Unicharm Corporation Annual Report 2003

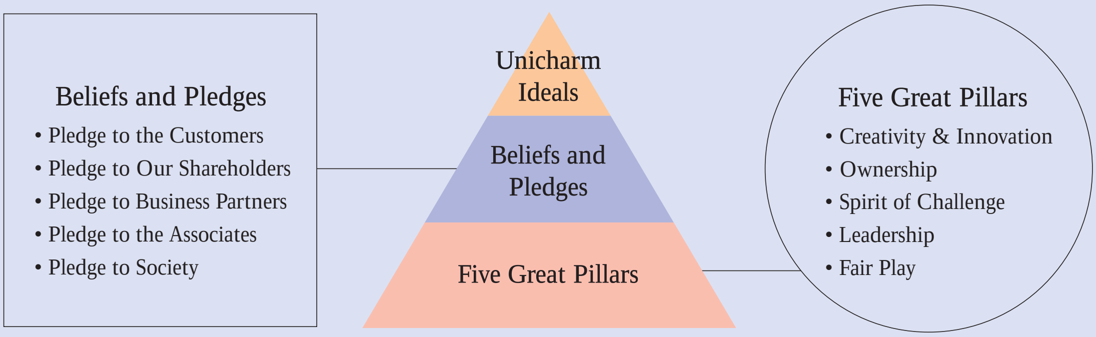
Getting Back on the Path to Productivity and Growth

For over 40 years, since its founding in 1961, Unicharm Corporation has carefully nurtured a corporate culture based on the management philosophy of becoming “Number One” by continually doing its best. To this end, we have consistently delivered customer-oriented materials and products and worked to enhance product application supporting people’s lives everywhere.

Our mission is to provide the best products and services to people of all ages, from infants to the elderly. We are striving to position ourselves as a category leader in high-growth markets by actively expanding into new areas, particularly in Asia, and delivering a product lineup in tune with customer needs and the regions in which we operate. In this manner, we aim to establish a firm platform for the next stage of growth.

Unicharm Ideals

- WE contribute to creating a better life for humankind by offering only the finest products and services to the customer, both at home and abroad.
- WE strive to pursue correct corporate management principles which bring together corporate growth, well-being among associates and fulfill our social responsibilities.
- 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.



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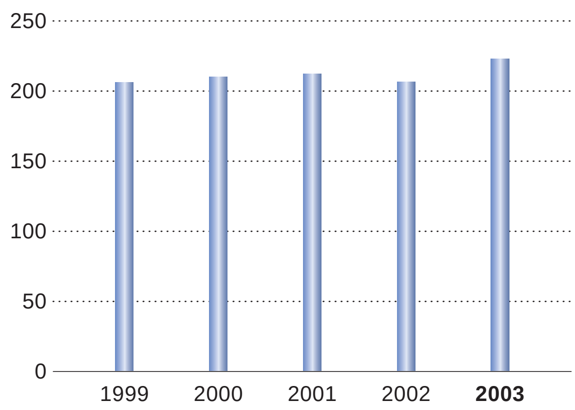
CONSOLIDATED	Millions of yen 2003	2002	2001	Thousands of U.S. dollars (Note 1) 2003
FOR THE YEAR:				
Net sales	**¥223,169**	¥206,707	¥212,199	**$1,859,741**
Operating income	**25,793**	18,974	20,832	**214,941**
Net income	**12,879**	8,852	9,904	**107,325**
Capital expenditures	**14,811**	12,916	8,467	**123,425**
Depreciation	**11,023**	10,500	10,635	**91,858**
R&D expenses	**4,529**	4,749	3,957	**37,742**
AT YEAR-END:				
Shareholders' equity	**¥113,137**	¥109,308	¥104,156	**$ 942,808**
Total assets	**187,988**	187,060	177,396	**1,566,567**
PER SHARE DATA:	Yen			U.S. dollars
Net income	**¥185.29**	¥125.20	¥137.75	**$1.54**
Cash dividends applicable to the year	**24.00**	20.00	24.00	**0.20**

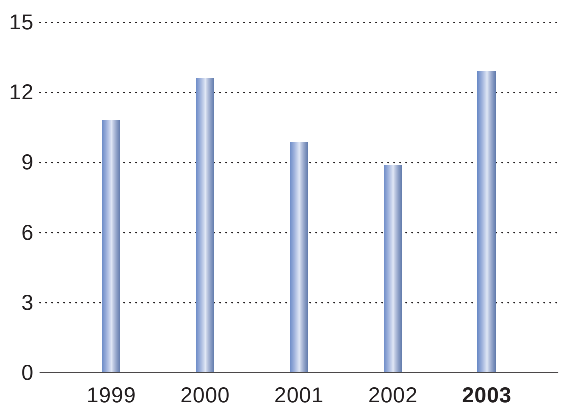
Note1. The U.S. dollar amounts in this report are given for convenience only and represent translation of Japanese yen at the rate on March 31, 2003 of ¥120=U.S.$1. See Note 1 of Notes to Consolidated Financial Statements.

2. Fiscal 2001 cash dividends per share of ¥24 include a commemorative dividend of ¥4.

Net Sales (Billions of yen)



Net Income (Billions of yen)



Takahisa Takahara President and COO

Achieving Record Sales and Earnings Amid a Harsh Economic Environment

In fiscal 2003, ended March 31, 2003, Japan's economy showed some signs of an export-led recovery. The overall operating climate remained stagnant, however, characterized by a slump in capital investment, a weak stock market and a continued lull in consumer spending. This persistent economic downturn was exacerbated by the slowdown in the U.S. economy. While conditions weakened in some countries in Asia—the Company's mainstay market—the region in general provided considerable respite, underpinned by a stable growth platform.

Against this backdrop, Unicharm reported increased sales in its mainstay domestic baby and child care business, the growth-oriented health care business, the clean & fresh business and the pet care business. In particular, renewed growth in Japan in the baby and child care business and a significant increase in adult fitted briefs sales contributed to improved earnings.

Operating Income Surged 35.9% to ¥25.8 billion

While weakness continued in Japan's consumer goods market, the share of value-added brief-type diapers grew in the year under review due to aggressive promotion in the baby and child care segment. As a new addition to the Unicharm product lineup, we created a new category in the diaper market with the release of disposable diaper pants for babies who are in the crawling stage. This initiative has accelerated the use of brief-type diapers, increased sales of medium-size diapers and significantly expanded the baby care diaper market. At the same time, the results of the health care business in Japan, primarily for adult fitted briefs, have continued to improve. Moreover, the Company recorded steady growth in overseas markets, mainly in Asia, by expanding its share of existing markets for feminine care and baby care products. Unicharm achieved close to a 30% increase in overseas sales compared with the previous fiscal year.

As a result of all these factors, consolidated net sales in fiscal 2003 increased 8.0% year on year to ¥223.2 billion. Operating income surged 35.9% to ¥25.8 billion and net income jumped 45.5% to ¥12.9 billion. Overseas sales increased ¥10.9 billion to ¥47.9 billion, representing 21.5% of total sales. This was the first time that the share of overseas sales exceeded 20%, and it indicates a platform for future growth.

Realizing High Profitability Based on a Strategy of Selection and Concentration

Unicharm has positioned improved earnings power in Japan and increased overseas business, particularly in Asia, as key priorities in its effort to advance corporate reform. Specifically, the Company is progressively adopting a policy of selection and concentration with the aim of fortifying earnings power and realizing high profitability and sustainable growth. As a part of this policy, Unicharm withdrew from the building materials business, which had been managed through consolidated subsidiary Uniheartous Corporation. Renamed Unicharm PetCare Corporation, this company is now able to focus on the pet care business with the aim of enhancing profitability and management efficiency. As part of its efforts to expand its child education business, in July 2003 Unicharm established a 50:50 joint venture, Unicharm Eduo Corporation, with Gakuikusha Corporation. Unicharm is striving to generate greater market acceptance for this business by promoting efficient business activities.

Driven by a fundamental policy of sustained innovation and its core expertise in nonwoven and absorbent materials, Unicharm is working to deliver high-value-added products that accurately address the needs of customers and consistently nurture new markets. The Company is implementing portfolio management based on this fundamental policy and at the same time looking to optimize corporate value and expand total industry scale.

Establishing a Corporate Social Responsibility Department

Unicharm adheres to a strict corporate code underpinned by the core principles of business growth, employee welfare, social responsibility and ethical management. Conscious of its responsibilities as a corporate citizen, Unicharm established the Corporate Social Responsibility Department in April 2003, integrating the Environmental Protection Office, Quality Assurance Office, Pharmaceuticals Office and the Product Safety Assurance Office.

Unicharm continues to focus on maximizing customer satisfaction and enhancing its competitive advantage in line with the parallel themes of quality and ecology. We are committed to developing highly functional, high quality products and to securing a position as a category leader in our efforts to support a healthy and comfortable lifestyle for all people.

Enhancing Corporate Governance

Unicharm has advanced management reform in an effort to enhance the efficacy of its management strategies and as part of its corporate governance activities. These reforms include:

- *Reducing the number of directors to promote more vigorous discussion and accelerate the decision-making process.*
- *Enhancing the executive officer system while at the same time delegating significant authority to executive officers within each operating department.*

Distribution of Profits to Shareholders

Unicharm positions the return of earnings to shareholders as a top priority. To this end, we work to enhance corporate value by generating strong cash flows and maximizing the Company's market capitalization. Unicharm also maintains a policy of steadily increasing dividends while at the same time using retained earnings to strengthen the Company's operating base and supporting the future development of businesses. For the fiscal year under review, Unicharm has declared dividend of ¥24 per share, an increase of ¥4 over the previous year, reflecting the record sales and earnings and the fruits of management reforms implemented over the past few years. In an effort to further improve long-term shareholder value, the Company has progressively acquired an aggregate total of 5,109,589 shares of treasury stock in August 1998, March 2001, February 2002 and January 2003.

Toward Future Growth

We anticipate the Company's future operating environment will be characterized by a prolonged slump in domestic consumption, accelerated expansion in Asian markets and intense global competition. Amid this environment, based on its Medium-Term Management Plan, Unicharm will continue to accurately ascertain customer needs and will aggressively expand its business in growth markets by creating high-value brands and new markets, developing products and strengthening technological capabilities. The Company will extensively reform its profit structure by reducing the total costs of its supply chain and enhancing cost efficiency, focusing efforts on sales costs.

With the measures we have put in place, we are confident the Company is well placed to embark on the next stage of growth. We thank our shareholders and investors and ask for their continued understanding and support.

September 2003
Takahisa Takahara
President and COO

1 Achieving High Growth through Quality Product Development

2 Promoting Overseas Business as a Core Growth Strategy

In fiscal 2003, Unicharm achieved record net sales, operating income and net income on the back of aggressive efforts to develop new products. High growth rates in particular were driven by the development of high-value-added products and overseas business expansion, particularly in Asia. The special feature that follows outlines some of our recent achievements in the area of product development and highlights of our overseas business activities, the key to future growth.

1 Achieving High Growth through Quality Product Development

In fiscal 2003, Unicharm achieved record net sales, operating income and net income on the back of aggressive efforts to develop new products. High growth rates in particular were driven by the development of high-value-added products. The release of new disposable diaper pants, for example, generated close to 5% growth in the baby and child care market. In the adult care market, characterized by its high latent demand, we launched light-incontinence liners in an effort to further energize business activity. Unicharm is a category leader in a number of fields underpinned by its product development capabilities. We are the only comprehensive manufacturer of feminine care products, and we have established a track record in the clean & fresh business and in pet care through the activities of consolidated subsidiaries unrivalled in each category.

Revitalizing the Baby Care Market through the Launch of the New *Moony Man* Line of Disposable Baby Diapers

The underlying goal of Unicharm's business activity is to contribute to creating a better society for humankind by offering only the finest products and services to customers both at home and abroad.

We have diligently followed this principle in each of our business categories, but have experienced particular success since fiscal 2002 in our disposable baby diaper business. In 2001, we released *Moony Man for Hai Hai*, the world's first diaper pants for babies who are in the crawling stage. More recently, in October 2002, the Company undertook a substantial renewal of the *Moony Man* range, introducing a new brief-type disposable diaper sold domestically in the Chugoku, Shikoku, Kyushu and Okinawa regions.

Moony Man for Hai Hai

The current *Moony Man* series has undergone significant renewal and is essentially a new product offering innovative features and applications. We have reduced the width of the section between the baby's legs promoting greater freedom of movement, while retaining the same level of absorbency through the application of a horizontal absorbent pocket. Moreover, we have applied a pleat-style bonding method for each seam, utilizing a natural cotton interwoven mesh liner to provide a softer feel, and introduced a straight-leg

Old *Moony Man*

New and Improved *Moony Man*

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version for ease of use. In advancing new ideas and promoting disposable diaper pants, we aim to revitalize the market and enhance customer satisfaction.

