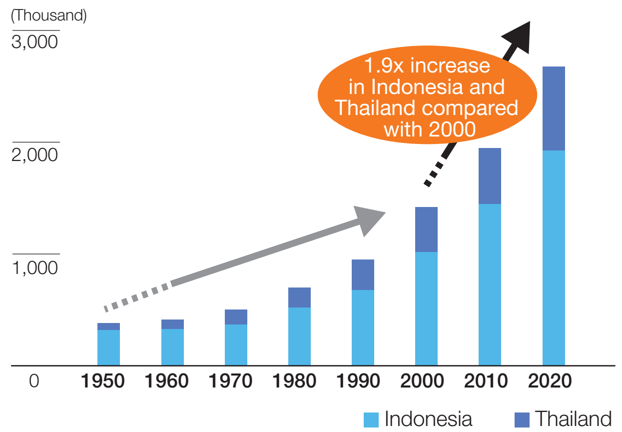
North America: launching advanced products made by our local plant on a timely basis

In North America, the world's biggest market for incontinence care products, awareness of pants-type products is growing thanks to their user friendliness. Targeting prospects for continued strong growth in demand, we decided to build our own plant in North America to supply adult disposable diapers to the local market. The plant came on stream in August 2010. This has given us the capacity to launch advanced Unicharm adult disposable diaper products on timely basis in the large growth market of North America.

Domestic Sales of Unicharm Adult Incontinence Care Products



Populations Aged Over 65 in Asian Markets



Source: Statistics Bureau, Ministry of Internal Affairs and Communications

[Strategy 4: Domestic Feminine Care Business]

Deliver profit growth in a mature market by putting more emphasis on product value in marketing

Taking steps to create a healthier and more dynamic market

As society ages and people have fewer children, price competition is intensifying in Japan's shrinking feminine care products market. Against the backdrop of these mature market conditions, we have been working to create a healthier and more dynamic market. Specifically, we have launched new high value-added products and used sales promotions run in partnership with retailers to develop sales areas that give consumers greater understanding of the value of Unicharm products. Thanks to this approach, our mainstay feminine care products captured leading market shares in their respective categories in Japan in fiscal 2011, helping to drive a recovery in profitability in the feminine care business.

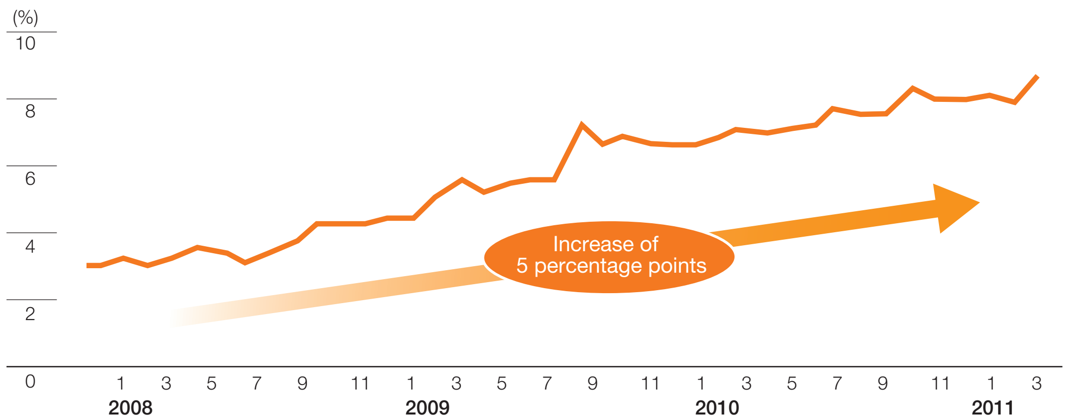
Launching new products in growth categories: skin care and nighttime use

In Japan, the target market for feminine care products continues to shrink, while diversifying lifestyles mean women are looking for increasingly diverse value and functions from sanitary napkin products. In an effort to boost profits, we have been rolling out new high value-added products centered on the growth categories of skin care and nighttime use.

In the skin care category, we launched *Sofy Hada Omoi* sanitary napkins in 2007. These products feature a new type of surface material called fluid control layer (FCL) sheet that is kind on the skin like nonwoven fabric but also has excellent absorbency like our existing mesh material. We have since expanded our range of *Sofy Hada Omoi* products by offering more sizes. In March 2011 we also added a new product called *Sofy Hada Omoi Ultra Super Slim*, which is fifty percent slimmer than existing products and is less tight-fitting without compromising on absorbency. This has generated new demand in the market.

In the nighttime use category, we sell the *Sofy Super-Sound Sleep Guard*, which has won overwhelming support from consumers. We have added more sizes to the range to respond more accurately to women's needs and introduced a number of innovative features. For example, in March 2008, we added an anti-slip guard to ensure a tight fit and prevent the sanitary napkin from slipping out of place even during restless nights. In September 2009 we added an anti-overflow sheet to reduce contact with skin and create a drier fit.

Unicharm's Share of the Skin Care Sanitary Napkin Market

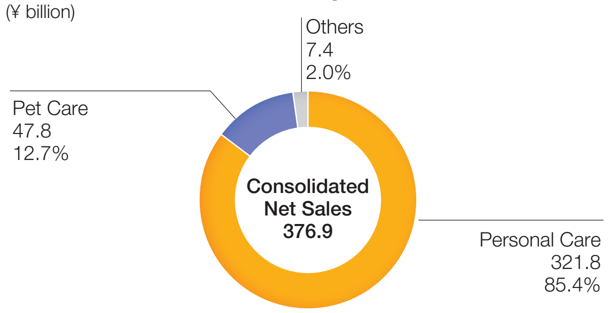


Source: Unicharm Corporation

At a Glance

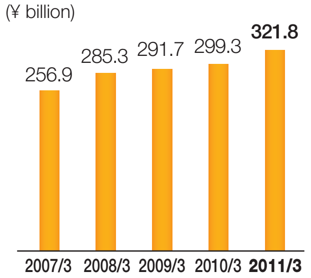
For more details about segment information, please click here. Click

Net Sales by Business Segment
(¥ billion)

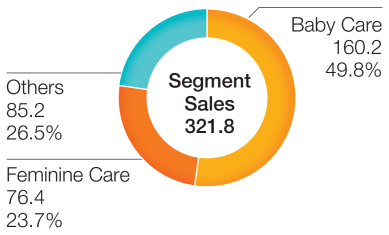


Personal Care Business

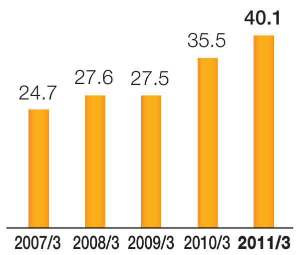
Net Sales
(¥ billion)



Segment Sales by Category
(¥ billion)

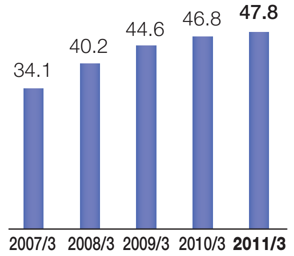


Operating Income
(¥ billion)

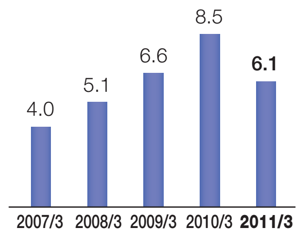


Pet Care Business

Net Sales
(¥ billion)



Operating Income
(¥ billion)



Personal Care Business

Baby Care Business

The Year Under Review

In Japan, the baby care business expanded its range of *Moony* disposable diapers by launching *Moony Pants*, which incorporate a stretchy nonwoven fabric called Softretch® that has been under development for over 12 years. It also added new sizes to the existing product lineup.

The business also relaunched the *Mamy Poko* and *Mamy Poko Pants* brand after renewing the brand logo, packaging and product design. The designs of the disposable diapers feature Disney characters and have been updated to reflect the latest trends in the apparel industry.

Overseas in China, the business responded to broad-based demand for disposable diapers by launching products aimed at tapping strong demand from middle-class consumers. It also worked to boost sales growth and profitability by moving into new areas. In other Asian markets, the baby care business took steps to increase sales and improve profitability.

Strategic Outlook

In the *Moony* brand, the baby care business plans to energize the market for tape-type diapers by incorporating the brand's unique instant absorbent sheet into its *Umaretate-Jitate* and *Nenne-Jitate* products to improve stay-dry performance. In the *Mamy Poko* brand, the business intends to launch disposable diapers with improved absorbency and updated logos, packaging and designs in an effort to stimulate the market.

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Feminine Care Business

The Year Under Review

In Japan, the feminine care business worked to expand sales of high value-added products, including the *Sofy Super-Sound Sleep Guard* and *Center-in Compact* series in order to energize the sanitary napkin market. It also added a new product called *Sofy Hada Omoi Ultra Super Slim* to the *Sofy Hada Omoi* series. The new product, which has been designed for women who have sensitive skin during their periods, is fifty percent slimmer than existing products and is less tight-fitting, without compromising on absorbency. Responding to consumer needs, the business also launched *Sofy Fuwagokochi Long*, a panty liner that can be worn with confidence by protecting underwear during periods. In the tampon market, the business started a promotional campaign aimed at young women in their teens and 20s to encourage wider use of tampons in Japan. Specifically, it launched improved versions of its *Super* (for heavy days) and *Super Plus* (for very heavy days) products under the *Charm Soft Tampon* brand.

Overseas in Asian markets, as part of efforts to boost sales and profitability, the business expanded sales areas and actively promoted high value-added sanitary napkins, including night-use and thin sanitary napkins in line with the needs of each country.

Strategic Outlook

The feminine care business plans to add *Sofy Hada Omoi Ultra Slim* to the *Sofy Hada Omoi* series and continue offering products that meet women's needs for feminine care products that are slim and kind on the skin.

Health Care Business

The Year Under Review

In *Lifree* incontinence care products for adults, the health care business responded to consumer needs by introducing *Lifree Ultra Thin Underwear-Type Diaper*, Unicharm's thinnest ever underwear-type diaper. The business also relaunched an improved version of *Lifree Yoko More Anshin Tape Dome*, an incontinence diaper incorporating a polymer compound that traps odors. It also worked to boost sales by rolling out promotional campaigns using TV commercials, the internet and stores. In the light incontinence care market, which continues to grow, the business launched *Lifree Comfortable Pad 220cc* and *Lifree Sono Shunkan Mo Anshin 250cc* in response to consumer needs.

Strategic Outlook

In the *Lifree* range of incontinence care products for adults, the health care business plans to launch *Lifree 1 Night Ohada Anshin Urinary Pad* incorporating the *Sarasara Dry Sheet* that keeps skin dry and prevents diaper rash. This product has been developed in response to customer concerns about skin problems caused by prolonged use of diapers.

Clean & Fresh Business

The Year Under Review

This clean & fresh business worked to promote sales of *Silcot Moist Spongy Puff*, a skin care cotton product that gives the skin extra moistness with only half the amount of a normal lotion application. It was developed for customers who want to apply skin lotion in an effective and efficient manner.

Pet Care Business

The Year Under Review

The pet care business worked to develop new products and markets in line with consumer needs. Specifically, it expanded the product lineup and boosted sales based on the four main trends in the domestic pet care market—caring for pets kept indoors, small-sized dogs, aging pets, and overweight pets.

