Unicharm Corporation
Annual Report 2004

unicharm
NOLA&DOLA

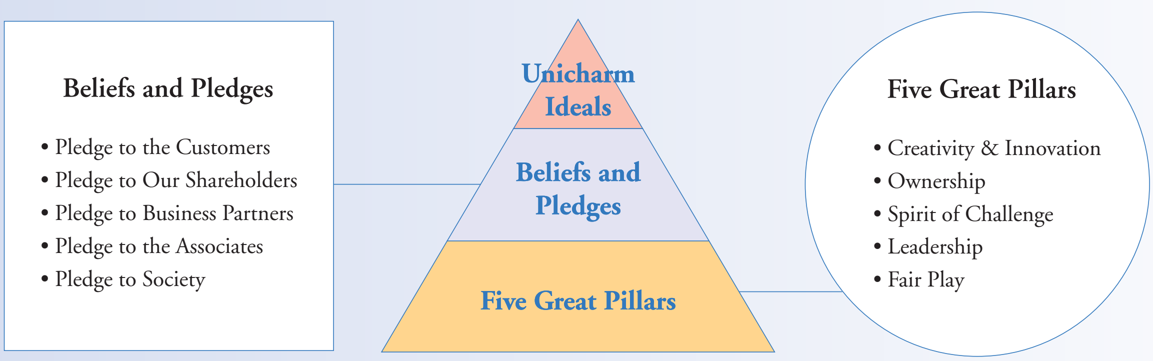
Aiming for Further Growth

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 for further and continued 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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IMPORTANT NOTE ON FORWARD-LOOKING STATEMENTS

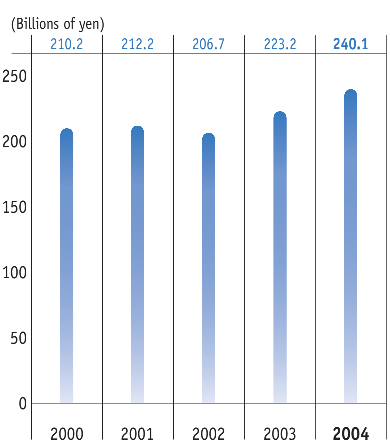
Statements made in this annual report with respect to Unicharm's current plans, estimates, forecasts and strategies are forward-looking statements representing the considered opinion of top management, and based on information and data available at the time of production. For these reasons, Unicharm cautions against the use of these statements as the sole foundation of forecasts of the Company's future performance. A number of important factors influencing Unicharm's business activities have the potential to cause wide variations between these statements and actual future results.

Financial Highlights

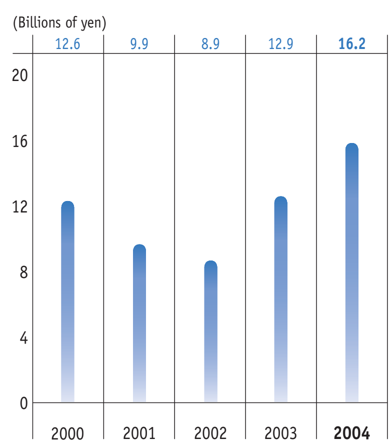
	Millions of yen			Thousands of U.S. dollars (Note 1)
CONSOLIDATED	**2004**	2003	2002	**2004**
FOR THE YEAR:				
Net sales	**¥240,110**	¥223,169	¥206,707	**$2,265,189**
Operating income	**30,727**	25,793	18,974	**289,878**
Net income	**16,240**	12,879	8,852	**153,208**
Capital expenditures	**19,488**	14,811	12,916	**183,849**
Depreciation	**11,616**	11,023	10,500	**109,585**
R&D expenses	**4,689**	4,529	4,749	**44,236**
AT YEAR-END:				
Shareholders' equity	**¥123,709**	¥113,137	¥109,306	**$1,167,066**
Total assets	**209,002**	187,988	187,060	**1,971,717**
PER SHARE DATA:	Yen			U.S. dollars
Net income	**¥240.26**	¥185.29	¥125.20	**$2.27**
Cash dividends applicable to the year	**28.00**	24.00	20.00	**0.26**

Note: The U.S. dollar amounts in this report are given for convenience only and represent the translation of Japanese yen at the rate on March 31, 2004 of ¥106=U.S.$1. See Note 1 of Notes to Consolidated Financial Statements.