New *Moony Man*
©DISNEY

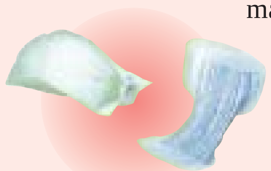
Providing Products and Services that Enhance the Quality of Life

Growth in the nursing care-related field has mirrored the onset of an aging society in Japan. Against this backdrop, Unicharm has successfully exceeded the pace of market growth in sales of adult fitted briefs. Since entering the business of discharge rehabilitation, guided by the concept of “pursue the joy of life,” we have worked vigorously to develop a wide range of products that address diverse nursing care needs and alleviate the burden both on those receiving and providing care.

A key feature in realizing a comfortable lifestyle is in delivering a range of products developed from the perspective of the user. As people age, they undergo metabolic and hormonal change, impacting on the secretion of body fluids, which leads to a variety of skin problems. Unicharm is actively working to develop skin care products and provide related information in an effort to eliminate these problems.

Long-Lasting *Lifree Ohada Sara-Sara Pad*

With a current utilization rate of 14%, we have earmarked the light-incontinence liner market as one of significant growth potential. We have worked diligently to develop and improve our *Lifree* brand of pants with urine-absorbent pads, with our *Lifree Ohada Sara-Sara Pad Night Guard* and Long-Lasting *Lifree Ohada Sara-Sara Pad* attracting wide acclaim. By significantly reducing the number of diaper changes, we have eased the physical and mental burden of both users and caregivers. Moreover, we have released the Urine guards for *Lifree Pants*, which users can put on by themselves, greatly enhancing autonomy and quality of life.



Lifree Sara-Sara Pads

Urine guards for *Lifree Pants*

Providing Pets with a Healthy Life in Harmonious Coexistence with Humankind

Unicharm is focusing on creating new value and markets in the pet care business. In cat food, we have launched *Neko Genki Kedama Care* in response to a dramatic increase in products for the treatment of hairballs. We have also expanded our lineup to include products for dogs and cats aged seven and older, as the problem of aging pets becomes increasingly prevalent. In an effort to address the complete health needs of dogs, we launched *Aiken Genki Ha no Kenko Biscuit*, *Aiken Genki Hone Kansetsu no Kenko Biscuit* and *Aiken Genki Onaka no Kenko Biscuit* for better teeth, bones and digestion. Based on the concept of providing a clean and comfortable life, Unicharm has also developed pet sheets and disposable diapers that utilize the Company’s nonwoven materials and absorbency technologies.

Pet sheets

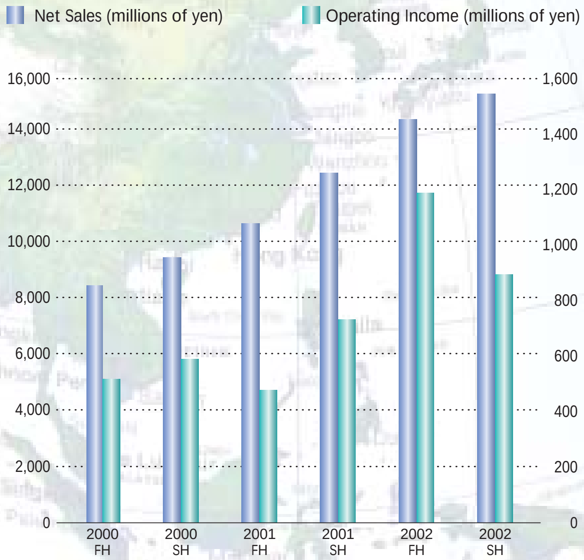
Neko Genki Kedama Care for cats aged seven and older

Aiken Genki Ha no Kenko Biscuit (left), *Aiken Genki Hone Kansetsu no Kenko Biscuit* and *Aiken Genki Onaka no Kenko Biscuit*

Disposable diapers for pets

2 Promoting Overseas Business as a Core Growth Strategy

Net Sales and Operating Income in Asia



Steady Growth in New Fields and Regions

Unicharm is vigorously carrying out its overseas business and has designated these operations as the most important part of its growth strategy. Since our entry into overseas markets with the establishment of a local company in Taiwan in 1984, we have stepped up activities to expand our overseas business, focusing mainly on East Asia. In addition to the Company's overseas network over 10 countries in Asia, we have added bases in Saudi Arabia and the Netherlands. We are accelerating efforts to fortify our operating platform particularly in Asia, with the aim of becoming the number one company through such products as *Sofy* in feminine care and *Mamy Poko* in the baby and child care category.

A Vast Market as the Basis for Overseas Business Growth

In 2002, Asia alone represented a market equivalent to that of Japan in disposable baby diapers. This market is expected to grow to become 10% larger than the market in Japan in 2005. In feminine napkins, the Asian market was 80% greater than the size of the Japanese market in 2002, and is expected to become 95% larger in 2005.

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Overall Sales in Asia Exceeded 20% of Total Sales in Fiscal 2003

For the fiscal year under review, sales in Asia increased 29.4% year on year to ¥29.4 billion, while operating income in the region surged 84.7% to ¥2.4 billion. The Chinese market in particular reported dramatic growth, while our important Thai market achieved record sales and earnings.

Business Overview in Principal Asian Markets

Taiwan

Despite a mature market, Unicharm reported strong sales growth and record earnings for the fiscal year under review. In the feminine care category, we reinforced our leading position and were the first company to enter the health care market. At the same time, we released *Wave*, a sheet cleaner for floors in the fresh & clean category. Including the baby care category, we successfully utilized proprietary nonwoven materials and absorbency technologies in this lucrative Asian market.

China

Overall sales in China increased 35% compared with the previous fiscal year. Unicharm successfully expanded its business, driven by dramatic growth in the *Sofy* brand of panty liners, and secured a top share in China. In the baby and child care business, we were the first company to launch disposable baby diapers for boys and girls and commenced sales across all of China from September 2002, greatly expanding sales.

Thailand

In the feminine care category, we hold the leading market share, at close to 40%. We were also the first manufacturer in Asia of disposable diaper pants, of which we commenced sales in October 2002. After two months, we secured a 10% share of the market and have reinforced our number one position in the baby and child care category with a market share exceeding 40%. Thailand also represents the hub of our manufacturing operations in the ASEAN region and contributed significantly to record sales and earnings through strong exports.

Indonesia

We continued to expand our market share in Indonesia in the feminine care category and achieved a leading position in major retail markets. At the same time we experienced a nearly fourfold increase in sales in the baby and child care category, as we continue to expand business steadily.

Malaysia

Unicharm continues to expand its business in Malaysia, and reported a significant increase in sales in the baby and child care category in fiscal 2003. For the fiscal year under review, we posted profits in all categories.

Singapore

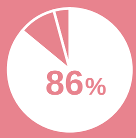
Sales and earnings increased significantly compared with the previous fiscal year, with a particularly strong performance in the baby and child care category led by steady sales of diaper pants for infants.

◆ Overseas Presence

Country or Region	Baby and Child Care	Feminine Care	Other	Production	Sales
China	●	●		●	●
Taiwan	●	●	●	●	●
Korea		●		●	●
Thailand	●	●		●	●
Indonesia	●	●		●	●
Malaysia	●	●			●
Singapore	●	●			●
Vietnam		●			●
Mongolia	●	●			●
Philippines	●				●
Saudi Arabia	●				
Netherlands	●		●	●	
North America			●		

The Company maintains technology tie-ups in the field of baby and child care products in Saudi Arabia. Manufacture of baby and adult disposable diapers based on technology tie-up in the Netherlands. The Company provides licensing for household cleaning products in North America.

Lifestyle Products



We are concentrating the allocation of management resources in the Lifestyle Products Division, which is our core business, to strengthen its competitiveness and spur growth. As a result, sales in the Lifestyle Products Division increased 8.7% to ¥191.9 billion in fiscal 2003, and operating income increased 23.3%, or ¥4.5 billion, to ¥23.6 billion.

Baby and Child Care

Business Overview

Unicharm entered the baby and child care market in 1981 with the release of *Moony* disposable diapers. The Company now commands the largest share of this market, approaching 50%. In 1992, Unicharm released the world's first brief-type diaper, *Moony Man*, creating new value and changing the structure of the market. Furthermore, the Company created new product categories with *Oyasumiman* sleeping underwear and *Trepanman* toilet training pants. To lighten the burden of caring for children, the Company brought out the *Moony Kids Hand and Mouth Wet Tissues*, a moist towelette for babies, which contain a blend of natural cotton for peace of mind when wiping baby's hands and mouth. These new products have expanded and invigorated the market for baby and child care products.

Reborn as an entirely new product, *Moony Man* brief-type diapers have been greatly improved to make them as close to underwear as possible. Through such improvements in quality, the Company is striving for new heights of customer satisfaction. (↗)

Feminine Care

Business Overview

Unicharm commenced the domestic production and sale of feminine napkins in 1963. Based on the principle of creating freedom and comfort for women through science, we offer a broad range of feminine products. Unicharm is the sole manufacturer of a complete lineup of feminine products, including feminine napkins, sanitary tampons and panty liners, and commands the top share of this market.

The Year in Review

The domestic market for feminine care products was weak, as a result of the decline in the target population. However, as the only comprehensive manufacturer of feminine products, and based on the principle of creating freedom and comfort for women through science, we sought to stimulate the market through the development and improvement of products that provide the reassurance and comfort associated with our *Sofy*

(↗)

The Year in Review

The contraction of domestic demand caused by Japan's declining birthrate and the persistent weakness of consumer spending have brought a steady intensification of competition. In the second half of fiscal 2002, there were signs of a halt in the downward course of prices. However, business conditions remain severe.

Facing these circumstances from its position as a leading company, Unicharm is working to reinvigorate this sluggish market, expand earnings and offer higher added value to consumers through a tireless reworking of products and a vigorous marketing program, centered on measures to increase penetration and promotion of the market for brief-type disposable diapers.

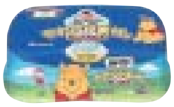
In October 2001, the Company revised its distribution transaction contract system and introduced an open price system. The effects of these reforms became apparent during fiscal 2003, strengthening competitiveness at the point of sale and ensuring the efficient application of the Company's marketing budget.

In the Company's overseas operations, Unicharm pursued energetic sales and marketing programs in Taiwan, China, Thailand, Malaysia, Singapore, Indonesia and other east Asian nations, steadily expanding the scope of its operations while seeking to develop markets and gain more market penetration for *Mamy Poko* tape-type disposable diapers.

Unicharm is building a business base for serious and sustained expansion in the Chinese market, which has the greatest potential of any in Asia. In April 2002, the Company commenced manufacturing operations in Shanghai. Then, in September 2002 the Company expanded disposable diaper sales to all regions of China.

In October 2002, we commenced sales of *Mamy Poko Pants* brief-type disposable diapers in Thailand, Malaysia and Singapore. Sales in those markets exceeded projections. Also in that month, we entered the Philippine market for the first time with the launch of *Mamy Poko* tape-type disposable diapers.

As a result, sales in the baby and child care business rose ¥6.2 billion to ¥92.5 billion, of which ¥73.4 billion was accounted for by domestic operations.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brand name. We improved our number one selling *Charm Soft Tampon*, which holds the largest share of its market, and further expanded our lineup with the April 2002 acquisition of the *Elldy* brand from Lion Corporation.

Together with these enhancements to the added value of our products, we emphasized the stimulation of demand and the strengthening of brand competitiveness through the "Introduce a Friend Campaign," the "Flower Print Plan" and the "Volume Growth Plan."

Overseas, Unicharm moved strongly to expand its sphere of operations in East Asia. In the most important region, China, sales of the *Sofy* line of products grew rapidly in the Shanghai, Beijing and Guangzhou regions. The scale of the Company's operations in that country expanded steadily as it advanced across China. Efforts to expand sales in Thailand, Indonesia, Malaysia, Taiwan and other countries where Unicharm has already established a presence resulted in a steady increase in the Company's market share.

Despite these efforts, sales in the feminine care business declined ¥1.9 billion to ¥56.8 billion, of which sales in Japan accounted for ¥38.7 billion.

Health Care

Business Overview

Since its entry into the field of discharge rehabilitation with *Lifree Rehabili-Pants* in 1995, Unicharm has provided high-value-added products that meet a diverse range of needs and contribute to lightening the physical, economic and psychological burden of both patients and caregivers. In addition, since 1997, we have offered the *Lifree Iki-iki Hotline* service, in which professional advisors address customers' concerns and questions about discharge care. We are able to create a strong relationship with customers by offering support services for caregivers, who often tend to keep worries to themselves. Through the continuation of these grassroots activities, we hope to contribute to society through the development and sale of better and better products, as well as to support the growth of the market.

Unicharm's nonwoven fabric and absorbency technologies are also used at hospitals and other medical institutions. In addition, we have initiated the marketing of the new *Unicharm Superdimensional Mask*, a surgical-type mask for those who suffer from severe *kafunsho* (a common allergy to the pollen of a type of Japanese cedar). This product, developed using Unicharm's accumulated technological expertise in nonwoven fabrics, offers a solution to a long-standing quality of life issue.

The Year in Review

Our domestic health care business, faced with intensifying competition in a growing market, succeeded in expanding its sales. The demographic shift to an older population is resulting in steady growth in the market, and we worked vigorously to develop and improve our *Lifree* brand, guided by the business philosophy, "Pursue the Joy of Life," and with our eye on the goal expressed in the concept of "Bed-Ridden neither in Mind nor Body."