In the pet food department, the business worked to expand sales of the new *Aiken Genki Cup* and *Neko Genki Cup* series of cup-based dog and cat food, responding to the needs of owners of small dogs and cats for food that is tasty, has a good nutritional balance, and is easy to serve. It also began sales of dog and cat food in China, where the market is expected to grow.

In the pet toiletry department, the business actively promoted sales focusing on disposable diaper products for pets and other pet waste care products that help create clean living environments for pets. These included dog sanitary sheet products such as *Deo Sheet* and a system toilet product for cats called *1 Week Long Deodorant and Antibacterial Deo Toilet*. The business also launched *Deotoilet for Doggies*, a bilayer-structured dog waste disposal product designed to prevent urine leakage and odor by using a newly developed deodorant filter and deodorant/absorbent sheet material.

Strategic Outlook

The pet care business will strive to develop new products and markets in response to customer needs. It also plans to focus on pet health, in addition to the existing four main market trends, and launch new high value-added products in an effort to boost domestic market share.

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 eight directors, including the Founder. In addition to its monthly ordinary meetings, the Board of Directors holds extraordinary meetings on an as-required basis (20 such meetings were held during the year ended March 31, 2011).

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 June 2011, the Company had 18 executive officers, seven of whom concurrently held the position of director, and three 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 PricewaterhouseCoopers 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.

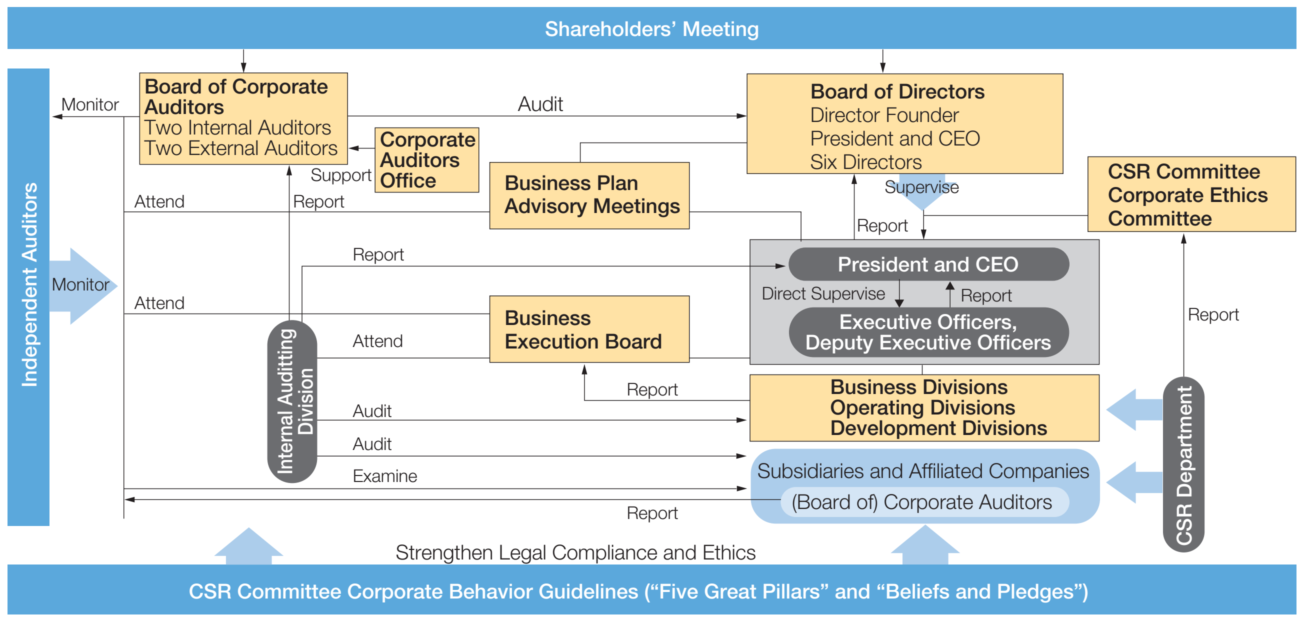
Upgrading the Internal Control System

In fiscal 2007, the Unicharm Group launched an Internal Control Upgrading Project and established an Internal Control System Basic Policy in accordance with Japan's Companies Act. Since then, Unicharm has actively worked to strengthen internal controls to further enhance the credibility of management. In fiscal 2010, the project team that was set up to upgrade internal controls became the Internal Control Committee, which is responsible for evaluating the status and implementation of internal controls related to financial reporting and for suggesting improvements where necessary. Unicharm plans to continue its efforts create a highly effective internal control system, primarily through employees responsible for business sites and processes that are required to undergo internal control evaluation.

Responding to the rapid globalization of Unicharm's business is becoming increasingly important. As such, in fiscal 2011, the Company set up an IFRS Preparation Project to begin preparing for the adoption of international financial reporting standards. Based on results gleaned from the evaluation of the internal control system for financial reporting, Unicharm is working to improve business efficiency across the Group and upgrading IT systems.

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

Internal Control Structure



(As of June 24, 2011)

Board of Directors, Corporate Auditors and Executive Officers

As of June 24, 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

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 Companies Act.

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

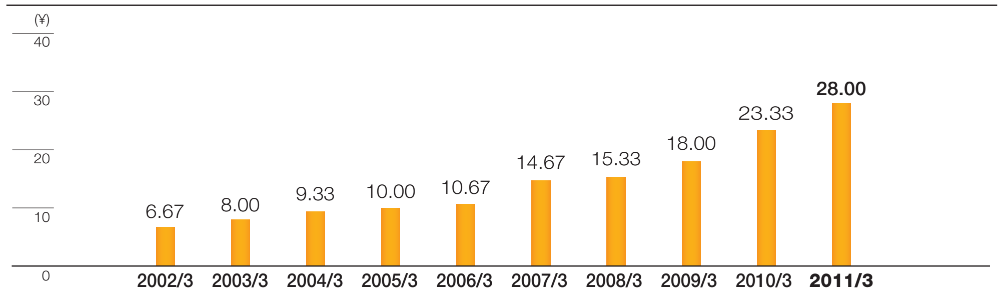
Unicharm considers the distribution of profits to shareholders as one of its most important management policies and therefore works to increase corporate value by generating cash flow. To boost earnings, the Company is reinforcing its corporate structure and aggressively increasing its business investment 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 February 1, 2011 and February 28, 2011, Unicharm purchased 2,360,000 of its own shares (total acquisition price of ¥7,580 million) on the Tokyo Stock Exchange (market purchase through trust).

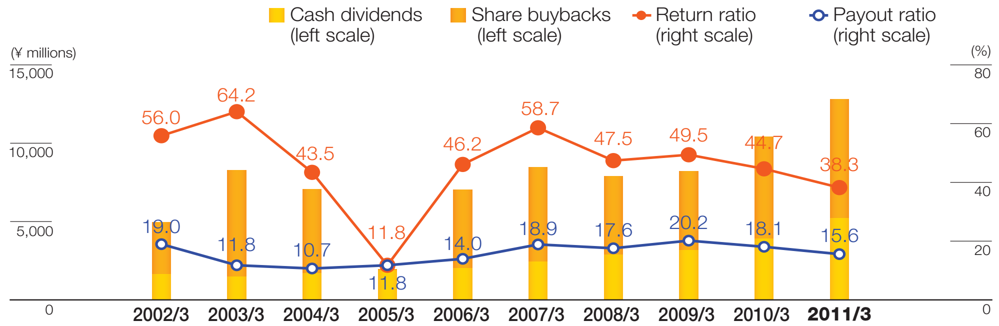
For fiscal 2011, the Company increased the dividend per share by ¥4.67 year on year, to ¥28 (after adjusting for the stock split).

In order to make it easier for investors to invest in Unicharm, a 1-to-3 stock split for ordinary shares was conducted for shareholders of record as of September 30, 2010. This move is aimed at boosting the liquidity of Unicharm stock and expanding the Company's base of investors.

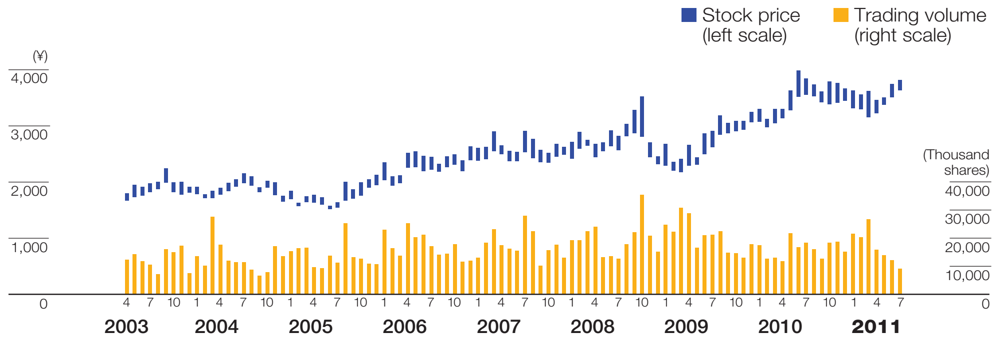
Cash Dividends per Share (after adjusting for the stock split*)



Shareholder Returns



Stock Price (after adjusting for the stock split*)



* A 1-to-3 stock split was conducted on October 1, 2010.
Per-share figures were retroactively adjusted to reflect this stock split.

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

Unicharm Group 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.

The Unicharm Group's CSR Ideals

Unicharm Group CSR = Realization of Corporate Ideals

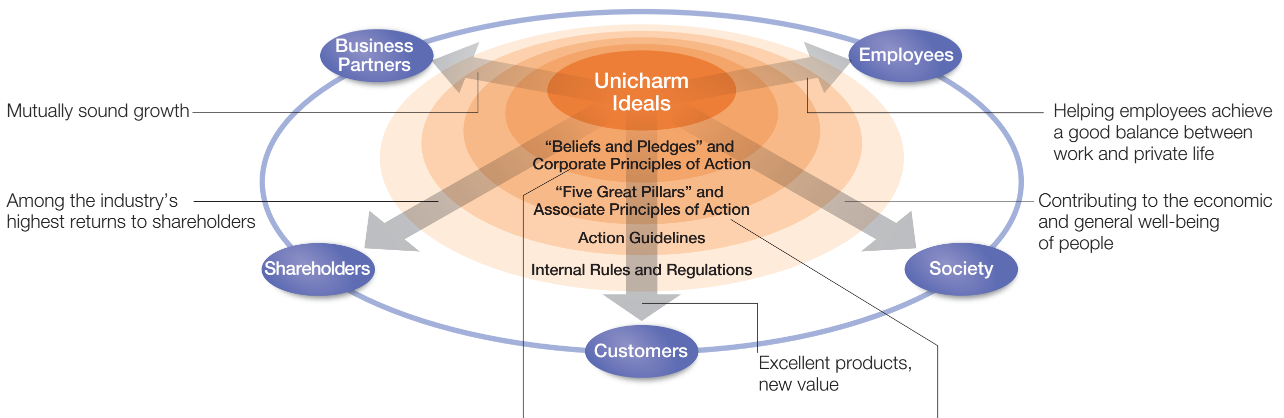
Unicharm Ideals

1. We contribute to creating a better quality of life for everyone by offering only the finest products and services to the market and customers, both at home in Japan and abroad.
1. We strive to pursue proper corporate management principles which combine corporate growth, associate well-being and the fulfillment of our social responsibilities.
1. We bring forth the fruits of cooperation based on integrity and harmony, by respecting the independence of the individual and striving to promote the Five Great Pillars.