Our new Urine guards for *Lifree Pants* absorbent partial pads for brief-type disposable adult diapers represent solutions to the problems of difficulty in replacement of pads, and of failure due to pad displacement. This improves quality of life both for caregivers and those cared for. Long-Lasting *Lifree Ohada Sara-Sara Pad* and *Lifree Ohada Sara-Sara Pad Night Guard* partial pads for tape-type disposable adult diapers offer products designed for the special characteristics of both the male and the female body, while skin problems are reduced by their skin-care and leak-prevention functions.

Unicharm offers a complete lineup of adult incontinence products, including the new *Lifree Oshiri Cleansing* series, which includes *Lifree Oshiri SubeSube Liquid Soap*, and *Lifree Ohada Shittori Care Sheets.* These products are demonstrated to improve and maintain skin condition.

There is a great deal of latent demand in the market for light-incontinence products, and Unicharm introduced several new

(↗)

Clean & Fresh

Business Overview

Since starting sales of cosmetic puffs in 1974, Unicharm has developed products for clean, sanitary and fresh environments based on its core technologies in absorbent materials and nonwoven fabric manufacturing and processing technologies. The Company provides new value in a variety of fields and through the development of products for household use. Our household-use products include cleaners, cosmetic puffs and general-purpose moist towelettes for cleaning kitchens and toilets and for skin care.

The Year in Review

In fiscal 2003, we strengthened our lineup of general-use moist towelettes with the addition of *Silcot Wet Safe Disinfectant Tissues* to our *Silcot Wet Tissues* line. We also launched an improved version of our top-selling *Silcot* cosmetic puffs. As an aid to a clean and fresh lifestyle, we introduced *Cookup Super Multitowel* paper towels, which offer a convenient alternative to wiping cloths. An innovative new addition to our *Wave* series, the *Wave Multiwiper*, was well received in the marketplace, and continues to enjoy steadily rising sales.

(↗)

products in this field. These included *Lifree Sawayaka Guard*, *Lifree Sawayaka Guard Sheets*, *Lifree Men's Guard* and *Lifree Men's Guard Trunks*.

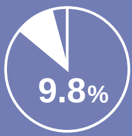
For those not living in care facilities who have severe incontinence, the Company offers new value with the revolutionary *Charmnap Sawayaka Liner* absorbent liners with extra absorbency.

In January 2003, Unicharm released the new *Unicharm Superdimensional Mask*, an ultra snug-fitting mask for sufferers of severe hay fever. Based on proprietary nonwoven fabric and absorbency technologies, this product addresses the needs of sufferers significantly enhancing quality of life.

Overseas, sales of *Lifree* brand products are expanding at an accelerating pace in Taiwan, and sales of brief-type adult diapers are growing steadily in Europe.

Wave Multiwipers allow easy, one-pass cleaning of difficult to reach areas.

Pet Care Products



Sales in the Pet Care Division rose 15.9% to ¥21.9 billion. Operating income increased ¥940 million to ¥1.2 billion.

Business Overview

Unicharm entered the pet care business in 1986. This business is now managed by consolidated subsidiary Unicharm PetCare Corporation (until October 1, 2002, Uniheartous Corporation). Operating from the business philosophy of providing pets with a healthy, clean and comfortable life, we offer dry, wet and soft pet foods through the *Genki* and *Gaines* brands. We market pet sheets that utilize our nonwoven materials and absorbency technologies, cat litter with deodorant and pet diapers that use technologies accumulated in the course of the development and production of our baby diaper products. Through these operations the Company offers products and services with new value in improving the “pets and people together” lifestyle.

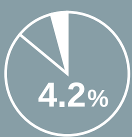
The Year in Review

Japan’s demographic shift towards an older population has swelled the ranks of the pet-keeping generation. Over the medium to long term, therefore, steady growth is expected in this promising market. Operating in this market environment, the Company aggressively marketed foods for those concerned with the health of their pets, including *Neko Genki Dry Kedama Care* cat food for treatment of hairballs, *Aiken Genki GOLD Dry* food for small dogs over seven years of age, and *Aiken Genki Ha no Kenko Biscuit* for healthy teeth. These new products created a high-value-added market segment, and allowed us to achieve growth in sales. *Deo-Sheet*, *Deo-Sand*, and other products using nonwoven fabric and absorbency technologies also posted healthy sales growth. We also offered new value to pet owners through the development of *Disposable Diapers for Pets*.






Other Businesses



Sales in other businesses declined 17.1% to ¥9.4 billion in fiscal 2003, while operating income recovered ¥1.4 billion to ¥1.0 billion.

Business Overview

In other businesses, we used our nonwoven fabric and absorbency technologies to market commercial food packaging materials to supermarkets and other commercial customers.

The Year in Review

In the field of food packaging materials for supermarkets and other commercial customers, our *Fresh Master* tray mats, developed using our nonwoven fabric and absorbency technologies, showed solid sales growth.

In the area of child education, we established a 50:50 joint venture with Gakuikusha Corporation in July 2003. Some operations have been transferred to the new company, Unicharm Eduo Corporation.

Consolidated subsidiary Unicharm PetCare Corporation has decided to concentrate resources in its core pet care business, which will strengthen earnings and increase efficiency. Accordingly, Unicharm PetCare terminated its sales of building materials in fiscal 2003.

Unicharm's business activities are founded on the heartfelt wish that the people of the world may enjoy good health in harmony with a sustainable global environment. As a company that engages in the manufacture and sale of disposable products, our mission is to deliver comfort and well-being while at the same time promoting preservation of the global environment.

In manufacturing activities, Unicharm consistently accepts new challenges, implementing measures with environmental protection foremost in mind. The Company has seen significant results in this area, achieving zero emissions* at its Fukushima Plant and meeting energy conservation and other reduction targets. In the products and services domain, Unicharm has worked to deliver increased value, enhance earnings and secure the support of its customers by developing thinner and more compact products, and reducing the use of natural resources. In addition, we have commenced operation of a recycling system that converts used adult diapers into compost for use in flower and garden cultivation. As a leading company in its industry, Unicharm strives to resolve society's problem of urban waste.

To analyze the effectiveness of its environment-related expenses and raise the transparency of information related to such activities, Unicharm introduced environmental accounting in fiscal 2001. The Company continues to expand the scope and application of environmental accounting and utilizes the data generated as a management tool in its decision-making process. In fiscal 2003, the costs attributed to waste disposal, the reduction of environmental load and compliance with statutory regulations amounted to 60% of total costs recorded under environmental accounting. The principal component was a significant increase in external recycling costs associated with the elimination of incinerated waste at manufacturing sites.

Unicharm established the Corporate Social Responsibility (CSR) Department in April 2003, in an effort to further enhance its activities as a responsible member of society. The Company is committed to redoubling its efforts to contribute to society and to the preservation of the global environment for future generations.

* Unicharm's zero emission standard is represented by a ratio of landfill waste to total emissions of less than 1%.

◆ Tabulation Table (Unit: Thousands of yen)

	Theme	Specific approach	Investment	Cost	Total	Effect
Design	Technology development	• Development of environmentally friendly products • Implementation of LCA	0	47,226	47,226	• Increase of 11.5% in CO2 emissions during a product's life cycle (compared with fiscal 1999) • Ratio of environmentally friendly products: 3.81% • Application of environmental impact ratio conversion tool: 71.3%
Manufacturing	Energy conservation	• Introduction and modification of energy-saving facilities	83,264	3,025	86,289	• Reduction in energy costs: ¥31,461 thousand • Energy conservation ratio: -4.2%
	Reduce waste materials	• Reduce packaging materials and defective products • Appropriate processing of waste	2,200	30,287	32,487	• Reduction in waste material processing costs: ¥8,401 thousand (three principal sites)
	Reduce environmental burden	• Promote recycling	0	259,389	259,389	• Revenues from the sale of recycled materials: ¥17,799 thousand • Recycling ratio: 92.8%
	Strict compliance with laws and regulations	• Implement monitoring and measuring • Install facilities that meet regulations • Compliance with Container and Package Recycling Law	45,205	258,499	303,704	• Continue activities for complying with laws and regulations, including for EMS monitoring and measuring
Management fields	Application of ISO 14001	• EMS management • External examination, internal auditing	0	99,013	99,013	• Expand the scope of EMS, expanding the scope of improvements. At the same time, we expanded the scope of our information disclosure.
	Environmental reports and environmental accounting	• Prepare *2003 Environmental Report* • Carry out environmental accounting and tabulations	0	10,767	10,767	
	Environment education	• Hold lecture classes	0	203	203	
	Others	• Awareness surveys through questionnaires • Improve external communications	0	47,472	47,472	
	Total		130,669	755,880	886,548	

Scope of tabulations: Headquarters Environment Management Division, Product Development Divisions, Shikoku Central Region Business Office, Kakegawa Region Business Office, Fukushima Plant, Kawanoe Plant, Unicharm Materials, Onohara Plant

Period: Fiscal 2003 (April 2002 through March 2003)

Notes:
1. Depreciation is not included in expenses.
2. Effect comprises confirmed evidence, and excludes incidental effects and extrapolated effects.
3. Cost items were reviewed in fiscal 2003 to include costs for strictly complying with laws and regulations, and to record costs for maintaining green spaces.
4. Consignment fees for reusing products under the Container and Package Recycling Law are the amounts paid during the term based on relevant invoices.

◆ Comparisons with the Previous Fiscal Year for Three Major Bases (Unit: Thousands of yen)

Item	Fiscal 2002	Fiscal 2003	Change	Description
Waste disposal costs	19,788	11,397	-8,401	• Reductions in waste due to increased recycling
Recycling consignment costs	99,499	201,006	101,507	• Increase in recycling consignment costs in line with closing down of incinerators (Chuo Plant, Onohara Plant) Increase in recycling costs due to zero emissions policy (Fukushima Plant) Increase in recycling costs for diaper loss (Shizuoka Plant)
Facility construction (for strict compliance with laws)	791	45,205	44,414	• Increase associated with upgrading of incinerators to meet stricter laws (Fukushima Plant, Shizuoka Plant) Increase related to construction to prevent dispersal of polymer in response to a complaint (Shizuoka Plant)

BOARD OF DIRECTORS AND CORPORATE AUDITORS

As of June 27, 2003

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Keiichiro Takahara

PRESIDENT AND CHIEF OPERATING OFFICER

Takahisa Takahara

MANAGING DIRECTOR

Shigeki Maruyama

MANAGING DIRECTOR

Takaaki Okabe

DIRECTOR

Koji Inokuma

Note: Directors are also Executive Officers.

INTERNAL CORPORATE AUDITORS

Katsuaki Ishikawa

Tateki Ito

CORPORATE AUDITOR

Masahiko Hirata

EXECUTIVE OFFICERS

As of July 1, 2003

SENIOR EXECUTIVE OFFICERS

Shosuke Kawauchi

Masamitsu Yamamoto

Kennosuke Nakano

Shinji Mori

Eiji Ishikawa

EXECUTIVE OFFICERS

Kazuhira Ikawa

Osamu Satomura

Takamitsu Igaue

Hirohiko Muromachi

Shinya Takahashi

Shigeo Moriyama

Tadashi Mukai

Yoshihiro Miyabayashi

Katsuhiko Sakaguchi

Norio Nomura

Masakatsu Takai

Hironori Nomura

Hidetoshi Yamamoto

Itsumi Matsuoka

Yasushi Akita

Takayuki Tanaka

SIX-YEAR SUMMARY

Unicharm Corporation and Subsidiaries

Millions of yen, except per share amounts

	1998	1999	2000	2001	2002	**2003**
FOR THE FISCAL PERIOD:						
Net sales	¥193,978	¥206,347	¥210,200	¥212,199	¥206,707	**¥223,169**
Cost of sales	113,108	116,445	115,765	115,823	113,546	**123,883**
Net income	9,206	10,788	12,563	9,904	8,852	**12,879**
As percentage of sales	4.7%	5.2%	6.0%	4.7%	4.3%	**5.8%**
Net income per share (yen)	¥ 126.92	¥ 150.55	¥ 177.29	¥ 139.85	¥ 126.78	
New accounting standard				137.75	125.20	**185.29**
Cash dividends per share applicable to the year (yen)	15.00	17.00	19.00	24.00	20.00	**24.00**
AT FISCAL PERIOD-END:						
Total assets	¥163,182	¥165,777	¥181,189	¥177,396	¥187,060	**¥187,988**
Property, plant and equipment	82,158	84,313	81,928	69,388	71,412	**71,090**
Long-term debt— less current maturities	2,395	4,524	4,633	3,918	2,953	**1,710**
Shareholders' equity	91,707	92,254	107,050	104,156	109,308	**113,137**
Equity ratio	56.2%	55.6%	59.1%	58.7%	58.4%	**60.2%**
RATIOS:						
Operating income ratio	11.0%	10.5%	11.4%	9.8%	9.2%	**11.6%**
Return on sales	4.7%	5.2%	6.0%	4.7%	4.3%	**5.8%**
Gross profit margin	41.7%	43.6%	44.9%	45.4%	45.1%	**44.5%**
SGA ratio	30.7%	33.1%	33.5%	35.6%	35.9%	**32.9%**
Return on equity (ROE)	10.5%	11.7%	12.6%	9.4%	8.3%	**11.6%**
Return on total assets (ROA)	5.6%	6.6%	7.2%	5.5%	4.9%	**6.9%**

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OPERATING RESULTS

Sales

In fiscal 2003, ended March 31, 2003, Unicharm's consolidated net sales rose 8.0%, from ¥206.7 billion in the previous fiscal year, to ¥223.2 billion, a record for the Group. Sales in Japan, which accounted for 79.6% of total sales, edged up ¥6.1 billion, or 3.6%, to ¥177.6 billion, buoyed by steady sales in the Group's mainstay baby and child care products business and increased sales in the growth businesses of health care, clean & fresh and pet care. At the same time, Unicharm recorded steady growth in overseas markets, mainly in Asia, by expanding its share of existing markets for feminine care products and baby and child care products. In other regions, the Group posted higher sales in its adult incontinence business, primarily in Europe. As a result, Unicharm achieved a ¥10.3 billion rise in sales in Asia and other countries and regions, to ¥45.6 billion, climbing to 20.4% of total net sales.

Cost of Sales and Selling, General and Administrative Expenses

The cost of sales increased to ¥123.9 billion. Accordingly, the cost of sales ratio rose 0.6 of a percentage point to 55.5% compared with 54.9% in the previous fiscal year. Gross profit increased 6.6% to ¥99.3 billion. Selling, general and administrative (SG&A) expenses declined 0.9% to ¥73.5 billion. Although depreciation rose ¥0.3 billion from the previous fiscal year to ¥2.3 billion, Unicharm reduced sales promotion and advertising expenses ¥1.7 billion to ¥29.7 billion by undertaking a review of these expenses.

Research and Development Expenses

Research and development expenses decreased from ¥4.8 billion in the previous fiscal year to ¥4.5 billion.

Segment Information

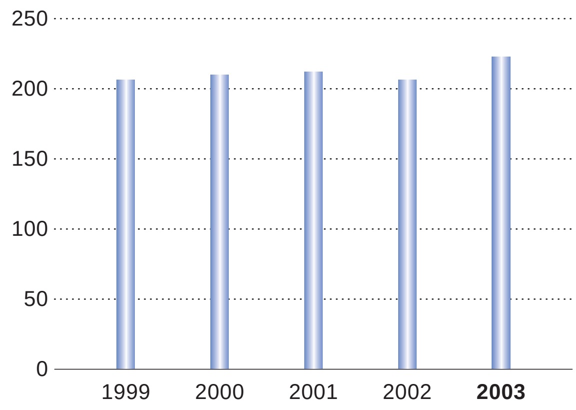
Sales of the Lifestyle Products Division increased 8.7% to ¥191.9 billion, while operating income surged 23.3% to ¥23.6 billion. The operating margin rose 1.5 percentage points from the previous fiscal year to 12.3%. Despite persistent downward pressure on Japan's consumer goods and services market and a prolonged slump in personal expenditure, Unicharm worked diligently to enhance value through the development of new products and applications. In the baby and child care segment, the Company concentrated on penetrating the market for brief-type diapers, resulting in an increased proportion of sales of this product. We were able to expand the overall market for disposable diapers for babies by launching a disposable diaper for babies who are in the crawling stage, expediting the first-time use of brief-type disposable diapers. We also increased sales of medium-sized disposable diapers.

In the feminine care segment, the Japanese market is shrinking due to a decline in the population of users of feminine care products. As the sole comprehensive manufacturer of feminine products, Unicharm aims to invigorate this market by concentrating efforts on developing and improving products that create freedom and comfort for women. Overseas, we are proactively expanding the scope of our operations in East Asia. In the primary region of China, Unicharm has steadily expanded operations to 90 cities while rapidly establishing the *Sofy* brand name in the Shanghai, Beijing and Guangzhou areas. Moreover, the

Geographic Segment Sales

	Millions of yen	
	2002	**2003**
Japan	¥171,436	**¥177,561**
Asia (excluding Japan)	22,738	**29,416**
Others	12,533	**16,192**
Total	¥206,707	**¥223,169**

Net Sales (Billions of yen)



Industry Segment Sales	Millions of yen				
	1999	2000	2001	2002	**2003**
Net sales	¥206,347	¥210,200	¥212,199	¥206,707	**¥223,169**
Lifestyle products	174,021	177,099	179,008	176,512	**191,898**
Pet care	—	—	18,407	18,916	**21,918**
Other businesses	—	—	14,784	11,279	**9,353**

Company aggressively worked to increase sales in countries with existing operations, including Thailand, Indonesia, Malaysia and Taiwan, leading to higher sales in those regions.

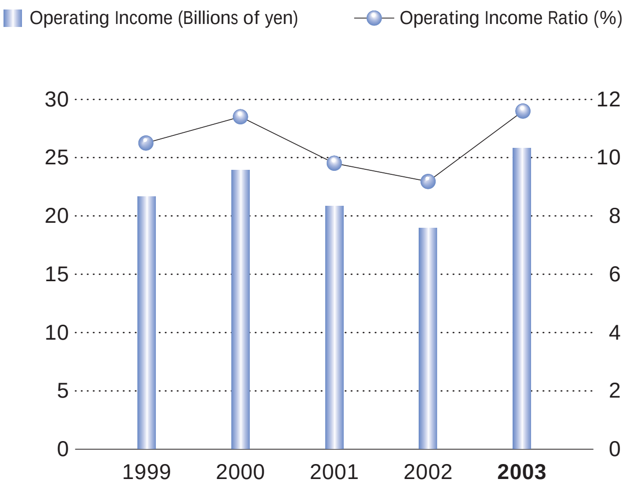
In the health care segment, we were able to increase sales amid tough competition in a growing market. Amid an aging society in Japan, the market is steadily expanding. Unicharm made concerted efforts to develop and improve the *Lifree* brand name, which is based on the concept of "Bed-Ridden Neither in Mind nor Body." As a result, the Company was able to achieve sales growth of 14%, higher than the market average. Overseas, we accelerated the development of the *Lifree* brand in Taiwan, as sales of our adult brief-type diapers progressively increased in mainly Europe.

In the clean & fresh segment, Unicharm has provided customers with products for clean, sanitary and fresh environments based on its nonwoven fabric and absorbent materials technologies. To complement our general-use moist towelettes, *Silcot Wet Tissues*, we introduced the new *Silcot Wet Safe Disinfectant Tissues*. Reflecting our "clean and fresh lifestyle" concept in the *Wave* series of handy wipes, we launched *Wave Multiwiper*, which makes it easier to clean hard-to-reach places and high places. Unicharm steadily expanded sales through these additions to its product lineup.

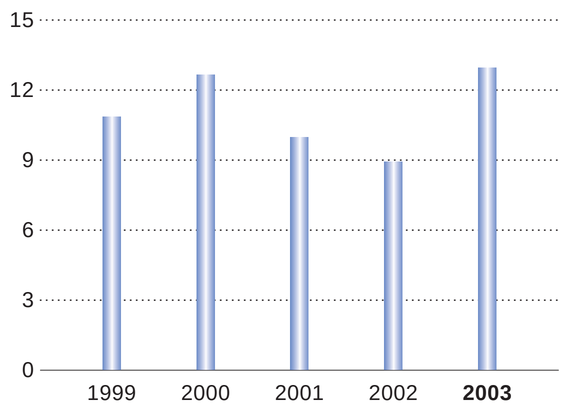
Sales in the pet care segment rose 15.9% to ¥21.9 billion, and operating income increased ¥0.9 billion to ¥1.2 billion. The pet care market is set on a path of steady growth over the medium and long term, backed by a rise in the number of households owning pets, a phenomenon associated with the aging of society in Japan. In such an operating environment, we proactively launched new pet food products that are tasty and good for the health of pets, including *Neko Genki Dry Kedama Care*, *Aiken Genki GOLD Dry* for small dogs over the age of seven, and *Aiken Genki Hano Kenko Biscuits*. Through these efforts, we created a high-value-added segment of the market and expanded sales. In addition, sales of our pet care products grew strongly, including *Deo-Sheet* and *Deo-Sand*, which feature our unwoven materials and absorbency technologies.

Sales of the Other Businesses Division decreased 17.1% to ¥9.4 billion. Operating income totaled ¥1.0 billion, an increase of ¥1.4 billion from the previous fiscal year. In the commercial food packaging business, sales were robust for the *Fresh Master* tray mat that uses our unwoven material and absorbency technologies. In July 2003, the Company established Unicharm Eduo Corporation in an even-footed merger with Gakuikusha Corporation, and transferred its

Operating Income and Operating Income Ratio



Net Income (Billions of yen)



child education operations to the new company. During the fiscal year under review, Unicharm decided to withdraw from the building materials business, which was managed by consolidated subsidiary Unicharm PetCare Corporation, in order to concentrate on strengthening mainstay pet care operations and to improve profitability and management efficiency.

Income and Expenses

In the fiscal year under review, Unicharm continued to place the highest priority on improving its operating margin by raising the added value of its products, while making strenuous efforts to effectively apply operating costs including sales promotion and advertising expenses. Buoyed by these efforts, operating income surged 35.9% to ¥25.8 billion, bolstered by improved earnings in domestic business and overseas business expansion. As a result, Unicharm reported increases in its profit ratios with the operating margin improving 2.4 percentage points to 11.6%.

Non-operating expenses, net, rose ¥0.2 billion year on year to ¥2.9 billion, despite a significant reduction in the loss on write-down of investment securities from ¥2.8 billion to ¥0.4 billion. As a result of these factors, income before income taxes and minority interests increased 41.1% compared with the previous fiscal year to ¥22.9 billion and net income jumped 45.5% to ¥12.9 billion. Net income per share was ¥185.29, a substantial improvement of ¥58.51.

FINANCIAL POSITION AND LIQUIDITY

Assets, Liabilities and Equity

Total assets as at March 31, 2003 stood at ¥188.0 billion, an increase of ¥0.9 billion from the previous fiscal year-end.

Within current assets, cash and cash equivalents decreased ¥9.2 billion to ¥41.6 billion. On the other hand, marketable securities increased ¥2.3 billion to ¥2.9 billion. In notes and accounts receivable, trade receivables were down ¥1.8 billion to ¥26.9 billion. Other current assets rose ¥1.1 billion to ¥3.7 billion.

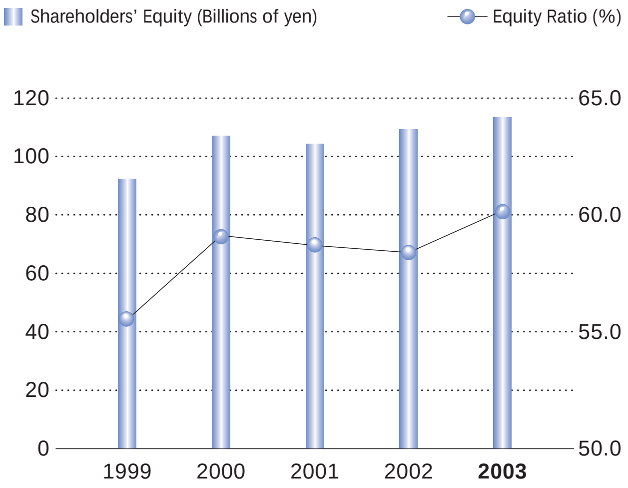
Net property, plant and equipment fell ¥0.3 billion to ¥71.1 billion as of the fiscal year-end. Machinery and equipment however was up ¥7.2 billion to ¥92.3 billion, owing to an increase in facilities resulting from the expansion in the scope of our overseas business as well as facilities for new products in our principal businesses in the domestic market. Construction in progress declined ¥1.0 billion to ¥2.2 billion.

In investments and other assets, investment securities increased ¥9.4 billion to ¥16.0 billion. Unicharm also recorded deferred tax assets of ¥2.8 billion. Deferred tax assets impacted by devaluation fell substantially from ¥4.2 billion to ¥1.4 billion.

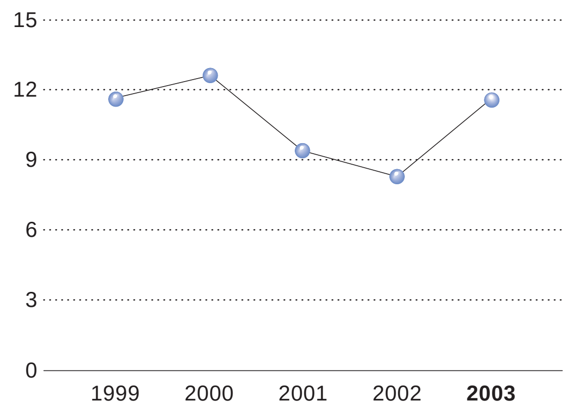
On the liabilities side, current liabilities declined 5.5% to ¥58.5 billion as of the fiscal year-end. Within current liabilities, short-term bank loans decreased ¥1.0 billion to ¥3.6 billion. In notes and accounts payable, trade payables fell ¥3.4 billion to ¥41.6 billion, and other notes and accounts payable increased ¥2.9 billion to ¥3.5 billion. Total long-term liabilities as of the fiscal year-end stood at ¥10.4 billion, a slight decline of 0.3%.