The Unicharm Group's CSR Vision

We are committed to providing world-first, leading products and services that bring comfort, excitement and joy to people throughout the world.

Unicharm's Corporate Philosophy Framework



Beliefs and Pledges and Corporate Principles of Action

Pledge to our customers
We pledge to earn the full support of customers by always doing everything we can.

Pledge to our shareholders
We pledge to distribute industry-leading returns to shareholders.

Pledge to business partners
We pledge to achieve mutual growth by maintaining a fair and equitable relationship.

Pledge to associates
We pledge to achieve the happiness of associates and their family members by filling each of them with confidence and pride.

Pledge to society
We pledge to contribute to the economic and emotional fulfillment of the entire population through our corporate activities.

Five Great Pillars and Associate Principles of Action

Creativity & Innovation
We will respect the creation of new society values and maintain a spirit that always seeks out innovation.

Ownership
We will follow in the footsteps of our founder, striving to uncover issues from a company-wide perspective and solve them to achieve our management targets.

Spirit of challenge
We will continue to transform our abilities without fear of failure and maintain a positive attitude, based on our belief in the capacity of challenge to tap into unlimited potential.

Leadership
We will become leaders who are able to motivate others with our own determination by clearly showing the way for the organization to follow.

Fair play
We will carry out fair corporate activities that combine the spirit of respecting human life and dignity with high ethical standards.

Strategic Direction of the Unicharm Group's CSR Activities

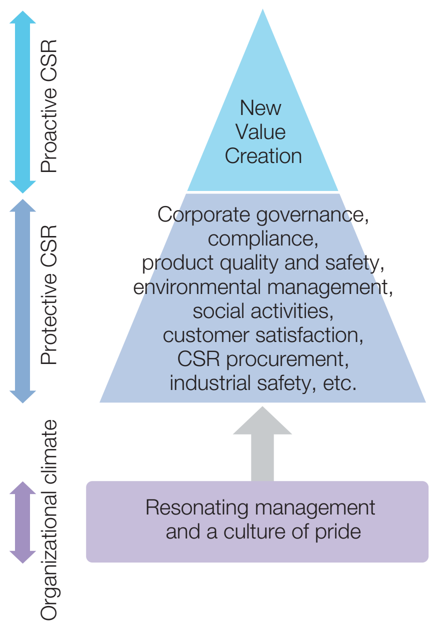
Creating gentle care. Supporting gentle care.

At the foundation of Unicharm's CSR is each and every employee contemplating what social responsibility should be and taking steps to achieve it.

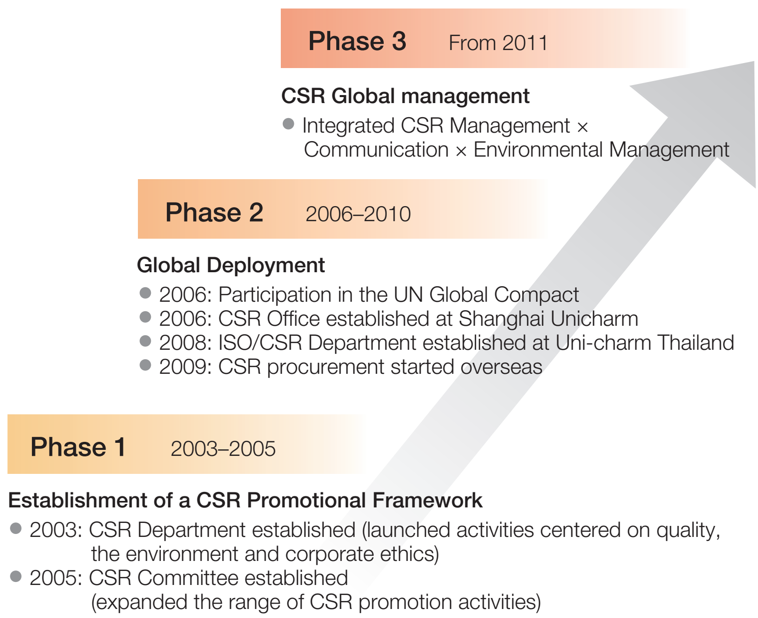
World Trends	Regional Trends	Developments in the Industry	Expectations of Stakeholders	Unicharm Ideals and Company Policies

At Unicharm, alleviating people's burdens in managing their everyday lives and pursuing gentle care are principles underpinning our corporate philosophy. We create gentle care to support each and every person—promoting the sound growth of babies, the radiance of women, and the dignity of the aged. We believe that these efforts in themselves lead to gentle care in our immediate society and gentle care for the environment. We want to fulfil our duties as corporate citizens by realizing one step at a time initiatives for increasing the environmental value of products through means such as our company-initiated Eco Charming mark for recognizing environmentally friendly products and carbon offset initiatives.

Unicharm Group CSR Areas



Unicharm Group Global CSR Initiatives



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 2011

11-Year Summary

Unicharm Corporation and Subsidiaries

	Millions of yen (Except per share figures)											Thousands of U.S. dollars (Except per share figures) (Note 1)
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	**2011**	**2011**
FOR THE FISCAL PERIOD:												
Net sales	¥212,199	¥206,707	¥223,169	¥240,110	¥246,051	¥270,380	¥301,880	¥336,864	¥347,850	¥356,825	**¥376,948**	**$4,541,540**
Overseas sales to net sales ratio	13.1%	17.9%	21.5%	22.9%	24.1%	26.7%	32.4%	36.9%	37.1%	38.5%	**42.4%**	**—**
Cost of sales	115,823	113,546	123,883	132,074	137,341	153,264	173,239	196,130	206,209	193,012	**203,395**	**2,450,537**
Selling, general and administrative expenses	75,544	74,187	73,493	77,309	81,424	88,585	98,711	107,003	106,757	118,747	**126,992**	**1,530,022**
Operating income	20,832	18,974	25,793	30,727	27,285	28,531	29,930	33,731	34,884	45,066	**46,561**	**560,981**
Net income	9,904	8,852	12,879	16,240	16,382	15,288	15,059	16,684	17,128	24,464	**33,560**	**404,343**
Net income per share (¥/$) (Note 2)	45.92	41.73	61.76	80.09	81.42	76.45	77.44	86.46	89.44	128.56	**178.11**	**2.15**
Cash dividends per share (¥/$) (Note 2)	8.00	6.67	8.00	9.33	10.00	10.67	14.67	15.33	18.00	23.33	**28.00**	**0.34**
Consolidated payout ratio	14.3%	19.0%	11.8%	10.7%	11.8%	14.0%	18.9%	17.6%	20.2%	18.1%	**15.6%**	**—**
Net cash (used in) provided by operating activities	19,370	24,728	27,186	36,916	20,607	36,889	28,358	45,309	21,978	55,032	**(17,240)**	**(207,706)**
Net cash used in investing activities	(9,235)	(7,262)	(26,411)	(25,836)	(8,437)	(20,251)	(20,329)	(10,091)	(44,316)	(22,239)	**(69,527)**	**(837,677)**
Free cash flows	10,135	17,466	775	11,080	12,170	16,638	8,029	35,218	(22,338)	32,793	**(86,767)**	**(1,045,383)**
Capital expenditures	8,467	12,916	14,811	19,488	13,737	13,609	21,307	17,370	14,574	24,750	**27,570**	**102,012**
Depreciation and amortization	10,635	10,500	11,023	11,616	12,330	13,063	13,431	15,041	17,101	16,393	**14,620**	**176,147**
Research and development costs	3,957	4,749	4,529	4,689	3,747	4,018	4,332	4,505	4,459	4,558	**4,954**	**59,685**
AT FISCAL YEAR-END:												
Total assets	¥177,396	¥187,060	¥187,988	¥209,002	¥215,365	¥250,355	¥268,763	¥275,436	¥278,314	¥307,773	**¥444,016**	**$5,349,585**
Property, plant and equipment	69,388	71,412	71,090	77,306	72,799	77,111	86,725	86,463	84,248	95,357	**98,390**	**1,185,421**
Long-term debt—less current maturities	3,918	2,953	1,710	1,557	345	677	1,739	1,452	1,306	944	**47,354**	**570,533**
Net assets	104,156	109,306	113,137	123,709	137,697	151,183	177,049	179,171	185,591	207,413	**219,633**	**2,646,172**
Equity ratio	58.7%	58.4%	60.2%	59.2%	63.9%	60.4%	60.0%	58.9%	60.2%	59.7%	**45.5%**	**—**
Number of employees	4,492	4,367	4,753	5,057	5,234	6,030	6,265	6,461	6,904	7,108	**7,317**	**—**
RATIOS:												
Operating income to net sales ratio	9.8%	9.2%	11.6%	12.8%	11.1%	10.6%	9.9%	10.0%	10.0%	12.6%	**12.4%**	**—**
Net income to net sales ratio	4.7%	4.3%	5.8%	6.8%	6.7%	5.7%	5.0%	5.0%	4.9%	6.9%	**8.9%**	**—**
Gross profit to net sales ratio	45.4%	45.1%	44.5%	45.0%	44.2%	43.3%	42.6%	41.8%	40.7%	45.9%	**46.0%**	**—**
SG&A expenses to net sales ratio	35.6%	35.9%	32.9%	32.2%	33.1%	32.8%	32.7%	31.8%	30.7%	33.3%	**33.7%**	**—**
ROE	9.4%	8.3%	11.6%	13.7%	12.5%	10.6%	9.6%	10.3%	10.4%	13.9%	**17.4%**	**—**
ROA	5.5%	4.9%	6.9%	7.8%	7.7%	6.6%	5.8%	6.1%	6.2%	8.3%	**8.9%**	**—**
STOCK PRICES:												
High (¥/$) (Note 2)	¥2,540	¥1,817	¥1,630	¥1,990	¥1,983	¥2,037	¥2,557	¥2,653	¥2,877	¥3,073	**¥3,560**	**—**
Low (¥/$) (Note 2)	1,397	902	1,100	1,520	1,510	1,333	1,933	2,080	1,913	1,917	**2,690**	**—**

Notes: 1. U.S. dollar amounts are translated from yen at the rate of ¥83=U.S.$1, the approximate rate on the Tokyo Foreign Exchange Market on March 31, 2011.
2. A 1-to-3 stock split was conducted on October 1, 2010. Per-share figures were retroactively adjusted to reflect this stock split.

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

Management's Discussion and Analysis

Scope of Consolidation

The Unicharm Group (the Group) comprises the Unicharm Corporation, 31 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 2011, ended March 31, 2011, consolidated net sales increased 5.6% from ¥356.8 billion in the previous fiscal year to a record-high ¥376.9 billion.

On a regional basis, sales in Japan totaled ¥219.1 billion, accounting for 58.1% 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, grew steadily. In the core baby care business, Unicharm expanded its range of *Moony* disposable diapers by launching *Moony Pants*, which incorporate a stretchy nonwoven fabric called Softretch® that has been under development for more than 12 years, and by adding new sizes to the existing lineup. In the feminine care business, Unicharm worked to expand sales of high value-added sanitary napkin products such as the *Sofy Super-Sound Sleep Guard* and *Center-in Compact* series as part of efforts to energize the market.