Retained earnings jumped 9.3% to 87.5 billion.

Shareholders' Equity and Equity Ratio



ROE (%)



Shareholders' equity also surged 3.5% to ¥113.1 billion. As a result, the shareholders' equity ratio improved 1.8 percentage points to 60.2%.

Capital Expenditures and Depreciation

The Company's capital expenditures during fiscal 2003 increased ¥1.9 billion, from ¥12.9 billion to ¥ 14.8 billion. These expenditures comprised primarily of investments for an increase in facilities for the expansion of overseas operations, new product facilities for principal businesses in Japan and the remodeling of facilities along with product improvements.

Depreciation and amortization amounted to ¥11.0 million, up ¥0.5 billion from ¥10.5 billion in the previous fiscal year.

Cash Flows

Net cash provided by operating activities increased 9.9% or ¥2.5 billion to ¥27.2 billion. This consisted mainly of ¥22.9 billion in income before income taxes and minority interests and ¥11.0 billion in depreciation and amortization.

Net cash used in investing activities amounted to ¥26.4 billion, an increase of ¥19.2 billion from the previous fiscal year. The principal components were ¥10.7 billion for the purchase of investment securities, capital expenditures totaling ¥14.8 billion, mainly for an increase in facilities for the expansion of overseas operations, new product facilities for principal businesses in Japan and the remodeling of facilities along with product improvements, and an allocation of ¥2.9 billion to insurance reserve.

Net cash used in financing activities significantly increased from ¥4.4 billion in the previous fiscal year to ¥9.8 billion. The decrease in short-term bank loans was ¥0.9 billion, down sharply from the ¥2.3 billion increase in the previous fiscal year. Repayments of long-term debt amounted to ¥0.3 billion, down from ¥1.4 billion in the previous fiscal year. Unicharm continued to repurchase its stock. In fiscal 2003, repurchase of the Company's stock amounted to ¥6.8 billion (for 1,500,000 shares). Unicharm also undertook dividend payments of ¥1.5 billion. As a result, cash and cash equivalents, end of year fell 18.2% or ¥9.2 billion to ¥41.6 billion.

OUTLOOK FOR FISCAL 2004

Despite signs of a partial recovery in corporate earnings in Japan, the operating environment for Unicharm is expected to remain challenging, adversely affected by a prolonged slump in consumer spending and intense competition. Unicharm expects competition among global brand names to heat up in Asia as market expansion accelerates.

Under these circumstances, and based on its fifth three-year management plan, Unicharm aims to engage in marketing activities that will create high brand value and new markets in line with customer needs, while at the same time aggressively expanding operations in growth markets by reinforcing its product development and technological capabilities. Unicharm plans to undertake far-reaching reforms to its earnings structure by implementing cost reductions throughout the supply chain and increasing spending efficiency in mainly sales promotion.

In Japan, Unicharm revamped its product capabilities and concepts in the baby and child care product segment for the first time in a decade. Introduced in Chugoku, Shikoku and Kyushu in October 2002, the new *Moony Man* baby diaper will be promoted nationwide with the aim of revitalizing the market and boosting profitability. In the feminine care segment, Unicharm plans to release new products and heighten the brand recognition of *Sofy* further through a marketing campaign celebrating the 20th anniversary of the *Sofy* brand. In the health care segment, Unicharm aims to expand its product lineup and improve product features under the *Lifree* brand to precisely respond to customer needs, based on the excretion care system concept. The Company aims to outpace market growth in expanding its operations. In the clean & fresh segment, we will work to create new markets while aiming to increase awareness of the *Wave* brand name. In the pet care segment, the Company aims to enlarge its lineup of pet care products using its unwoven materials and absorbency technologies. Unicharm aims to increase profits and aggressively market an expanded lineup of high-value-added pet food products.

Overseas, the Company will make every effort to accelerate growth in feminine care operations through the *Sofy* brand name in major East Asian countries. In the baby and child care segment, Unicharm is upgrading its production systems and readying for an aggressive marketing campaign to promote *Mamy Poko*, a baby diaper sold in Thailand, Malaysia, Singapore, China and Indonesia. Through these initiatives, the Company aims to expedite its access to the market and increase business operations. In the health care segment, Unicharm aims to build the *Lifree* brand name into its third overseas business pillar by proactively promoting the *Lifree* brand of adult disposable diapers sold in Taiwan in the fiscal year under review.

CONSOLIDATED BALANCE SHEETS

Unicharm Corporation and Subsidiaries
March 31, 2003, 2002 and 2001

	Millions of yen			Thousands of U.S. dollars (Note 1)
ASSETS	**2003**	2002	2001	**2003**
CURRENT ASSETS:				
Cash and cash equivalents	**¥ 41,568**	¥ 50,786	¥ 37,533	**$ 346,400**
Marketable securities (Note 3)	**2,852**	599	1,286	**23,767**
Notes and accounts receivables:				
Trade	**26,881**	28,669	32,061	**224,008**
Allowance for doubtful accounts	**(267)**	(148)	(181)	**(2,225)**
Inventories (Note 4)	**11,932**	11,575	10,096	**99,433**
Deferred tax assets (Note 10)	**1,820**	1,817	1,994	**15,167**
Other current assets	**3,713**	2,638	3,401	**30,942**
Total current assets	**88,499**	95,936	86,190	**737,492**
PROPERTY, PLANT AND EQUIPMENT:				
Land (Note 5)	**13,610**	15,710	15,807	**113,417**
Buildings and structures	**47,662**	45,988	45,180	**397,183**
Machinery and equipment	**92,297**	85,131	78,154	**769,142**
Furniture and fixtures	**3,738**	3,667	3,541	**31,150**
Construction in progress	**2,233**	3,223	2,128	**18,608**
Total	**159,540**	153,719	144,810	**1,329,500**
Accumulated depreciation	**(88,450)**	(82,307)	(75,422)	**(737,083)**
Net property, plant and equipment	**71,090**	71,412	69,388	**592,417**
INVESTMENTS AND OTHER ASSETS:				
Investment securities (Note 3)	**16,032**	6,589	10,273	**133,600**
Investments in affiliates	**289**	218	109	**2,408**
Software	**2,167**	3,050	3,264	**18,058**
Intangibles	**1,142**	247	321	**9,517**
Deferred tax assets (Note 10)	**2,829**	3,049	1,081	**23,575**
Deferred tax assets—land revaluation (Notes 5 and 10)	**1,402**	4,242	4,246	**11,683**
Other assets	**5,680**	3,203	3,246	**47,334**
Allowance for doubtful accounts	**(1,142)**	(886)	(722)	**(9,517)**
Total investments and other assets	**28,399**	19,712	21,818	**236,658**
TOTAL	**¥187,988**	¥187,060	¥177,396	**$1,566,567**

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2003	2002	2001	Thousands of U.S. dollars (Note 1) 2003
CURRENT LIABILITIES:				
Short-term bank loans (Note 6)	**¥ 3,616**	¥ 4,615	¥ 1,796	**$ 30,133**
Current portion of long-term debt (Note 6)	**1,301**	72	561	**10,842**
Notes and accounts payables:				
Trade	**41,566**	44,933	45,584	**346,383**
Others	**3,452**	565	786	**28,767**
Income taxes payable	**2,638**	5,572	4,561	**21,983**
Accrued expenses	**5,305**	4,902	4,000	**44,208**
Other current liabilities	**643**	1,277	437	**5,359**
Total current liabilities	**58,521**	61,936	57,725	**487,675**
LONG-TERM LIABILITIES:				
Long-term debt (Note 6)	**1,710**	2,953	3,918	**14,250**
Retirement benefits (Note 7)	**6,184**	5,095	4,006	**51,533**
Guarantee deposits from customers	**1,971**	2,056	2,141	**16,425**
Other long-term liabilities	**562**	350	364	**4,684**
Total long-term liabilities	**10,427**	10,454	10,429	**86,892**
MINORITY INTERESTS	**5,903**	5,364	5,086	**49,192**
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 12 and 14)				
SHAREHOLDERS' EQUITY (Notes 8 and 15):				
Common stock—authorized, 196,390,411 shares in 2003, 196,390,411 shares in 2002 and 197,354,711 shares in 2001; issued, 68,981,591 shares in 2003, 68,981,591 shares in 2002 and 69,945,891 shares in 2001	**15,993**	15,993	15,993	**133,275**
Additional paid-in capital	**18,591**	18,591	18,591	**154,925**
Retained earnings	**87,463**	80,049	76,302	**728,858**
Land revaluation difference, net of tax (Note 5)	**(2,060)**	(5,857)	(5,864)	**(17,167)**
Unrealized gain on available-for-sale securities, net of tax (Note 3)	**1,479**	1,442	1,081	**12,325**
Foreign currency translation adjustments	**(1,554)**	(910)	(1,946)	**(12,950)**
Total	**119,912**	109,308	104,157	**999,266**
Treasury stock—at cost shares 1,505,849 in 2003, 549 in 2002 and 240 in 2001	**(6,775)**	(2)	(1)	**(56,458)**
Total shareholders' equity	**113,137**	109,306	104,156	**942,808**
TOTAL	**¥187,988**	¥187,060	¥177,396	**$1,566,567**

CONSOLIDATED STATEMENTS OF INCOME

Unicharm Corporation and Subsidiaries
Years Ended March 31, 2003, 2002 and 2001

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2003	2002	2001	**2003**
NET SALES	**¥223,169**	¥206,707	¥212,199	**$1,859,741**
COST OF SALES	**123,883**	113,546	115,823	**1,032,358**
Gross profit	**99,286**	93,161	96,376	**827,383**
SELLING, GENERAL AND				
ADMINISTRATIVE EXPENSES (Note 9)	**73,493**	74,187	75,544	**612,442**
Operating income	**25,793**	18,974	20,832	**214,941**
OTHER INCOME (EXPENSES):				
Interest and dividend income	**320**	193	313	**2,667**
Interest expense	**(361)**	(332)	(387)	**(3,008)**
Foreign exchange gain (loss)	**(51)**	120	(117)	**(425)**
Loss on write-down of investment securities	**(391)**	(2,839)	(165)	**(3,258)**
Charge for transitional obligation for employees'				
retirement benefits (Note 7)	**(1,224)**	(1,282)	(1,282)	**(10,200)**
Gain on transfer of business		2,705		
Other—net	**(1,190)**	(1,309)	(378)	**(9,917)**
Other expenses—net	**(2,897)**	(2,744)	(2,016)	**(24,141)**
INCOME BEFORE INCOME TAXES AND				
MINORITY INTERESTS	**22,896**	16,230	18,816	**190,800**
INCOME TAXES (Note 10)**:**				
Current	**5,946**	8,938	9,027	**49,550**
Deferred	**3,024**	(1,811)	(269)	**25,200**
Total income tax	**8,970**	7,127	8,758	**74,750**
MINORITY INTERESTS IN NET INCOME	**1,047**	251	154	**8,725**
NET INCOME	**¥ 12,879**	¥ 8,852	¥ 9,904	**$ 107,325**

	Yen			U.S. dollars
PER SHARE OF COMMON STOCK (Note 2.n)**:**				
Net income	**¥185.29**	¥125.20	¥137.75	**$1.54**
Cash dividends applicable to the year	**24.00**	20.00	24.00	**0.20**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Unicharm Corporation and Subsidiaries
Years Ended March 31, 2003, 2002 and 2001

	Number of Shares of Common Stock	Millions of yen						
		Common Stock	Additional Paid-in Capital	Retained Earnings	Land Revaluation Difference, Net of Tax	Unrealized Gain on Available-for-Sale Securities, Net of Tax	Foreign Currency Translation Adjustments	Treasury Stock at Cost
BALANCE, APRIL 1, 2000	70,866,891	¥15,993	¥18,591	¥72,467				¥ (1)
Net income				9,904				
Cash dividends, ¥20.00 per share				(1,417)				
Bonuses to directors and corporate auditors				(139)				
Land revaluation difference, net of tax					¥(5,864)			
Unrealized gain on available-for-sale securities, net of tax						¥1,081		
Foreign currency translation adjustments							¥(1,946)	
Repurchase of the Company's stock (Note 8)	(921,000)			(4,513)				
BALANCE, MARCH 31, 2001	69,945,891	15,993	18,591	76,302	(5,864)	1,081	(1,946)	(1)
Net income				8,852				
Cash dividends, ¥24.00 per share				(1,679)				
Bonuses to directors and corporate auditors				(141)				
Land revaluation difference, net of tax				(7)	7			
Net increase in unrealized gain on available-for-sale securities, net of tax						361		
Net increase in foreign currency translation adjustments							1,036	
Treasury stock acquired—net								(1)
Repurchase of the Company's stock	(964,300)			(3,278)				
BALANCE, MARCH 31, 2002	68,981,591	15,993	18,591	80,049	(5,857)	1,442	(910)	(2)
Net income				12,879				
Cash dividends, ¥22.00 per share				(1,518)				
Bonuses to directors and corporate auditors				(98)				
Land revaluation difference, net of tax				(3,849)	3,797			
Net increase in unrealized gain on available-for-sale securities, net of tax						37		
Net decrease in foreign currency translation adjustments							(644)	
Treasury stock acquired—net								(6,773)
BALANCE, MARCH 31, 2003	**68,981,591**	**¥15,993**	**¥18,591**	**¥87,463**	**¥(2,060)**	**¥1,479**	**¥(1,554)**	**¥(6,775)**

	Thousands of U.S. dollars (Note 1)						
	Common Stock	Additional Paid-in Capital	Retained Earnings	Land Revaluation Difference, Net of Tax	Unrealized Gain on Available-for-Sale Securities, Net of Tax	Foreign Currency Translation Adjustments	Treasury Stock at Cost
BALANCE, MARCH 31, 2002	$133,275	$154,925	$667,075	$(48,808)	$12,017	$ (7,583)	$ (17)
Net income			107,325				
Cash dividends, $0.18 per share			(12,650)				
Bonuses to directors and corporate auditors			(817)				
Land revaluation difference, net of tax			(32,075)	31,641			
Net increase in unrealized gain on available-for-sale securities, net of tax					308		
Net decrease in foreign currency translation adjustments						(5,367)	
Treasury stock acquired—net							(56,441)
BALANCE, MARCH 31, 2003	**$133,275**	**$154,925**	**$728,858**	**$(17,167)**	**$12,325**	**$(12,950)**	**$(56,458)**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Unicharm Corporation and Subsidiaries
Years Ended March 31, 2003, 2002 and 2001

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2003	2002	2001	**2003**
OPERATING ACTIVITIES:				
Income before income taxes and minority interests	**¥ 22,896**	¥16,230	¥18,816	**$ 190,800**
Adjustments for:				
Income taxes—paid	**(10,069)**	(8,154)	(9,942)	**(83,908)**
Depreciation and amortization	**11,023**	10,500	10,635	**91,858**
Net periodic retirement benefit costs	**1,051**	982	1,059	**8,758**
Loss on write-down of investment securities	**391**	2,839	165	**3,258**
Loss on disposals and sales of property, plant and equipment	**1,128**	821	182	**9,400**
Gain on transfer of business		(2,705)		
Decrease (increase) in trade receivables	**1,788**	3,392	(1,639)	**14,900**
Increase in inventories	**(555)**	(1,524)	(225)	**(4,625)**
Decrease in trade payables	**(4,001)**	(2,117)	(2,242)	**(33,342)**
Increase in other current liabilities	**2,523**	3,101	1,557	**21,025**
Other—net	**1,011**	1,363	1,004	**8,426**
Total adjustments	**4,290**	8,498	554	**35,750**
Net cash provided by operating activities	**27,186**	24,728	19,370	**226,550**
INVESTING ACTIVITIES:				
Proceeds from sales of marketable securities	**721**	2,377	2,190	**6,008**
Proceeds from sales of property, plant and equipment	**3,115**	743	281	**25,958**
Purchases of marketable securities	**(3,011)**	(1,665)	(3,464)	**(25,092)**
Capital expenditures	**(14,811)**	(12,916)	(7,659)	**(123,425)**
Payment for purchase of investment securities	**(10,709)**	(1,854)	(1,801)	**(89,242)**
Proceed from sales of investment securities	**722**	3,312	1,085	**6,017**
Proceed from transfer of business		2,750		
Payment for insurance as investments	**(2,865)**			**(23,875)**
Decrease (increase) in other assets	**427**	(9)	133	**3,559**
Net cash used in investing activities	**(26,411)**	(7,262)	(9,235)	**(220,092)**
FORWARD	**¥ 775**	¥17,466	¥10,135	**$ 6,458**

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2003	2002	2001	**2003**
FORWARD	**¥ 775**	¥17,466	¥10,135	**$ 6,458**
FINANCING ACTIVITIES:				
Increase (decrease) in short-term bank loans	**(941)**	2,267	368	**(7,842)**
Proceeds from long-term debt			1,151	
Repayments of long-term debt	**(296)**	(1,352)	(1,866)	**(2,467)**
Cash dividends paid	**(1,518)**	(1,679)	(1,417)	**(12,650)**
Capital contribution from minority interests			209	
Repurchase of the Company's stock	**(6,773)**	(3,278)	(4,513)	**(56,441)**
Cash dividends paid to minority interests	**(278)**	(364)	(276)	**(2,317)**
Net cash used in financing activities	**(9,806)**	(4,406)	(6,344)	**(81,717)**
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	**(187)**	193	152	**(1,558)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(9,218)**	13,253	3,943	**(76,817)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**50,786**	37,533	33,590	**423,217**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥41,568**	¥50,786	¥37,533	**$346,400**

See notes to consolidated financial statements.

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 Securities and Exchange Law of Japan and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. The consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Unicharm Corporation (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥120 to $1, the approximate rate of exchange at March 31, 2003. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

Certain reclassifications have been made in the 2002 and 2001 financial statements to conform to the classifications used in 2003.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation

The consolidated financial statements include the accounts of the Company and all 26 (24 in 2002 and 26 in 2001) subsidiaries (together, the "Group").

Under the control or influence concept, those companies in which the Parent 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.

Investments in 2 affiliates (2 in 2002 and 2001) are accounted for by the equity method.

The excess of the cost of the Company's investments in subsidiaries and affiliates accounted for by the equity method, over its equity in the net assets at the respective dates of acquisition, is being amortized over a period of five years.

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

b. Cash Equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits, certificates of deposit, commercial paper and bond funds, all of which mature or become due within three months of the date of acquisition.

c. Inventories

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

d. 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 shareholders' equity.

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

For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

e. Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its domestic subsidiaries is computed substantially by the declining-balance method at rates based on the estimated useful lives of the assets, while the straight-line method is applied to buildings acquired after April 1, 1998 and the property, plant and equipment of foreign subsidiaries. The range of useful lives is principally from 5 to 50 years for buildings and structures, from 2 to 15 years for machinery and equipment and from 2 to 20 years for furniture and fixtures.

f. Retirement and Pension Plans

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

Effective April 1, 2000, the Company and its domestic subsidiaries adopted a new accounting standard for employees' retirement benefits and accounted for the liability for retirement benefits based on projected benefit obligations and plan assets at the balance sheet date.

The transitional obligation of ¥6,458 million, determined as of April 1, 2000, is being amortized over five years and the annual amortization is presented as other expense in the consolidated statements of income.

The Company also provided for retirement benefits to directors and corporate auditors determined based on its internal rules which are calculated as the estimated amount to be paid if all directors and corporate auditors retired at each balance sheet date.

g. Research and Development Costs

Research and development costs are charged to income as incurred.

h. Leases

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

i. 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.

j. Appropriations of Retained Earnings

Appropriations of retained earnings at year end are reflected in the financial statements for the following year upon shareholders' approval.

k. 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 income statement to the extent that they are not hedged by forward exchange contracts.

l. Foreign Currency Financial Statements

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

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

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

m. Derivatives and Hedging Activities

The Group uses derivative financial instruments to manage its exposures 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 be recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the income statement and (b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

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

n. Per Share Information

Effective April 1, 2002, the Company adopted a new accounting standard for earnings per share of common stock issued by the Accounting Standards Board of Japan. Under the new standard, basic net income per share is computed by dividing net income available to common shareholders, which is more precisely computed than under previous practices, by the weighted-average number of common shares outstanding for the period.

The weighted-average number of common shares used in the computation was 68,695,197 shares for 2003, 69,821,541 shares for 2002 and 70,821,367 shares for 2001.

Diluted net income per share is not disclosed because it is antidilutive.

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

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities at March 31, 2003, 2002 and 2001, consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	**2003**
Current:				
Government and corporate bonds	**¥ 1,990**		¥ 287	**$ 16,584**
Trust fund investments and other	**862**	¥ 599	999	**7,183**
Total	**¥ 2,852**	¥ 599	¥ 1,286	**$ 23,767**
Non-current:				
Marketable equity securities	**¥ 8,141**	¥6,419	¥10,258	**$ 67,842**
Government and corporate bonds	**7,776**	15	15	**64,800**
Trust fund investments and other	**115**	155		**958**
Total	**¥16,032**	¥6,589	¥10,273	**$133,600**

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2003, 2002 and 2001 were as follows:

	Millions of yen			
March 31, 2003	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	**¥2,398**	**¥2,473**	**¥34**	**¥ 4,837**
Debt securities	**5,905**	**87**	**41**	**5,951**
Held-to-maturity	**26**			**26**
Total	**¥8,329**	**¥2,560**	**¥75**	**¥10,814**

	Millions of yen			
March 31, 2002	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale equity securities	¥4,330	¥2,607	¥120	¥6,817
Held-to-maturity	15			15
Total	¥4,345	¥2,607	¥120	¥6,832

March 31, 2001	Cost	Unrealized Gains	Unrealized Losses	Fair Value
	Millions of yen			
Securities classified as:				
Available-for-sale equity securities	¥7,968	¥3,145	¥1,280	¥ 9,833
Held-to-maturity	302	4		306
Total	¥8,270	¥3,149	¥1,280	¥10,139

March 31, 2003	Cost	Unrealized Gains	Unrealized Losses	Fair Value
	Thousands of U.S. dollars			
Securities classified as:				
Available-for-sale:				
Equity securities	**$19,983**	**$20,608**	**$283**	**$40,308**
Debt securities	**49,208**	**725**	**342**	**49,591**
Held-to-maturity	**217**			**217**
Total	**$69,408**	**$21,333**	**$625**	**$90,116**

Available-for-sale securities and held-to-maturity securities whose fair value is not readily determinable as of March 31, 2003, 2002 and 2001 were as follows:

	Carrying Amount			
	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	**2003**
Available-for-sale:				
Equity securities	**¥ 280**	¥355	¥ 425	**$ 2,333**
Debt securities	**3,000**			**25,000**
Held-to-maturity	**4,790**		999	**39,917**
Total	**¥8,070**	¥355	¥1,424	**$67,250**

Proceeds from sales of available-for-sale securities for the years ended March 31, 2003 and 2002 were ¥7,435 million ($61,958 thousand) and ¥43,879 million, respectively. Gross realized gains and losses on these sales, computed on the moving-average cost basis, were ¥34 million ($283 thousand) and ¥162 million ($1,350 thousand), respectively, for the year ended March 31, 2003 and ¥42 million and ¥78 million, respectively, for the year ended March 31, 2002.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2003, are as follows:

	Millions of yen		Thousands of U.S. dollars	
	Available for Sale	Held to Maturity	Available for Sale	Held to Maturity
Due in one year or less	¥ 737	¥2,116	$ 6,142	$17,633
Due after one year through five years		2,699		22,492
Due after five years	5,087		42,392	
Total	¥5,824	¥4,815	$48,534	$40,125

4. INVENTORIES

Inventories at March 31, 2003, 2002 and 2001, consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	**2003**
Merchandise and finished products	**¥ 7,460**	¥ 6,843	¥ 6,501	**$62,167**
Work in process	**190**	164	191	**1,583**
Construction work in progress		38	259	
Raw materials	**3,870**	4,142	2,898	**32,250**
Supplies	**412**	388	247	**3,433**
Total	**¥11,932**	¥11,575	¥10,096	**$99,433**

5. LAND REVALUATION

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

The resulting "land revaluation diminish" represents unrealized appreciation of land and is stated, net of income taxes, as a component of shareholders' equity. There is no effect on the consolidated statements of income. Continuous readjustment is not permitted unless the land value subsequently declines significantly such that the amount of the decline in value should be removed from the land revaluation diminish account and related deferred tax assets. The details of the one-time revaluation as of March 31, 2001, were as follows:

Land before revaluation:	¥19,138 million
Land after revaluation:	¥9,028 million
Land revaluation diminish:	¥5,864 million (net of income taxes of ¥4,246 million)

As at March 31, 2003, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥1,087 million.

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

Short-term bank loans at March 31, 2003, 2002 and 2001, consisted of notes to banks and bank overdrafts. The annual interest rates applicable to the short-term bank loans ranged from 3.6% to 4.7%, 2.6% to 5.3% and 0.8% to 7.7% at March 31, 2003, 2002 and 2001, respectively.

Long-term debt at March 31, 2003, 2002 and 2001, consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	**2003**
Unsecured 2.21% bonds, due July 2003	**¥1,000**	¥1,000	¥1,000	**$ 8,333**
Unsecured 2.35% bonds, due July 2005	**1,000**	1,000	1,000	**8,333**
Loans from banks and municipal corporation, due serially to 2006 with interest rates ranging from 2.2% to 3.8% in 2003, 1.9% to 3.7% in 2002 and 2001	**1,011**	1,025	2,479	**8,426**
Total	**3,011**	3,025	4,479	**25,092**
Less current portion	**(1,301)**	(72)	(561)	**(10,842)**
Long-term debt, less current portion	**¥1,710**	¥2,953	¥3,918	**$14,250**

Annual maturities of long-term debt as of March 31, 2003 for the next five years were as follows:

Year Ending March 31	Millions of yen	Thousands of U.S. dollars
2004	¥1,301	$10,842
2005	236	1,967
2006	1,236	10,300
2007	236	1,967
2008	2	16
Total	¥3,011	$25,092

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

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

7. RETIREMENT AND PENSION PLANS

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

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from certain subsidiaries and annuity payments from a trustee. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age. The liability for retirement benefits at March 31, 2003, 2002 and 2001 includes retirement benefits for directors and corporate auditors of ¥1,250 million ($10,416 thousand), ¥1,212 million and ¥1,105 million. The retirement benefits for the Company's directors and corporate auditors are paid subject to the approval of the shareholders.