Sales in China totaled ¥44.7 billion, accounting for 11.9% of consolidated net sales. The feminine care business and baby care business both increased their share of the Chinese market.

Sales in other markets totaled ¥113.1 billion, accounting for 30.0% of consolidated net sales. In Asian entry markets, the feminine care business and the baby care business both boosted their market shares, while sales of adult incontinence care products and disposable diapers for babies increased in Europe. In the Middle East, sales of disposable diapers for babies grew steadily.

As a result, overseas sales increased ¥22.1 billion year on year to ¥159.6 billion, owing to higher sales at all Unicharm's overseas subsidiaries. Overseas sales accounted for 42.4% of consolidated net sales, a record-high level.

Net Sales by Geographic Segment (¥ million)

	2011
Japan	¥219,064
China	44,741
Others	113,142
Total	¥376,948

Cost of Sales and Selling, General and Administrative Expenses

In fiscal 2011, the cost of sales increased by ¥10.4 billion, from ¥193.0 billion in the previous fiscal year to ¥203.4 billion, reflecting the increase in net sales, higher raw material prices and other factors. However, the cost of sales to net sales ratio improved by 0.1 percentage point, from 54.1% in the previous fiscal year to 54.0%. Gross profit rose 5.9% year on year to ¥173.6 billion. Selling, general and administrative expenses increased by 6.9% to ¥127.0 billion, mainly reflecting expansion in the geographic sales area and aggressive sales promotions for new products. The main increases were ¥6.9 billion for sales promotion costs and ¥1.4 billion for sales-related transportation expenses. The selling, general and administrative expenses to net sales ratio increased 0.4 percentage points to 33.7%.

Research and Development Costs

Guided by the desire to "Maintain our No.1 position through continued and dedicated service," the Group's research and development activities are based on the principle of continually creating new value through technological innovation. Led by our Technical Center and Engineering Center in Kanonji City in Kagawa Prefecture, Japan, we have consistently sought to improve our nonwoven fabric technology, specialized absorbent polymer technology and paper and pulp expertise, as well as develop category-leading products and reduce lead times from product development through to market launch.

In fiscal 2011, the Group's research and development costs for these activities totaled ¥5.0 billion, equivalent to 1.3% of consolidated net sales.

Income and Expenses

In the fiscal year under review, sales promotion expenses increased owing to expansion in the geographic sales area and sales campaigns for new products. Together with higher raw material costs, this led to a rise in expenses compared with the previous fiscal year. However, operating income rose 3.3% year on year, from ¥45.1 billion to a record-high ¥46.6 billion. Profit growth was driven by rising sales and continued efforts to reduce costs. The operating income to net sales ratio declined 0.2 percentage points, from 12.6% in the previous year to 12.4%. Net other expenses increased from ¥1.1 billion to ¥3.3 billion, mainly reflecting foreign exchange losses on the valuation of loans denominated in foreign currencies due to yen appreciation and the booking of extraordinary losses related to the Great East Japan Earthquake on March 11, 2011.

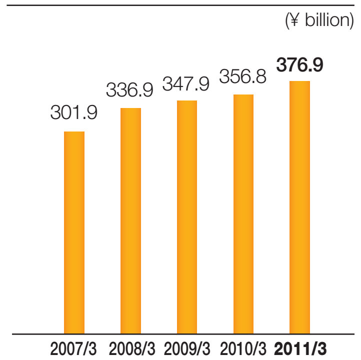
As a result, income before income taxes and minority interests declined 1.5% year on year to ¥43.3 billion. In addition, current income taxes increased by ¥47.9 billion, from ¥16.6 billion in the previous year to ¥64.5 billion, owing to the merger with Unicharm PetCare Corporation in September 2010, and deferred income taxes were negative ¥58.3 billion. As a result, net income rose 37.2% year on year to ¥33.6 billion, a record high. Net income per share amounted to ¥178.11, an increase of ¥49.55 compared with the previous fiscal year (after adjusting for the stock split).

Financial Position and Liquidity

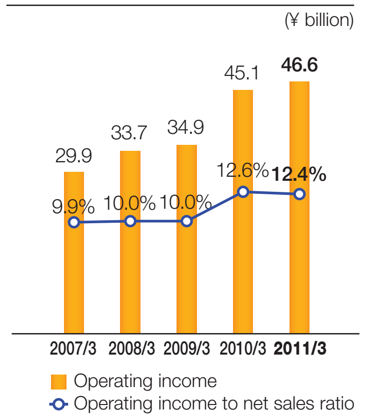
Assets, Liabilities and Equity

Total assets as of the end of the fiscal year under review stood at ¥444.0 billion, an increase of ¥136.2 billion year on year. This mainly reflected increases of ¥28.3 billion in cash and cash equivalents, ¥53.0 billion for goodwill, and ¥52.0 billion for deferred tax assets, and a decrease for ¥5.4 billion for construction in

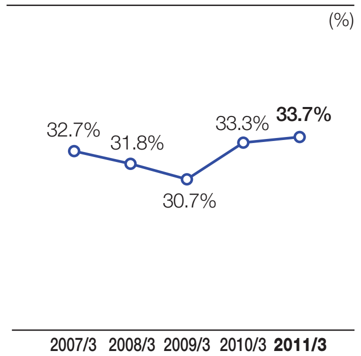
Net Sales



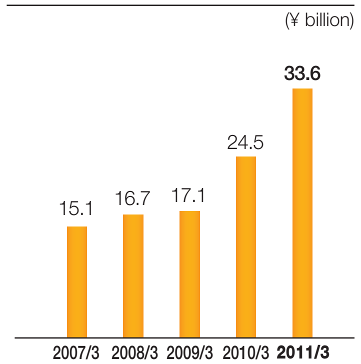
Operating Income/Operating Income to Net Sales Ratio



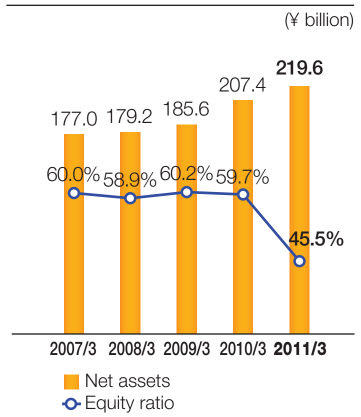
SG&A Expenses to Net Sales Ratio



Net Income



Net Assets/Equity Ratio



progress. Liabilities totaled ¥224.4 billion, a rise of ¥124.0 billion year on year, mainly due to an increase in long-term debt of ¥46.4 billion and the issuance of bonds with share warrants of ¥80.6 billion. Net assets increased by ¥12.2 billion to ¥219.6 billion, mainly reflecting net income of ¥33.6 billion and acquisition of treasury stock totaling ¥7.6 billion.

Consequently, the equity ratio declined from 59.7% at the end of the previous period to 45.5%.

Capital Expenditures and Depreciation

Capital expenditures amounted to ¥27.6 billion in fiscal 2011, an increase of ¥2.8 billion from ¥24.8 billion in the previous fiscal year. Major components of this spending included investment to expand overseas facilities due to business expansion, build new product facilities for core domestic businesses, and renovate facilities in line with productivity enhancements. Depreciation and amortization amounted to ¥14.6 billion, representing a drop of ¥1.8 billion year on year from ¥16.4 billion.

Cash Flows

Net cash used in operating activities totaled ¥17.2 billion, mainly comprising ¥43.3 billion in income before income taxes and minority interests, ¥79.3 billion in income taxes paid, and ¥14.6 billion for depreciation and amortization.

Net cash used in investing activities totaled ¥69.5 billion, primarily reflecting ¥63.7 billion for the purchase of shares in a subsidiary and ¥27.4 billion for acquisition of property, plant and equipment.

Net cash provided by financing activities totaled ¥117.0 billon, mainly reflecting ¥80.7 billion from the issuance of corporate bonds and ¥70.0 billion in proceeds from long-term debt.

As a result, cash and cash equivalents at the end of fiscal 2011 totaled ¥113.0 billion, an increase of ¥28.7 billion compared with the end of the previous fiscal year.

Outlook for Fiscal 2012

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 amid increasing demand in emerging markets.

Continuing its efforts from the previous fiscal year, the Group implemented corporate restructuring, putting the highest priority on revitalizing the domestic market and promoting market growth and business expansion overseas, particularly in Asia. As a result, it achieved a steady increase in earnings.

In the fiscal year under review, Unicharm expanded its overseas business, supported by economic growth in emerging markets, particularly in Asia. In Japan, although the market contracted for some personal care and pet care products, the Group worked to boost profitability by expanding sales and reducing costs amid signs of demand for high value-added products.

In order to drive further corporate reform, 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 push ahead with the aggressive development of overseas markets—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 boost 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, Australia, India, Russia, and the U.S. 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 has worked 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, 2011 and 2010

ASSETS	Millions of yen 2011	Millions of yen 2010	Thousands of U.S. dollars (Note 1) 2011
Current Assets:			
Cash and cash equivalents	¥ 113,008	¥ 84,270	$ 1,361,541
Marketable securities (Note 3)	702	1,499	8,454
Notes and accounts receivable:			
Trade	46,038	41,643	554,675
Allowance for doubtful accounts	(34)	(75)	(405)
Inventories (Note 4)	22,393	20,086	269,801
Deferred tax assets (Note 12)	11,453	5,485	137,988
Other current assets	11,160	19,343	134,449
Total current assets	204,720	172,251	2,466,503
Property, Plant and Equipment:			
Land (Note 5)	11,686	12,022	140,793
Buildings and structures	63,378	57,453	763,589
Machinery and equipment	156,945	154,260	1,890,901
Furniture and fixtures	7,417	6,521	89,367
Leased assets	259	223	3,118
Construction in progress	4,917	10,317	59,242
Total	244,602	240,796	2,947,010
Accumulated depreciation	(146,212)	(145,439)	(1,761,589)
Net property, plant and equipment	98,390	95,357	1,185,421
Investments and Other Assets:			
Investment securities (Note 3)	12,888	17,928	155,278
Investments in affiliates	140	125	1,681
Goodwill	65,022	12,030	783,400
Intangibles	2,380	2,534	28,676
Deferred tax assets (Note 12)	53,108	1,104	639,850
Prepaid pension cost (Note 8)	5,658	5,534	68,172
Other assets	1,892	1,936	22,800
Allowance for doubtful accounts	(182)	(1,026)	(2,196)
Total investments and other assets	140,906	40,165	1,697,661
Total	¥ 444,016	¥ 307,773	$ 5,349,585