The liability for employees' retirement benefits at March 31, 2003, 2002 and 2001 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	**2003**
Projected benefit obligation	**¥23,867**	¥22,430	¥21,747	**$198,892**
Fair value of plan assets	**(10,835)**	(10,781)	(9,914)	**(90,292)**
Unrecognized transitional obligation	**(2,416)**	(3,640)	(5,176)	**(20,133)**
Unrecognized actuarial loss	**(6,693)**	(4,046)	(3,756)	**(55,775)**
Unrecognized prior service cost	**1,011**	(80)		**8,425**
Net liability	**¥ 4,934**	¥ 3,883	¥ 2,901	**$ 41,117**

The components of net periodic benefit costs for the years ended March 31, 2003, 2002 and 2001 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	**2003**
Service cost	**¥1,334**	¥1,394	¥1,347	**$11,117**
Interest cost	**561**	544	546	**4,675**
Expected return on plan assets	**(431)**	(395)	(399)	**(3,592)**
Amortization of transitional obligation	**1,224**	1,282	1,282	**10,200**
Recognized actuarial loss	**442**	375		**3,684**
Amortization of prior service cost	**(251)**	6		**(2,092)**
Additional retirement payments		462	206	
Net periodic benefit costs	**¥2,879**	¥3,668	¥2,982	**$23,992**

Assumptions used for the year ended March 31, 2003, 2002 and 2001 are set forth as follows:

	2003	2002	2001
Discount rate	**2.5%**	2.5%	2.5%
Expected rate of return on plan assets	**4.0%**	4.0%	4.0%
Recognition period of actuarial gain/loss	**10 years**	10 years	10 years
Amortization period of transitional obligation	**5 years**	5 years	5 years
Amortization period of service cost	**5 years**	5 years	
Divide of projected benefit obligation	**The straight-line method**	The straight-line method	The straight-line method

8. SHAREHOLDERS' EQUITY

Japanese companies are subject to the Japanese Commercial Code (the "Code") to which certain amendments became effective from October 1, 2001.

Prior to October 1, 2001, the Code required at least 50% of the issue price of new shares, with a minimum of the par value thereof, to be designated as stated capital as determined by resolution of the Board of Directors. Proceeds in excess of amounts designated as stated capital were credited to additional paid-in capital. Effective October 1, 2001, the Code was revised and common stock par values were eliminated resulting in all shares being recorded with no par value.

Prior to October 1, 2001, the Code also provided that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other cash payments which are made as an appropriation of retained earnings applicable to each fiscal period shall be appropriated and set aside as a legal reserve until such reserve equals 25% of stated capital. Effective October 1, 2001, the revised Code allows for such appropriations to be set aside as a legal reserve until the total additional paid-in capital and legal reserve equals 25% of stated capital. The amount of total additional paid-in capital and legal reserve which exceeds 25% of stated capital can be transferred to retained earnings by resolution of the shareholders, which may be available for dividends. The Company's legal reserve amount, which is included in retained earnings, totals ¥1,992 million ($16,600 thousand), ¥1,992 million and ¥1,881 million as of March 31, 2003, 2002 and 2001, respectively. Under the Code, companies may issue new common shares to existing shareholders without consideration as a stock split pursuant to a resolution of the Board of Directors. Prior to October 1, 2001, the amount calculated by dividing the total amount of shareholders' equity by the number of outstanding shares after the stock split could not be less than ¥500. The revised Code eliminated this restriction.

Prior to October 1, 2001, the Code imposed certain restrictions on the repurchase and use of treasury stock. Effective October 1, 2001, the Code eliminated these restrictions allowing companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders meeting and dispose of such treasury stock by resolution of the Board of Directors after March 31, 2002. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of stated capital, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders' meeting.

The Code permits companies to transfer a portion of additional paid-in capital and legal reserve to stated capital by resolution of the Board of Directors. The Code also permits companies to transfer a portion of unappropriated retained earnings, available for dividends, to stated capital by resolution of the shareholders.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

The amount of retained earnings available for dividends under the Code was ¥56,470 million ($470,583 thousand) as of March 31, 2003, based on the amount recorded in the parent company's general books of account. In addition, the Code imposes certain limitations on the amount of retained earnings available for dividends.

During 2003, the Company repurchased 1,500 thousand shares of the Company's stock upon obtaining authorization from the Company's shareholders at a meeting held on June 27, 2002, for the purpose of improving its financial position.

During 2002, the Company repurchased 964 thousand shares of the Company's stock upon obtaining authorization from the Company's shareholders at a meeting held on June 28, 2001, for the purpose of canceling the shares by charging such amounts to retained earnings.

During 2001, the Company repurchased 921 thousand shares of the Company's stock upon resolution of the Board of Directors for the purpose of canceling the shares by charging such amounts to retained earnings.

9. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended March 31, 2003, 2002 and 2001 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	2003
Sales promotion	¥20,672	¥24,462	¥25,741	$172,267
Advertising	9,051	6,918	8,212	75,425
Shipping and storage expenses	11,480	10,368	9,901	95,667
Employees' salaries	8,118	8,144	8,559	67,650
Depreciation	2,273	1,951	1,666	18,942
Other	21,899	22,344	21,465	182,491
Total	¥73,493	¥74,187	¥75,544	$612,442

10. 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 42% for the years ended March 31, 2003, 2002 and 2001. 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, 2003, 2002 and 2001 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	2003
Deferred tax assets—current:				
Accrued expenses	¥1,075	¥1,136	¥1,129	$ 8,959
Unrealized gain	53	225	403	442
Land		10	206	
Other	915	446	256	7,625
Total	2,043	1,817	1,994	17,026
Deferred tax assets—non-current:				
Investment securities	1,094	1,717	591	9,117
Pension and severance costs	2,197	1,623	1,160	18,308
Intangibles	495	762	8	4,125
Less allowance for doubtful accounts	410	298	244	3,417
Tax loss carryforwards of subsidiaries		243	186	
Other	61	241	633	508
Valuation allowance		(570)	(370)	
Total	4,257	4,314	2,452	35,475
Deferred tax liabilities—current:				
Accrued enterprise tax	101			842
Other	122			1,017
Total	223			1,859
Deferred tax liabilities—non-current:				
Net unrealized gain on available-for-sale securities	1,008	1,045	789	8,400
Undistributed earnings of subsidiaries	409	220	244	3,408
Other	11		338	92
Total	1,428	1,265	1,371	11,900
Net deferred tax assets—current	¥1,820	¥1,817	¥1,994	$15,167
Net deferred tax assets—non-current	¥2,829	¥3,049	¥1,081	$23,575
Deferred tax assets—land revaluation	¥1,402	¥4,242	¥4,246	$11,683

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, 2003 and 2001 are as follows:

	2003	2001
Normal effective statutory tax rate	42.1%	42.1%
Expenses not deductible for income tax purposes	0.4	0.8
The resident's tax burden equally	0.3	0.3
Valuation allowance	(2.5)	2.0
Effect of tax rate reduction	0.3	
Other—net	(1.4)	1.3
Actual effective tax rate	39.2%	46.5%

For the year ended March 31, 2002, a reconciliation is not required to be disclosed because the difference is less than 5% of normal effective statutory tax rate.

On March 31, 2003, a tax reform law was enacted in Japan which changed the normal effective statutory tax rate from approximately 42.1% to 40.5%, effective for years beginning April 1, 2004. The effect of this change on deferred taxes in the consolidated statements of income for the year ended March 31, 2003 is ¥146 million.

The effect on land revaluation difference, net of tax, and unrealized gain on available-for-sale securities, net of tax are ¥51 million and ¥37 million.

11. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥4,529 million ($37,742 thousand), ¥4,749 million and ¥3,957 million for the years ended March 31, 2003, 2002 and 2001, respectively.

12. LEASES

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

Total rental expenses for the years ended March 31, 2003, 2002 and 2001, were ¥699 million ($5,825 thousand), ¥727 million and ¥951 million, respectively, including ¥542 million ($4,517 thousand), ¥430 million and ¥596 million of lease payments under finance leases.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense, interest expense of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2003, 2002 and 2001, was as follows:

	Millions of yen			Thousands of U.S. dollars
Furniture and Fixtures	**2003**	2002	2001	**2003**
Acquisition cost	**¥1,997**	¥1,885	¥2,357	**$16,642**
Accumulated depreciation	**1,020**	652	953	**8,500**
Net leased property	**¥ 977**	¥1,233	¥1,404	**$ 8,142**

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

Obligations under finance leases for the years ended March 31, 2003, 2002 and 2001, were as follows:

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	**2003**
Due within one year	**¥446**	¥ 398	¥ 462	**$3,717**
Due after one year	**531**	835	942	**4,425**
Total	**¥977**	¥1,233	¥1,404	**$8,142**

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

Depreciation expense, which is not reflected in the accompanying consolidated statements of income, computed by the straight-line method was ¥542 million ($4,517 thousand), ¥430 million and ¥596 million for the years ended March 31, 2003, 2002 and 2001.

13. 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 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.

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

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

Foreign currency forward contracts and currency options which qualify for hedge accounting for the year ended March 31, 2003, 2002 and 2001 are excluded from the disclosure of market value information.

The Group had the following derivatives contracts outstanding at March 31, 2003, 2002 and 2001:

	Millions of yen									Thousands of U.S. dollars		
	2003			2002			2001			**2003**		
	Contract Amount	Fair Value	Unrealized Gain/Loss	Contract Amount	Fair Value	Unrealized Gain/Loss	Contract Amount	Fair Value	Unrealized Gain/Loss	Contract Amount	Fair Value	Unrealized Gain/Loss
Currency options:												
Written U.S. dollar put				¥419								
(Option premiums on balance sheet)				(5)								
(The fair value of the option written)					¥ (3)	¥ (8)						
Currency swaps:												
U.S. dollars payment/yen receipt	**¥ 279**	**¥(7)**	**¥(7)**	360	(53)	(53)	¥218	¥(19)	¥(19)	**$ 2,325**	**$(58)**	**$(58)**
Thai baht payment/U.S. dollar receipt	**136**			245	4	4	218	8	8	**1,133**		
Thai baht payment/JPY receipt	**1,418**	**3**	**3**							**11,817**	**25**	**25**

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

14. CONTINGENT LIABILITIES

At March 31, 2003, the Group had the following contingent liabilities:

	Millions of yen	Thousands of U.S. dollars
Guarantees of bank loans	¥50	$417

15. SUBSEQUENT EVENTS

The following appropriations of retained earnings at March 31, 2003, were approved at the Company's shareholders' meeting held on June 27, 2003:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥12 ($0.1) per share	¥810	$6,750
Bonuses to directors and corporate auditors	113	942

In addition, the Company is authorized to repurchase, at management's discretion, up to 1 million shares of the Company's stock (to an aggregate amount of ¥7 billion) until the next general shareholders' meeting to be held in June 2004.

The Company also approved the following stock option plan for the Company's directors and key employees.

The plan provides for granting options to directors and key employees to purchase up to 750 thousand shares of the Company's common stock in the period from July 1, 2006 to June 30, 2008. The options will be granted at an exercise price of 105% of the fair market value of the Company's common stock at the previous month of the date of option grant.

The options will not be granted when the fair market value of the Company's common stock is less than ¥8,200.

16. SEGMENT INFORMATION

The Group operates in the following industries:

Industry A consists of baby and child care, feminine hygiene and elderly care.
Industry B consists of pet care.
Industry C consists of others.

Change of Industry Segment Classification

The industry segments had previously been classified as "baby and child care, feminine hygiene and elderly care," "building materials" and "pet care and others" through the fiscal year ended March 31, 2002. Effective April 1, 2002, the Company changed the segment classification as below to be "baby and child care, feminine hygiene and elderly care," "pet care" and "others."

This change is to reflect the change of the Group's business structure, which places more significant strategic importance on the pet care segment for the Group in the three year business plan. In addition, the Company has determined to dispose of the building materials segment and a sale of this segment to a third party is pending.