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

LIABILITIES AND NET ASSETS	Millions of yen 2011	Millions of yen 2010	Thousands of U.S. dollars (Note 1) 2011
Current Liabilities:			
Short-term bank loans (Note 6)	¥ 6,241	¥ 5,918	$ 75,193
Current portion of long-term debt (Note 6)	2,131	388	25,674
Notes and accounts payable			
Trade	37,991	36,135	457,729
Others	28,423	28,109	342,442
Income taxes payable	1,953	10,390	23,533
Accrued expenses	11,748	10,502	141,543
Provision for loss on disaster	640	-	7,708
Other current liabilities	1,016	883	12,239
Total current liabilities	90,143	92,325	1,086,061
Long-Term Liabilities:			
Convertible bonds (Note 7)	80,643	-	971,599
Long-term debt (Note 6)	47,354	944	570,533
Provision for retirement benefits (Note 8)	2,624	2,325	31,610
Deferred tax liabilities (Note 12)	688	1,378	8,293
Other long-term liabilities	2,931	3,388	35,317
Total long-term liabilities	134,240	8,035	1,617,352
Commitments and Contingent Liabilities (Notes 14 and 17):			
NET ASSETS			
Shareholders' equity (Note 19):			
Common stock,			
authorized: 827,779,092 shares in 2011 and			
275,926,364 shares in 2010			
issued: 206,944,773 shares in 2011 and			
68,981,591 shares in 2010	15,993	15,993	192,683
Capital surplus	18,802	18,802	226,534
Retained earnings	217,112	188,697	2,615,801
Treasury stock—at cost shares:			
20,521,968 in 2011 and			
6,052,515 in 2010	(43,925)	(36,330)	(529,214)
Accumulated other comprehensive income			
Net unrealized gains on available-for-sale securities,			
net of taxes (Note 3)	3,277	2,796	39,478
Net (losses) gains on deferred hedges, net of tax	(13)	9	(161)
Land revaluation difference, net of tax (Note 5)	(90)	(618)	(1,079)
Foreign currency translation adjustments	(9,221)	(5,460)	(111,095)
Total	201,935	183,889	2,432,947
Stock acquisition rights (Note 9)	289	-	3,479
Minority interests	17,409	23,524	209,746
Total net assets	219,633	207,413	2,646,172
Total	¥ 444,016	¥ 307,773	$ 5,349,585

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

Consolidated Statements of Income

Unicharm Corporation and Subsidiaries Years Ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Net Sales	¥ 376,948	¥ 356,825	$ 4,541,540
Cost of Sales	203,395	193,012	2,450,537
Gross profit	173,553	163,813	2,091,003
Selling, General and Administrative Expenses (Notes 10, 13 and 21)	126,992	118,747	1,530,022
Operating income	46,561	45,066	560,981
Other Income (Expenses):			
Interest and dividend income	868	753	10,463
Foreign exchange (loss) gain	(1,267)	2,235	(15,266)
Interest expense	(310)	(155)	(3,741)
Sales discount	(3,296)	(2,527)	(39,717)
Gain on sale of property, plant, and equipment	1,012	-	12,191
Gain on sale of investments in affiliates	1,214	-	14,630
Reversal of allowance for doubtful account	905	-	10,907
Loss on disposal of property, plant, and equipment	(794)	(730)	(9,573)
Loss on write-down of investment securities	(355)	(8)	(4,285)
Loss on sale of investment securities	(313)	-	(3,770)
Provision for doubtful account	-	(824)	-
Effect of application of the accounting standard for asset retirement obligations	(72)	-	(863)
Loss on disaster	(1,084)	-	(13,055)
Other—net	227	138	2,734
Other income (expenses)—net	(3,265)	(1,118)	(39,345)
Income Before Income Taxes and Minority Interests	43,296	43,948	521,636
Income Taxes (Note 12):			
Current	65,648	16,640	790,937
Refunded	(1,120)	-	(13,502)
Deferred	(58,266)	(2,729)	(701,996)
Total income taxes	6,262	13,911	75,439
Net Income Before Minority Interests	37,034	30,037	446,197
Minority Interests In Net Income	3,474	5,573	41,854
Net Income	¥ 33,560	¥ 24,464	$ 404,343

	Yen		U.S. dollars
	2011	2010	2011
Per Share of Common Stock (Notes 2 and 19):			
Net income	¥ 178.11	¥ 385.69	$ 2.15
Diluted net income	168.42	385.66	2.03
Cash dividends applicable to the year	56.00	70.00	0.67

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

Consolidated Statement of Comprehensive Income

Unicharm Corporation and Subsidiaries Year Ended March 31, 2011

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2011	2011
Net Income Before Minority Interests	¥ 37,034	$ 446,197
Other Comprehensive Income (Note 18):		
Net unrealized gains on available-for-sale securities, net of taxes	476	5,733
Net losses on deferred hedges, net of tax	(57)	(686)
Foreign currency translation adjustments	(5,032)	(60,635)
Total other comprehensive income	(4,613)	(55,588)
Comprehensive Income (Note 18)	32,421	390,609
Total Comprehensive Income Attributable to (Note 18):		
Shareholders of the Company	¥ 30,258	$ 364,551
Minority interests	2,163	26,058

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

Consolidated Statements of Changes in Net Assets

Unicharm Corporation and Subsidiaries Years Ended March 31, 2011 and 2010

	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	Subscription rights to shares	Minority interests	Total net assets
Balance, April 1, 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
Net income	-	-	-	33,560	-	-	-	-	-	33,560	-	-	33,560
Cash dividends, ¥77.00 per share	-	-	-	(4,845)	-	-	-	-	-	(4,845)	-	-	(4,845)
Purchase of treasury stock	(14,469,453)	-	-	-	(7,595)	-	-	-	-	(7,595)	-	-	(7,595)
Net change in the year	-	-	-	(300)	-	481	(22)	528	(3,761)	(3,074)	289	(6,115)	(8,900)
Stock split	137,963,182												
Balance, March 31, 2011	186,422,805	¥15,993	¥18,802	¥217,112	¥(43,925)	¥3,277	¥(13)	¥(90)	¥(9,221)	¥201,935	¥289	¥17,409	¥219,633
		Thousands of U.S. dollars (Note 1)											
Balance, March 31, 2010		$192,683	$226,534	$2,273,455	$(437,710)	$33,686	$107	$(7,451)	$(65,780)	$2,215,524	$-	$283,431	$2,498,955
Net income		-	-	404,343	-	-	-	-	-	404,343	-	-	404,343
Cash dividends, $0.93 per share		-	-	(58,380)	-	-	-	-	-	(58,380)	-	-	(58,380)
Purchase of treasury stock		-	-	-	(91,504)	-	-	-	-	(91,504)	-	-	(91,504)
Net change in the year		-	-	(3,617)	-	5,792	(268)	6,372	(45,315)	(37,036)	3,479	(73,685)	(107,242)
Balance, March 31, 2011		$192,683	$226,534	$2,615,801	$(529,214)	$39,478	$(161)	$(1,079)	$(111,095)	$2,432,947	$3,479	$209,746	$2,646,172

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

Consolidated Statements of Cash Flows

Unicharm Corporation and Subsidiaries Years Ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Operating Activities:			
Income before income taxes and minority interests	¥ 43,296	¥ 43,948	$ 521,636
Adjustments for:			
Income taxes—paid	(79,288)	(10,694)	(955,280)
Income taxes—refunded	4,064	3,845	48,969
Depreciation	14,620	15,668	176,147
Amortization of goodwill	2,760	725	33,257
Net periodic retirement benefit costs	368	(3,853)	4,432
Net loss on sales and revaluation of investment securities	669	2	8,055
Net (gain) loss on disposals and sales of propery, plant and equipment	(217)	649	(2,618)
Gain on sales of investments in affiliates	(1,214)	-	(14,630)
(Increase) decrease in trade receivables	(5,630)	574	(67,829)
(Increase) decrease in inventories	(2,875)	3,045	(34,633)
Increase (decrease) in trade payables	4,650	(2,583)	56,019
Increase in other current liabilities	762	4,400	9,181
Other—net	795	(694)	9,588
Total adjustments	(60,536)	11,084	(729,342)
Net cash (used in) provided by operating activities	(17,240)	55,032	(207,706)
Investing Activities:			
Proceeds from sales and redemption of marketable securities	8,398	46,057	101,184
Proceeds from sale of property, plant and equipment	1,702	247	20,500
Payment for purchase of marketable securities	(7,600)	(42,325)	(91,566)
Payment for acquisition of a property, plant and equipment	(27,439)	(24,168)	(330,593)
Purchase of time deposits	(6,901)	(18,297)	(83,143)
Repayment of time deposits	16,842	17,022	202,912
Payment for purchase of investment securities	(77)	(2,839)	(932)
Payment for purchase of investments in affiliates	(63,692)	-	(767,368)
Proceeds from sales of invetsments in affiliates	4,947	-	59,607
Proceeds from sales and redemption of investment securities	4,784	2,452	57,641
Decrease in other assets	(491)	(388)	(5,919)
Net cash used in investing activities	(69,527)	(22,239)	(837,677)
Financing Activities:			
Increase (decrease) in short-term bank loans	1,489	1,532	17,940
Proceeds from long-term debt	70,000	183	843,373
Repayments of long-term debt	(21,749)	(344)	(262,039)
Proceeds from issuance of convertible bonds	80,673	-	971,958
Cash dividends paid	(4,845)	(3,941)	(58,370)
Repurchase of the Company's stock	(7,595)	(6,500)	(91,504)
Cash dividends paid to minority shareholders	(1,182)	(1,036)	(14,239)
Paid-in capital from minority shareholders	263	744	3,164
Others	(82)	(93)	(981)
Net cash provided by (used in) financing activities	116,972	(9,455)	1,409,302
Foreign Currency Translation Adjustments on Cash and Cash Equivalents	(1,467)	511	(17,682)
Net Increase (Decrease) in Cash and Cash Equivalents	28,738	23,849	346,237
Cash and Cash Equivalents, Beginning of Year	84,270	60,421	1,015,304
Cash and Cash Equivalents, End of Year	¥ 113,008	¥ 84,270	$ 1,361,541

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

Notes to Consolidated Financial Statements

Unicharm Corporation and Subsidiaries Years Ended March 31, 2011 and 2010

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 2010 consolidated financial statements to conform to the classifications used in 2011.

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 ¥83 to $1, the approximate rate of exchange at March 31, 2011. 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 31 (29 in 2010) 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, 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.

During the fiscal year ended March 31, 2011, Unicharm PetCare Corporation, a consolidated subsidiary, has merged into the Company (the surviving entity) and dissolved on September 1, 2010.

Ac-eight Corporation was included in consolidation through stock acquisition by Unicharm Kokko Nonwoven Co., Ltd. , a consolidated subsidiary, on October, 2011.

Unicharm Middle East & North Africa Hyginic Industries Company S.A.E., a consolidated subsidiary, was founded on October, 2011. Unicharm Consumer Products (China) Co., Ltd., a consolidated subsidiary, was founded on January, 2011.

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, fourteen 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.

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 additionally estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate.

d. Allowance for Doubtful Accounts

The allowance for doubtful accounts is determined based on the historical experiences of the Company and its subsidiaries as

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

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.

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 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 188,421,882 shares for 2011, and 63,429,560 shares for 2010.

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

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

q. Provision for bonuses

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

r. Provision for loss on disaster

The provision for loss on disaster is stated at the amount considered to be appropriate based on estimation of expenses or losses for the restoration of plants and equipment damaged by the Great East Japan Earthquake and other losses.

s. Asset Retirement Obligations

Effective from the current fiscal year, the Company applied "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No. 18, March 31, 2008) and "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No. 21, March 31, 2008).

The adoption of the new standard did not have any material impact on operating income and income before incomes taxes and minority interests.

t. Business Combinations

Effective from the current fiscal year, the Company applied "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, December 26, 2008), "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, December 26, 2008), and "Revised guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, December 26, 2008).

u. Comprehensive income

Effective from the current fiscal year, the Company applied "Accounting Standard for Disclosure of Comprehensive Income" (ASBJ Statement No. 25, June 30, 2010); however, "Accumulated other comprehensive income" and "Total accumulated other comprehensive income" for the fiscal year ended March 31, 2010 are equivalent to "Valuation, Translation adjustments and others" and "Total valuation, translation adjustments and others." In addition, the Company has prepared the consolidated statements of comprehensive income for the fiscal year ended March 31, 2010 as well as that for the fiscal year ended March 31, 2011.

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

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

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities at March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Current:			
Government and corporate bonds	¥702	¥1,499	$8,454
Non-current:			
Marketable equity securities	¥9,457	¥9,755	$113,935
Government and corporate bonds	2,203	2,203	26,542
Trust fund investments and other	1,228	5,970	14,801
Total	¥12,888	¥17,928	$155,278

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2011 and 2010 were as follows:

	Millions of yen			
March 31, 2011	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥4,752	¥5,144	¥440	¥9,456
Debt securities and other	1,000	-	13	987
Held-to-maturity	2,905	2	181	2,726
Total	¥8,657	¥5,146	¥634	¥13,169

	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

	Thousands of U.S. dollars			
March 31, 2011	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	$57,263	$61,976	$5,304	$113,935
Debt securities and other	12,043	-	153	11,890
Held-to-maturity	34,995	27	2,183	32,839
Total	$104,301	$62,003	$7,640	$158,664

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

Available-for-sale securities and held-to-maturity securities whose fair value are not readily determinable as of March 31, 2011 and 2010 were as follows:

	Carrying Amount		
	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Available-for-sale:			
Equity securities	¥ 366	¥ 364	$ 4,415
Debt securities and other	15	33	177
Held-to-maturity (Commercial paper)	400	500	4,819
Total	¥ 781	¥ 897	$9,411

Proceeds from sales of available-for-sale securities for the years ended March 31, 2011 and 2010 were ¥3,906 million ($47,056 thousand) and ¥7,067 million, respectively. Gross realized gains on and losses on these sales, as determined by the moving-average cost, were ¥213 million ($2,561 thousand) and ¥525 million ($6,330 thousand) respectively for the year ended March 31, 2011. Gross realized gains on and losses on these sales, as determined the moving average cost, were ¥72 million and ¥112 million, respectively, for the year ended March 31, 2010.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2011 and 2010, were as follows:

	Millions of yen		Thousands of U.S. dollars	
March 31, 2011	Available-for-Sale	Held-to Maturity	Available-for-Sale	Held-to Maturity
Due in one year or less	¥-	¥905	$-	$10,899
Due after one year through five years	-	-	-	-
Due after five years through ten years	-	1,000	-	12,048
Due after ten years	-	1,000	-	12,048
Total	¥-	¥2,905	$-	$34,995

	Millions of yen	
March 31, 2010	Available-for-Sale	Held-to Maturity
Due in one year or less	-	¥1,500
Due after one year through five years	-	203
Due after five years through ten years	¥1,845	-
Due after ten years	1,987	2,000
Total	¥3,832	¥3,703

4. INVENTORIES

Inventories at March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Merchandise and finished products	¥ 11,724	¥ 11,607	$141,260
Work in process	359	273	4,328
Raw materials	9,202	6,985	110,862
Supplies	1,108	1,221	13,351
Total	¥ 22,393	¥ 20,086	$269,801

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

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 of March 31, 2011, the carrying amount of the land, net of the above one-time revaluation exceeded the market value by ¥90 million ($1,079 thousand).

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

Short-term bank loans at March 31, 2011 and 2010 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 2016 with interest rates ranging 0.4% to 1.4% in 2011 and 2.6% to 2.8% at March 31, 2010, respectively.

Long-term debt at March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Loans from banks and municipal corporations, due serially to 2016 with interest rates ranging 0.4% to 1.4% in 2011 And from 2.6% to 2.8% in 2010	¥49,485	¥1,331	$596,207
Obligations under finance leases	167	186	2,008
Total	49,652	1,517	598,215
Less current portion	(2,221)	(459)	(26,754)
Long-term debt, less current portion	¥47,431	¥1,058	$571,461

Annual maturities of long-term debt, excluding finance leases (see Note 14), at March 31, 2011 were as follows:

Year Ending March 31	Millions of yen	Thousands of U.S. dollars
2012	¥2,131	$25,674
2013	2,169	26,129
2014	2,185	26,331
2015	2,000	24,097
2016 and thereafter	41,000	493,976
Total	¥49,485	$596,207

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

7. CONVERTIBLE BONDS

The Company has issued the bonds as follows:

	Issuance date	Interest rate	Security	Maturity date	Millions of yen 2011	Millions of yen 2010	Thousands of U.S. dollars 2011
Convertible bonds due in 2013	September 24, 2010	-	Unsecured	September 10, 2013	34,643	-	417,382
Convertible bonds due in 2015	September 24, 2010	-	Unsecured	September 10, 2015	46,000	-	554,217
Total		-	-	-	80,643	-	971,599

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

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

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

(Note 2)
Repayment schedule of convertible bond:

Millions of yen	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years
March 31, 2011	-	-	¥34,643	-	¥46,000

Thousands of U.S. dollars	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years
March 31, 2011	-	-	$417,382	-	$554,217

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

8. RETIREMENT AND PENSION PLANS

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

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

The provision for employees' retirement benefits at March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Projected benefit obligation	¥30,693	¥32,969	$369,799
Fair value of plan assets	(25,376)	(27,556)	(305,742)
Unrecognized actuarial loss	(8,177)	(8,475)	(98,521)
Unrecognized prior service cost	(174)	(147)	(2,098)
Prepaid pension cost	5,658	5,534	68,172
Provision for retirement benefits	¥2,624	¥2,325	$31,610

The components of net periodic benefit cost for the years ended March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Service cost	¥1,674	¥1,529	$20,168
Interest cost	538	453	6,487
Expected return on plan assets	(583)	(436)	(7,025)
Recognized actuarial loss	1,216	1,102	14,647
Amortization of prior service cost	17	62	210
Net periodic benefit cost	¥2,862	¥2,710	$34,487

Assumptions used for the years ended March 31, 2011 and 2010 were set forth as follows:

	2011	2010
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 accompanying notes are an integral part of these financial statements.

9. STOCK OPTIONS

For the year ended March 31, 2011, the Company recognized and allocated share-based compensation costs as follows:

	Millions of yen	Thousands of U.S. dollars
Cost of Sales	¥ 90	$ 1,086
Selling, General and Administrative Expenses	199	2,393
Total	¥ 289	$ 3,479

The stock options for the year ended March 31, 2011 were as follows:

Unicharm Corporation

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

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

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

The activities of the stock option were as follows:

	Unicharm Corporation 2010 Stock Option
	(Shares)
For the year ended March 31, 2011	
Non-vested	-
March 31, 2010—Outstanding	-
Granted	2,594,700
Forfeited	5,400
March 31, 2011—Outstanding	2,589,300
Vested	
March 31, 2010—Outstanding	-
Exercised	-
Forfeited	-
March 31, 2011—Outstanding	-
Exercise price	¥3,287 ($40)
Average stock price at exercise	-
Fair value price at grant date	¥51,300 ($618)

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

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
Average stock price at exercise	-
Fair value price at grant date	-

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

Fair value as of the grant date for stock options which were issued during the year ended March 31, 2011 was estimated using the Black-Scholes option pricing model with the following assumptions:

Expected volatility*	25.57%
Expected remaining period**	3.92 years
Expected dividend yield rate***	0.75%
Risk-free interest rate****	0.25%

* Expected volatility is estimated based on the weekly historical volatility of the Company's stock for the expected remaining period (3.92 years).
** Options may not be exercised for a period of 1.92 years after the grant date (the restriction period), and the expected remaining period is determined to be the period from the grant date to the midpoint of the exercisable period (4 years).
*** Expected dividend yield rate is estimated based on the price of the Company's stock (after split) as of the grant date and actual dividends paid for the year ended March 31, 2010.
**** Risk-free interest rate is calculated based on the interest rate of government-issued bonds with a remaining period corresponding to the expected remaining period of the stock options (3.92 years).

Since it is difficult to estimate the forfeited number of stock options for future periods, estimates of the vested number of stock options are based upon actual forfeiture rates for prior periods.

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

10. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Sales promotion	¥49,778	¥42,874	$599,740
Advertising	12,628	13,211	152,140
Shipping and storage expenses	19,711	18,305	237,476
Employees' salaries	12,129	11,826	146,130
Depreciation and amortization	1,373	1,890	16,546
Other	31,373	30,641	377,990
Total	¥126,992	¥118,747	$1,530,022

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

Gain on sale of property, plant and equipment for the years ended March 31, 2011 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
	2011	2011
Gain on sales of property, plant and equipment		
Buildings and structures	¥959	$11,553
Machinery and equipments	41	493
Others	12	145

	Millions of yen
	2010
Gain on sales of property, plant and equipment	
Machinery and equipments	¥67
Land	14
Others	—

Loss on disposal of property, plant and equipment for the years ended March 31, 2011 and 2010 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
	2011	2011
Loss on removal of property, plant and equipment		
Buildings and structures	¥19	$233
Machinery and equipments	722	8,697
Removal costs	16	193
Others	21	252
Loss on sales of property, plant and equipment		
Buildings and structures	2	31
Machinery and equipments	8	93
Others	6	74

	Millions of yen
	2010
Loss on removal of property, plant and equipment	
Buildings and structures	¥86
Machinery and equipments	439
Removal costs	57
Others	20
Loss on sales of property, plant and equipment	
Buildings and structures	11
Machinery and equipments	115
Removal costs	2

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

12. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes, which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.7% for the years ended March 31, 2011 and 2010. 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, 2011 and 2010, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Deferred tax assets:			
Accrued bonuses	¥1,329	¥1,315	$16,016
Valuation loss on inventory	207	435	2,500
Accrued sales promotion expense	2,024	2,272	24,382
Undeductible account payable	936	-	11,272
Devaluation of securities	440	-	5,299
Pension and severance costs	2,445	2,755	29,458
Tax-deductible goodwill	43,779	-	527,462
Tax loss carryforwards	32,858	709	395,878
Accrued enterprise tax	-	788	-
Unrealized gains	-	55	-
Investment securities	-	469	-
Allowance for doubtful accounts	-	402	-
Depreciation	-	105	-
Impairment loss	-	94	-
Other	1,467	1,394	17,665
Less valuation allowance	(16,384)	(859)	(197,395)
Total	69,101	9,934	832,537
Deferred tax liabilities:			
Net unrealized gain on available-for-sale securities	1,755	1,923	21,141
Undistributed earnings of subsidiaries	572	461	6,892
Prepaid pension cost	2,394	2,252	28,841
Other	507	87	6,118
Total	5,228	4,723	62,992
Net deferred tax assets—current	¥11,453	¥5,485	$137,988
Net deferred tax assets— non-current	¥53,108	¥1,104	$639,850
Net deferred liabilities—non-current	¥(688)	¥(1,378)	$(8,293)

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, 2011 and 2010 were as follows:

	2011	2010
Normal effective statutory tax rate	40.7%	40.7%
Amortization for goodwill	2.6	—
Expenses not deductible for income tax purposes	—	0.4
Lower income tax rates applicable to income in certain foreign countries	(9.9)	(8.5)
Dividends	0.5	—
Valuation allowance	38.2	—
Income tax – refunded	(2.7)	—
Effects of the merger	(57.0)	(—)
Effects on sale of investment affiliate	1.2	—
Other	0.8	(0.9)
Actual effective tax rate	14.4%	31.7%

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

13. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥4,954 million ($59,685 thousand) and ¥4,558 million for the years ended March 31, 2011 and 2010, respectively.