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

(1) Industry Segments

a. Sales and Operating Income

	Millions of yen				
	2003				
	Industry A	Industry B	Industry C	Eliminations	Consolidated
Sales to customers	**¥191,898**	**¥21,918**	**¥9,353**		**¥223,169**
Intersegment sales	**41**		**127**	**¥(168)**	
Total sales	**191,939**	**21,918**	**9,480**	**(168)**	**223,169**
Operating expenses	**168,360**	**20,719**	**8,468**	**(171)**	**197,376**
Operating income	**¥ 23,579**	**¥ 1,199**	**¥1,012**	**¥ 3**	**¥ 25,793**

b. Assets, Depreciation and Capital Expenditures

	Millions of yen				
	2003				
	Industry A	Industry B	Industry C	Corporate	Consolidated
Assets	**¥118,053**	**¥12,093**	**¥24,526**	**¥33,316**	**¥187,988**
Depreciation	**10,286**	**299**	**438**		**11,023**
Capital expenditures	**14,526**	**136**	**149**		**14,811**

a. Sales and Operating Income

	Thousands of U.S. dollars				
	2003				
	Industry A	Industry B	Industry C	Eliminations	Consolidated
Sales to customers	**$1,599,150**	**$182,650**	**$77,941**		**$1,859,741**
Intersegment sales	**342**		**1,058**	**$(1,400)**	
Total sales	**1,599,492**	**182,650**	**78,999**	**(1,400)**	**1,859,741**
Operating expenses	**1,403,000**	**172,658**	**70,567**	**(1,425)**	**1,644,800**
Operating income	**$ 196,492**	**$ 9,992**	**$ 8,432**	**$ 25**	**$ 214,941**

b. Assets, Depreciation and Capital Expenditures

	Thousands of U.S. dollars				
	2003				
	Industry A	Industry B	Industry C	Corporate	Consolidated
Assets	**$983,775**	**$100,775**	**$204,283**	**$277,634**	**$1,566,567**
Depreciation	**85,716**	**2,492**	**3,650**		**91,858**
Capital expenditures	**121,050**	**1,133**	**1,242**		**123,425**

To conform to the segmentation used in 2003, the segment information of the years ended March 31, 2002 and 2001, classified in accordance with the new standard are shown as below:

a. Sales and Operating Income (Loss)

	Millions of yen				
	2002				
	Industry A	Industry B	Industry C	Eliminations	Consolidated
Sales to customers	¥176,512	¥18,916	¥11,279		¥206,707
Intersegment sales	48		368	¥(416)	
Total sales	176,560	18,916	11,647	(416)	206,707
Operating expenses	157,433	18,657	12,063	(420)	187,733
Operating income (loss)	¥ 19,127	¥ 259	¥ (416)	¥ 4	¥ 18,974

b. Assets, Depreciation and Capital Expenditures

	Millions of yen				
	2002				
	Industry A	Industry B	Industry C	Corporate	Consolidated
Assets	¥115,895	¥10,464	¥16,117	¥44,584	¥187,060
Depreciation	9,949	375	176		10,500
Capital expenditures	12,592	225	99		12,916

a. Sales and Operating Income (Loss)

	Millions of yen				
	2001				
	Industry A	Industry B	Industry C	Eliminations	Consolidated
Sales to customers	¥179,008	¥18,407	¥14,784		¥212,199
Intersegment sales	2,271		1,938	¥(4,209)	
Total sales	181,279	18,407	16,722	(4,209)	212,199
Operating expenses	160,308	18,884	16,483	(4,308)	191,367
Operating income (loss)	¥ 20,971	¥ (477)	¥ 239	¥ 99	¥ 20,832

b. Assets, Depreciation and Capital Expenditures

	Millions of yen				
	2001				
	Industry A	Industry B	Industry C	Corporate	Consolidated
Assets	¥110,515	¥11,194	¥18,674	¥37,013	¥177,396
Depreciation	9,781	369	485		10,635
Capital expenditures	7,709	446	312		8,467

(2) Geographic Segments

a. Sales and Operating Income

	Millions of yen				
	2003				
	Japan	Asia (Excluding Japan)	Other	Eliminations	Consolidated
Sales to customers	**¥177,561**	**¥29,416**	**¥16,192**		**¥223,169**
Intersegment sales	**5,665**	**1,995**	**383**	**¥(8,043)**	
Total sales	**183,226**	**31,411**	**16,575**	**(8,043)**	**223,169**
Operating expenses	**160,110**	**29,024**	**16,260**	**(8,018)**	**197,376**
Operating income	**¥ 23,116**	**¥ 2,387**	**¥ 315**	**¥ 25**	**¥ 25,793**

b. Assets

	Millions of yen				
	2003				
	Japan	Asia (Excluding Japan)	Other	Corporate	Consolidated
Assets	**¥116,619**	**¥23,773**	**¥11,130**	**¥36,466**	**¥187,988**

a. Sales and Operating Income

	Thousands of U.S. dollars				
	2003				
	Japan	Asia (Excluding Japan)	Other	Eliminations	Consolidated
Sales to customers	**$1,479,675**	**$245,133**	**$134,933**		**$1,859,741**
Intersegment sales	**47,208**	**16,625**	**3,192**	**$(67,025)**	
Total sales	**1,526,883**	**261,758**	**138,125**	**(67,025)**	**1,859,741**
Operating expenses	**1,334,250**	**241,867**	**135,500**	**(66,817)**	**1,644,800**
Operating income	**$ 192,633**	**$ 19,891**	**$ 2,625**	**$ (208)**	**$ 214,941**

b. Assets

	Thousands of U.S. dollars				
	2003				
	Japan	Asia (Excluding Japan)	Other	Corporate	Consolidated
Assets	**$971,825**	**$198,109**	**$92,750**	**$303,883**	**$1,566,567**

a. Sales and Operating Income

	Millions of yen				
	2002				
	Japan	Asia (Excluding Japan)	Other	Eliminations	Consolidated
Sales to customers	¥171,436	¥22,738	¥12,533		¥206,707
Intersegment sales	6,092	2,194	1,402	¥(9,688)	
Total sales	177,528	24,932	13,935	(9,688)	206,707
Operating expenses	160,106	23,640	13,721	(9,734)	187,733
Operating income	¥ 17,422	¥ 1,292	¥ 214	¥ 46	¥ 18,974

b. Assets

	Millions of yen				
	2002				
	Japan	Asia (Excluding Japan)	Other	Corporate	Consolidated
Assets	¥121,252	¥19,865	¥10,804	¥35,139	¥187,060

a. Sales and Operating Income

	Millions of yen				
	2001				
	Japan	Asia (Excluding Japan)	Other	Eliminations	Consolidated
Sales to customers	¥184,607	¥18,543	¥ 9,049		¥212,199
Intersegment sales	1,450	1,908	1,843	¥(5,201)	
Total sales	186,057	20,451	10,892	(5,201)	212,199
Operating expenses	166,981	19,300	10,446	(5,360)	191,367
Operating income	¥ 19,076	¥ 1,151	¥ 446	¥ 159	¥ 20,832

b. Assets

	Millions of yen				
	2001				
	Japan	Asia (Excluding Japan)	Other	Corporate	Consolidated
Assets	¥126,309	¥16,293	¥7,667	¥27,127	¥177,396

(3) Sales to Foreign Customers

Sales to foreign customers for the years ended March 31, 2003, 2002 and 2001, amounted to ¥47,971 million ($399,758 thousand), ¥37,004 million and ¥27,802 million, respectively.

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Deloitte Touche Tohmatsu

To the Board of Directors of Unicharm Corporation:

We have audited the accompanying consolidated balance sheets of Unicharm Corporation and subsidiaries as of March 31, 2003, 2002 and 2001, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Unicharm Corporation and subsidiaries as of March 31, 2003, 2002 and 2001, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles and practices generally accepted in Japan.

As discussed in Note 16 to the consolidated financial statements, the Company changed its classification of industry segment.

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

Deloitte Touche Tohmatsu

June 27, 2003

SUBSIDIARIES AND AFFILIATED COMPANIES

As of March 31, 2003

Subsidiaries

		Major Operations	Percentage of Equity
JAPAN	Unicharm Product Co., Ltd.	Production of baby care, feminine care, health care and other products	100%
	Unicharm Material Co., Ltd.	Production of nonwoven and other materials	100
	Kokko Paper Mfg. Co., Ltd.	Production of paper, nonwoven and other materials	100
	Cosmotec Corporation	Processing and sales of photographic printing plates	100
	Unicharm PetCare Corporation	Production and sales of pet care products	51
REPUBLIC OF KOREA	Uni-Charm Co., Ltd.	Production and sales of baby care, feminine care and other products	90
TAIWAN	United Charm Co., Ltd.	Production and sales of baby care, feminine care and other products	53
PEOPLE'S REPUBLIC OF CHINA	Shanghai Uni-Charm Co., Ltd.	Production and sales of baby care, feminine care and other products	75
	Uni-Charm Consumer Product (China) Co., Ltd.	Production of baby care products	100
THAILAND	Uni-Charm (Thailand) Co., Ltd.	Production and sales of baby care, feminine care and other products	94
INDONESIA	PT Uni-Charm Indonesia	Production and sales of baby care, feminine care and other products	74
NETHERLANDS	Uni-Charm Mölnlycke B.V.	Holding company	60

(Plus 12 others)

Affiliated Companies

		Major Operations	Percentage of Equity
JAPAN	Unicharm Mölnlycke K.K.	Sales of adult incontinence care products	50%

(Plus one other)

As of March 31, 2003

Fiscal Year-end	March 31, 2003
Annual Shareholders' Meeting	June 27, 2003
Common Stock	Authorized: 196,390,411 Issued: 68,981,591
Number of Shareholders	18,022
Date of Listing	August 1976
Stock Exchange Listing	First Section, Tokyo Stock Exchange
Transfer Agent	Japan Securities Agents, Ltd. 2-4 Kayaba-cho, 1-chome, Nihonbashi, Chuo-ku, Tokyo 103-0025, Japan
Auditor	Deloitte Touche Tohmatsu

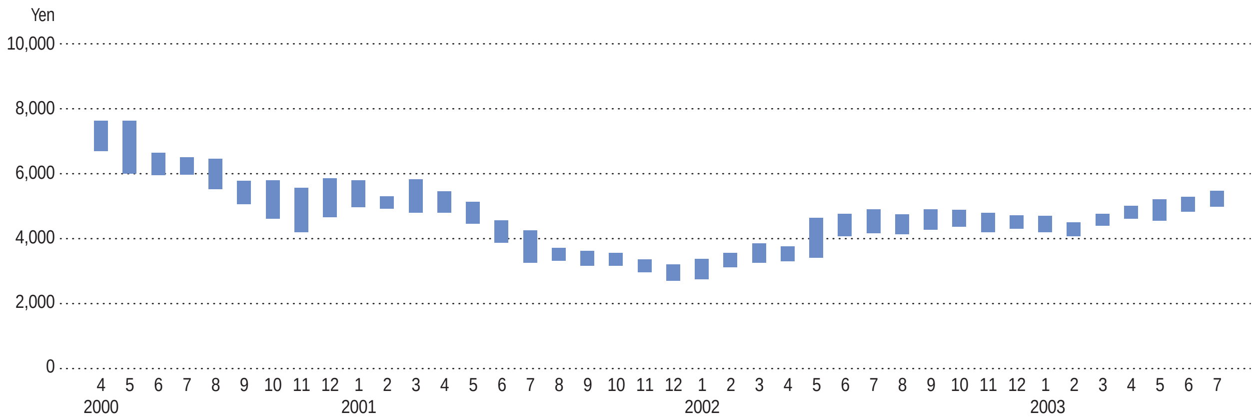
Principal Shareholders

Shareholder	Number of shares (Thousands)	Percentage of voting rights
Unitec Corporation	12,822	19.01%
The Master Trust Bank of Japan, Ltd. (Trust Account)	4,327	6.42
Takahara Kosan K.K.	3,918	5.81
Makoto Shoji Yugengaisha	3,120	4.63
Nippon Life Insurance Company	2,416	3.58
Japan Trustee Services Bank, Ltd. (Trust Account)	2,075	3.08
The Hiroshima Bank, Ltd.	1,920	2.85
State Street Corporation	1,809	2.68
The Iyo Bank, Ltd.	1,699	2.52
Takahara Sangyo K.K.	1,230	1.82

Equity Policy

January	2003	Repurchase and treasury stock (1,500,000 shares purchased at ¥4,500 per share)
February	2002	Repurchase and retirement of shares (964,300 shares purchased at ¥3,400 per share)
March	2001	Repurchase and retirement of shares (921,000 shares purchased at ¥4,900 per share)
July	1999	Sales of shares in Japan and overseas (2,400,000 shares and 300,000 shares green shoe) (Price: ¥6,128; Purchasers: The Tokai Bank, Ltd., Takahara Shinko K.K., The Fuji Bank, Ltd.)
August	1998	Repurchase and retirement of shares (1,724,289 shares purchased at ¥5,210 per share)

Common Stock Price Range



CORPORATE DATA
As of March 31, 2003

Registered Office of the Company
182 Shimobun
Kinsei-cho, Kawanoe-shi,
Ehime 799-0111, Japan

Head Office
25-23 Takanawa 3-chome
Minato-ku, Tokyo 108-8575, Japan

Date of Establishment
February 10, 1961

Paid-in Capital
¥15,993 million

Number of Associates
952 (4,753 on a consolidated basis)

Information
Corporate Planning Department
25-23 Takanawa 3-chome
Minato-ku, Tokyo 108-8575, Japan
Tel: +81-3-3449-2858
Fax: +81-3-3449-7600

Web Site Information

Unicharm proactively discloses various information on its corporate Web site. Unicharm is also upgrading its IR site, which contains financial information and the most recent Company news. This site also features interviews with Unicharm's president and other information. Our Web site is continually updated and includes the latest product information.

www.unicharm.co.jp/english/index.html

unicharm
NOLA&DOLA

R100
Printed in Japan on recycled paper