14. LEASES

Obligations under non-cancellable leases accounted for as operating leases subsequent to March 31, 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2011		2011	
	Finance leases	Operating leases	Finance leases	Operating leases
Due within one year	¥90	¥2	$1,079	$27
Due after one year	77	3	929	28
Total	¥167	¥5	$2,008	$55

15. 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. The Company determines which way to fund through reviewing financial conditions and market circumstances and, based on these, puts them into practice. Derivatives are used, not for speculative purposes, but to avoid the market risk of fluctuation in foreign exchange rates associated with 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.

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

Derivative contracts employed by the Company and certain consolidated subsidiaries are foreign exchange forward contracts for the purpose of hedging 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 16. "Derivatives and Hedging Activities".

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

(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 16 "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, 2011 and 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		
March 31, 2011	Carrying amount	Fair value	Difference
Cash and cash equivalents	¥118,570	¥118,570	–
Notes and accounts receivable	46,038		
Allowance for doubtful accounts (*1)	(34)		
	46,004	46,004	–
Marketable and investment securities	13,348	13,169	(179)
Total assets	¥177,922	¥177,743	(179)
Notes and accounts payable	¥37,991	¥37,991	–
Short-term bank loans	8,372	8,372	–
Other payables	28,423	28,423	–
Income taxes payable	1,953	1,953	–
Convertible bonds	80,643	84,470	3,827
Long-term debt	47,354	47,234	(120)
Total liabilities	¥204,736	¥208,443	3,707
Derivative transactions (*2)			
Hedge accounting is not applied	¥16	¥16	–
Hedge accounting is applied	(36)	(36)	–
Total derivative transactions	(¥20)	(¥20)	–

	Millions of yen		
March 31, 2010	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)			
Hedge accounting is not applied	¥(7)	¥(7)	–
Hedge accounting is applied	34	34	–
Total derivative transactions	¥27	¥27	–

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

	Thousands of U.S. dollars		
March 31, 2011	Carrying amount	Fair value	Difference
Cash and cash equivalents	$1,428,549	$1,428,549	—
Notes and accounts receivable	554,675		
Allowance for doubtful accounts (*1)	(405)		
	554,270	554,270	
Marketable and investment securities	160,820	158,664	(2,156)
Total assets	$2,143,639	$2,141,483	(2,156)
Notes and accounts payable	$457,729	$457,729	—
Short-term bank loans	100,867	100,867	—
Other payables	342,442	342,442	—
Income taxes payable	23,533	23,533	—
Convertible bonds	971,599	1,017,708	46,109
Long-term debt	570,533	569,085	(1,448)
Total liabilities	$2,466,703	$2,511,364	44,661
Derivative transactions (*2)			
Hedge accounting is not applied	$192	$192	—
Hedge accounting is applied	(438)	(438)	—
Total derivative transactions	($246)	($246)	—

(*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.

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

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

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

Derivative transactions:
Please see Note 16 "DERIVATIVES".

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

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Unlisted equity securities	366	¥364	$4,415
Investment in partnerships	15	33	177
Debt securities	—	838	—
Allowance for doubtful accounts (*1)	—	(838)	—
Total	381	¥397	$4,592

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, 2011	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	¥118,570	¥—	¥—	¥—
Notes and accounts receivable	46,038	—	—	—
Marketable and investment securities:				
Held-to-maturity debt securities:				
Commercial paper	400	—	—	—
Debt securities	505	—	1,000	1,000
Total	¥165,513	¥—	¥1,000	¥1,000

	Thousands of U.S. dollars			
March 31, 2011	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	$1,428,549	$—	$—	$—
Notes and accounts receivable	554,675	—	—	—
Marketable and investment securities:				
Held-to-maturity debt securities:				
Commercial paper	4,819	—	—	—
Debt securities	6,080	—	12,048	12,048
Total	$1,994,123	$—	$12,048	$12,048

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

16. DERIVATIVES

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

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

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

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

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

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

a. Derivatives to which hedge accounting is not applied:

	Millions of yen			Thousands of U.S. dollars		
	2011			2011		
	Contract amount	Fair value	Unrealized gain/loss	Contract amount	Fair value	Unrealized gain
Foreign exchange forward contracts—						
(Over the counter transactions) Buying USD	¥354	¥15	¥15	$4,265	$179	$179
(Over the counter transactions) Buying EURO	1,198	2	2	14,431	25	25
(Exchange-traded) Buying USD	71	0	0	854	5	5
(Exchange-traded) Selling USD	500	(1)	(1)	6,029	(18)	(18)
(Exchange-traded) Selling Yen	3	0	0	31	1	1
Total	¥2,126	¥16	¥16	$25,610	$192	$192

	Millions of yen		
	2010		
	Contract amount	Fair value	Unrealized gain/loss
Foreign exchange forward contracts—			
Buying USD	¥263	¥(8)	¥(8)

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

b. Derivatives to which hedge accounting is applied:

At March 31, 2011		Millions of yen			
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	¥168	¥ —	¥(13)
Normal method	Foreign exchange forward contracts: Buying Yen	Accounts payable	118	—	2
Normal method	Currency option contracts: Buying EURO	Accounts payable	365	—	(15)
Normal method	Currency option contracts: Buying USD	Accounts payable	325	—	(10)
Total			¥976	¥ —	¥(36)

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

At March 31, 2010		Millions of yen			
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

At March 31, 2011		Thousands of U.S. dollars			
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 forward contracts: Buying USD	Accounts payable	$2,028	$ —	$(163)
Normal method	Foreign exchange forward contracts: Buying Yen	Accounts payable	1,421	—	29
Normal method	Currency option contracts: Buying EURO	Accounts payable	4,403	—	(185)
Normal method	Currency option contracts: Buying USD	Accounts payable	3,912	—	(119)
Total			$11,764	$ —	$(438)

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

17. CONTINGENT LIABILITIES

At March 31, 2011, the Group had the following contingent liabilities:

	Millions of yen	Thousands of U.S. dollars
Guarantees and similar items of bank loans	¥9	$112

18. COMPREHENSIVE INCOME

For the year ended March 31, 2010

Total comprehensive income for the year ended March 31, 2010 was the following:

	Millions of yen
Total comprehensive income attributable to:	
Shareholders of the Company	¥26,843
Minority interests	5,930
Total comprehensive income	¥32,773

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

Other comprehensive income for the year ended March 31, 2010 consisted of the following:

	Millions of yen
Other comprehensive income:	
Net unrealized gains on available-for-sale securities, net of tax	¥1,115
Net losses on deferred hedges, net of tax	80
Foreign currency translation adjustments	1,541
Total other comprehensive income	¥2,736

19. PER SHARE INFORMATION

a. Basis for the computation of net asset per share at March 31, 2011 and 2010 was as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars
At March31, 2011	Net asset	Number of shares of common stock	Asset per share	
Net asset	¥219,633	206,945		
Stock acquisition rights	289	-		
Minority interests	17,409	-		
Number of treasury stock	-	20,522		
Net asset attributable to common stock	201,935	186,423	¥1,083	$13.05

	Millions of yen	Thousands of shares	Yen
At March31, 2010	Net asset	Number of shares of common stock	Asset per share
Net asset	¥207,413	68,982	
Minority interests	23,524	-	
Number of treasury stock	-	6,053	
Net asset attributable to common stock	183,889	62,929	¥2,922

b. A reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2011 and 2010 was as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars
Year Ended March 31, 2011	Net income	Weighted-average shares	EPS	
Basic EPS—Net income available to common shareholders	¥33,560	188,422	¥178.11	$2.15
Effect of dilutive securities—Adjustment of warrants of company	(17)	10,734		
Diluted EPS—Net income for computation	¥33,543	199,156	¥168.42	$2.03

	Millions of yen	Thousands of shares	Yen
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
Effect of dilutive securities—Adjustment of warrants of company	(0)	4	
Diluted EPS—Net income for computation	¥24,464	63,434	¥385.66

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

20. SUBSEQUENT EVENTS

a. Appropriations of Retained Earnings

The following appropriations of retained earnings at March 31, 2011 were approved at the Board of Directors of the Company meeting held on May 30, 2011:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥14 ($0.17) per share	¥2,610	$31,445

b. Agreement of share acquisition of The Hartz Mountain Corporation
The Company entered into the agreement with Sumitomo Corporation and Sumitomo Corporation of America (hereinafter collectively referred to as "Sumitomo Corporation") on August 12, 2011, that the Company would acquire 51% shares of The Hartz Mountain Corporation ("Hartz"), a wholly owned subsidiary of Sumitomo Corporation, for the purpose of strategic tie-up for the joint pet-care business in the U.S. whose concept has already agreed upon by a Letter of Intent signed by the Company and Sumitomo Corporation on May 17, 2011.

1. Purpose of share acquisition
Unicharm and Sumitomo Corporation reached a strategic agreement on the launch of a joint pet-care business in the U.S., by integrating the advantages of Unicharm such as pet-care related technical capabilities, product development and manufacturing capabilities, etc. and the operating base of Hartz such as marketing knowhow and marketing capabilities in the U.S., etc.

2. Seller: Sumitomo Corporation

3. Details of Hartz(as of March 2011)

(1) Company name:	The Hartz Mountain Corporation
(2) Address:	400 Plaza Drive, Secaucus, New Jersey, U.S.A.
(3) Name of the representative:	Robert Shipley (CEO and President)
(4) Business description:	Manufacturing and Distribution of Pet Care Products
(5) Common stock:	US$270,000,000 (as of the end of March 2011)
(6) Net asset:	US$206,040,000 (as of the end of March 2011)
(7) Gross asset:	US$355,050,000 (as of the end of March 2011)
(8) Investment shares:	Sumitomo Corporation of America:59.4% Sumitomo Corporation:40.6%

4. Overview of share acquisition
(1) Number of shares the Company has before acquisition:
0 shares (holding ratio: 0.0%)
(2) Number of shares the Company would acquire:
9,693,400 shares (51% of the total common stock)
(3) Price of share:
Not yet fixed.
(4) Number of shares the Company has after acquisition:
9,693,400 shares
(5) Treasury resources:
Not yet determined.

5. Schedule

(1) Agreement date of Letter of Intent:	May 17, 2011
(2) Agreement date of share acquisition:	August 12, 2011
(3) Closing date of the transaction (plan):	October 3, 2011

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

c. Agreement of share acquisition of Diana Joint Stock Company
The Company entered into the agreement on August 25, 2011, that Uni-Charm Thailand Co,. Ltd., subsidiary of the Company, would acquire 95% shares of common stock of Diana Joint Stock Company (hereinafter referred as "Diana") which is one of the leaders in hygiene product manufacturing and distribution in Vietnam.

1. Purpose of share acquisition
Diana is one of the leaders in hygiene product manufacturing and distribution in Vietnam, with a strong portfolio of brands as well as a solid distribution network across the country, including distribution to traditional general trades. Its core brands – "Diana" of feminine care products and "Bobby" of baby diapers – both hold the 2nd largest market share in Vietnam and are highly recognized. Unicharm decided to acquire Diana with the aim of realizing synergies through product enhancement, product line-up reinforcement and implementation of a lean production system.
Through the combination of Diana's expertise in marketing and distribution and Unicharm's capabilities in product development and manufacturing, Unicharm aims to accelerate its business in Vietnam, where the hygiene product markets will grow rapidly in parallel with economic and population growth.

2. Overview of stock purchase agreement
Uni-Charm (Thailand) Co., Ltd.,subsidiary of the Company to acquire 34,200,000 common shares (95% shares of common stock) of Diana.

3. Details of Diana(as of December 2010)

(1) Company name:	Diana Joint Stock Company
(2) Address:	Vinh Tuy Industrial Zone, Linh Nam Street, Hanoi, Vietnam
(3) Name of the representative:	Do Minh Phu (Chairman), Do Anh Tu (CEO)
(4) Business description:	Manufacturing and Distribution of feminine hygiene products, baby diapers, adult diapers, tissue, etc.
(5) Common stock:	VND 360 Bn (as of the end of December 2010)
(6) Net asset:	VND 380 Bn (as of the end of December 2010)
(7) Gross asset:	VND 1,425 Bn (as of the end of December 2010)
(8) Investment shares:	Do Family:82.0% Goldman Sachs:12.6% Thien Viet Securities JSC:5.4%

4. Overview of share acquisition
(1)Number of shares the Company has before acquisition:
0 shares (holding ratio: 0.0%)
(2) Number of shares the Company would acquire:
34,200,000 shares (95.0% of the total common stock)
(3) Price of share:
Not yet fixed.
(4) Number of shares the Company has after acquisition:
34,200,000 shares
(5) Finance source:
Not yet determined.

5. Schedule

(1) Agreement date of share acquisition:	August 25, 2011
(2) Closing date of the transaction (plan):	November 2011 (plan)

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

21. RELATED PARTY TRANSACTIONS

(1) Transactions of the Company with related parties for the years ended March 31, 2011 and 2010 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
	2011	2010	2011
Insurance premium	¥40	¥25	$481

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
	2011	2010	2011
Rental expenses	¥11	¥13	$135

(2) Transactions of the consolidated subsidiaries of the Company with related parties for the year ended March 31, 2011 and 2010 were as follows:

a. Takahara Kosan K.K.

	Millions of yen	Thousands of U.S. dollars
	2011	2011
Insurance premium	¥69	$836

b. Unitec Corporation

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Rental expenses	¥50	¥119	$597

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

22. BUSINESS COMBINATION

For the year ended March 31, 2011

Merger of Unicharm PetCare Corporation
(1) Overview of business combination
The Company resolved at the meeting of its Board of Directors held on April 30, 2010, to merge Unicharm PetCare Corporation ("Unicharm PetCare") through tender offer ("The Tender Offer") into the Company. In addition, the merger was approved at the 50th Annual Shareholders' Meeting Unicharm held on June 24, 2010. Based on the resolution, the Company successfully completed The Tender Offer in compliance with the Financial Instruments and Exchange Law for the period from May 6, 2010 to June 16, 2010. The Company, as the merging company, executed the merger of had been executed the merger agreement at a meeting of its Board of Directors held on April 30, 2010.
The Company, as the surviving company, completed the merger of Unicharm PetCare, as the merged company, effective September 1, 2010.

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

II. Summary information of the merger
1) Schedule
Effective date of the merger: September 1, 2010
Payment date of the consideration for the merger: October 29, 2010
2) Scheme
The merger was executed by absorption method. Unicharm PetCare was dissolved effective September 1, 2010.
3) Consideration
The Company paid in cash ¥3,825 ($46) per share (a total of ¥2,848 million for 744,651 shares) to the shareholders of Unicharm PetCare registered or recorded in the final list of shareholders (excluding both companies) just before the merger was effective. Since the merger consideration consists of cash, the Company neither issued new shares nor allocated treasury stock.
4) Description of the merged company (as of March 31, 2010)

Name:	Unicharm PetCare Corporation
Location:	3-5-27, Mita, Minato-ku, Tokyo
Representative:	President & CEO Gumpei Futagami
Business:	Production and sales of pet food and pet toiletry products
Common stock:	¥2,371 million ($28,572 thousand)
Founded:	October 6, 1979
Number of the shares issued:	29,360,000
Fiscal year end date:	March 31

(2) Accounting treatment
The merger was accounted for transaction under common control in accordance with ASBJ Statement No.21 "Accounting Standard for Business Combinations" issued on December 26, 2008 and ASBJ Guidance No.10 "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" issued on December 26, 2008.
The goodwill derived from The Tender Offer is ¥51,675 million ($622,588 thousand).
The goodwill derived from the merger is ¥3,841 million ($46,280 thousand).

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

23. SEGMENT INFORMATION

For the year ended March 31, 2011 and 2010

1. Overview of reportable segments

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

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

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

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

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

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

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

	Millions of yen					
	2011					
	Reportable segment					
	Personal care	Pet care	Others	Total	Eliminations or Corporate	Consolidated
Sales to customers	¥321,814	¥47,767	¥7,367	¥376,948	¥-	¥376,948
Intersegment sales	-	-	22	22	(22)	-
Total sales	321,814	47,767	7,389	376,970	(22)	376,948
Segment profit (Operating profit)	40,124	6,139	275	46,538	23	46,561
Segment assets	275,169	66,837	23,967	365,973	78,043	444,016
Other:						
Depreciation	13,742	656	222	14,620	-	14,620
Amortization of goodwill	700	2,050	10	2,760	-	2,760
Increase in tangible fixed assets and intangible fixed assets	¥26,487	¥56,084	¥85	¥82,656	¥-	¥82,656

	Millions of yen					
	2010					
	Reportable segment					
	Personal care	Pet care	Others	Total	Eliminations or Corporate	Consolidated
Sales to customers	¥303,351	¥46,781	¥6,693	¥356,825	¥-	¥356,825
Intersegment sales	-	-	23	23	(23)	-
Total sales	303,351	46,781	6,716	356,848	(23)	356,825
Segment profit (Operating profit)	36,180	8,477	365	45,022	44	45,066
Segment assets	207,747	31,841	23,429	263,017	44,756	307,773
Other:						
Depreciation	14,988	499	181	15,668	-	15,668
Amortization of goodwill	725	-	-	725	-	725
Increase in tangible fixed assets and intangible fixed assets	¥23,155	¥1,266	¥329	¥24,750	¥-	¥24,750

	Thousands of U.S. Dollars					
	2011					
	Reportable segment					
	Personal care	Pet care	Others	Total	Eliminations or Corporate	Consolidated
Sales to customers	$3,877,278	$575,508	$88,754	$4,541,540	$-	$4,541,540
Intersegment sales	-	-	267	267	(267)	-
Total sales	3,877,278	575,508	89,021	4,541,807	(267)	4,541,540
Segment profit (Operating profit)	483,418	73,964	3,317	560,699	282	560,981
Segment assets	3,315,290	805,269	288,756	4,409,315	940,270	5,349,585
Other:						
Depreciation	165,560	7,907	2,680	176,147	-	176,147
Amortization of goodwill	8,437	24,697	123	33,257	-	33,257
Increase in tangible fixed assets and intangible fixed assets	$319,126	$675,706	$1,019	$995,851	$-	$995,851

(Additional information)

Effective for the year ended March 31, 2011, the Company has applied the "Accounting Standard for Disclosures about Segments of an Enterprise and Related information" (ASBJ Statement No. 17, March 27, 2009) and "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related information" (ASBJ Guidance No. 20, March 21, 2008).

(Related Information)

1. Information on products and services

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

2. Geographical Information

(1) Sales

Millions of yen			
2011			
Japan	China	Others	Total
¥217,299	¥44,741	¥114,908	¥376,948

Thousands of U.S. dollars			
2011			
Japan	China	Others	Total
$2,618,063	$539,048	$1,384,429	$4,541,540

(Note) Sales represents sales to external customers.

(2) Tangible fixed assets

Millions of yen			
2011			
Japan	China	Others	Total
¥40,008	¥18,764	¥39,618	¥98,390

Thousands of U.S. dollars			
2011			
Japan	China	Others	Total
$482,021	$226,070	$477,330	$1,185,421

3. Information about major customers

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

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

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

For the year ended March 31, 2010

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

(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

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

(3) Sales to foreign customers

Sales to foreign customers for the year ended March 31, 2010 amounted to ¥137,506 million.

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

pwc

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 2011, and the related consolidated statements of income, comprehensive 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 2011, 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 20 to the consolidated financial statements, the Company entered into the agreement with Sumitomo Corporation and Sumitomo Corporation of America (hereinafter collectively referred to as "Sumitomo Corporation") on August 12, 2011, that the Company will acquire shares of The Hartz Mountain Corporation, a wholly owned subsidiary of Sumitomo Corporation.

(2) As discussed in Note 20 to the consolidated financial statements, the Company entered into the agreement on August 25, 2011 that Uni-Charm Thailand Co,. Ltd., subsidiary of the Company, will acquire shares of Diana Joint Stock Company.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31 2011 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 16, 2011

Subsidiaries and Affiliated Companies

As of March 31, 2011

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 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	80.0
LG Unicharm Co., Ltd.	South 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.	The 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	Production and 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 18 companies)

Affiliated Companies

Company	Location	Major Operations	Percentage of Equity (%)
The Fun Co., Ltd.	Japan	Contracted development of IT systems	25.0

(One other company)

Investor Information/Corporate Data

As of March 31, 2011

Investor Information

Fiscal Year-end March 31, 2011
Annual Shareholders' Meeting June 24, 2011
Common Stock Authorized: 827,779,092
Issued: 206,944,773
Number of Shareholders 20,027
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 Arata
Principal Shareholders

Shareholder	Number of Shares (Thousands)	Ratio of Number of Shares Held to Number of Shares Issued and Outstanding (%)
Unitec Corporation	37,105	19.90
Takahara Kosan K.K.	10,256	5.50
Takahara Kikin	9,360	5.02
Nippon Life Insurance Company	5,804	3.11
The Master Trust Bank of Japan, Ltd. (Trust Account of Retirement Benefit Trust Account/ Hiroshima Bank Account)	5,762	3.09
The Master Trust Bank of Japan, Ltd. (Trust Account)	5,499	2.95
The Iyo Bank, Ltd.	5,099	2.74
Japan Trustee Services Bank, Ltd. (Trust Account)	5,082	2.73
Goldman Sacks and Company Regular Account	4,441	2.38
Takahara Sangyou K.K.	3,690	1.98

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 (20,521,968 shares).

For more details about 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 1,221 (7,317 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
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For more details about company profile, please click here. Click