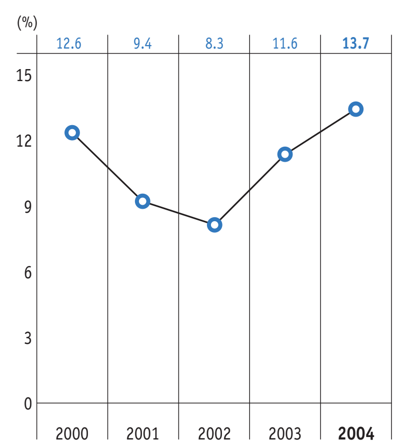
Net Sales



Net Income



ROE



To Our Shareholders

Fiscal 2004 Performance Overview

The basic tone seen in the domestic operating environment during fiscal 2004, ended March 31, 2004, was one of underlying recovery despite stagnant consumer spending. This contrasted with ongoing dynamic growth in Asian economies, where the Company is primarily focusing its business development.

Under such conditions, the Company implemented four key strategies to enhance management efficiency, under which it (a) improved profitability and strengthened growth potential by placing particular emphasis on the channeling of management resources to its baby and child care, feminine care, and health care businesses, (b) extended the operations of its Lifestyle Products Division in the burgeoning Asian market through its baby and child care as well as feminine care businesses, (c) with an eye to future growth, nurtured its pet care and clean & fresh businesses as new cornerstone businesses by means of effective investment of management resources, and (d) reexamined non-core and underperforming businesses. As a result, in the fiscal year under review, consolidated net sales increased 7.6% compared with the previous fiscal year, to a record-high of ¥240.1 billion. Domestic sales in the core businesses (baby and child care, health care, clean & fresh, and pet care) were up ¥13.1 billion compared with the previous fiscal year, to ¥190.7 billion. At the same time, in the Asian region, sales in the feminine care as well as the baby and child care business operations recorded considerable gains, amounting to a year-on-year increase of 11.2%. This resulted in sales to external customers overseas increasing ¥3.8 billion compared with the previous fiscal year, to ¥49.4 billion, reaching the stage where they accounted for 20.6% of consolidated net sales.

On the earnings front, operating income rose 19.1%, to ¥30.7 billion, ordinary income climbed 20.2%, to ¥31.1 billion, and net income jumped 26.1%, to ¥16.2 billion. All these figures mark record highs for the Company. They were achieved by improving the value added of new products launched onto the domestic market, sales-increase effects, the effective application of sales promotion costs and other operating expenses, and improvements in profit margins of overseas operations associated with increases in sales. Net income per share was ¥240.26, a year-on-year increase of ¥54.97. In addition, return on equity (ROE) rose 2.1 percentage points compared with the previous fiscal year, to 13.7%.

NOLA&DOLA

Necessity of Life with Activities
&
Dreams of Life with Activities

Unicharm's corporate philosophy, encapsulates a Companywide commitment to fulfilling the dreams of each and every consumer, providing relief from discomfort to infants and the elderly, and delivering products that alleviate physical and mental distress.

Sixth Medium-Term Management Plan — Toward Further Expansion of Corporate Value through Management Reform

Based on its corporate philosophy — Necessity of Life with Activities & Dreams of Life with Activities (NOLA & DOLA) — Unicharm will continue to do all in its power to fulfill the hopes of each and every consumer. It will supply products that alleviate physical and mental stress and thereby ease the wide variety of burdens that people endure throughout their lives, from infancy to old age. With the aim of bringing the NOLA & DOLA philosophy to fruition, Unicharm has adopted the slogan “delivering kindness, supporting care.” Combining this with the knowledge and efforts of its entire workforce, operational planning is to be proactively implemented on a Companywide basis. These plans will have value creation activities as their main thrust and be calculated to give a wide sense of achievement.

Under this management philosophy, in order to establish an unassailable market position in Asia by fiscal 2008, achieve net sales of ¥400.0 billion, operating income of ¥50.0 billion and an ROE of 15%, the Company has started its Sixth Medium-Term Management Plan (SAPS Plan), the five key strategies of which are as follows:

1) Strengthen the implementation of strategies based on the Schedule-Action-Performance-Spiral (SAPS) business model
2) Establish new markets by developing dynamic products that are world firsts and that will attain the No.1 position
3) Secure the leading position in Asia through growth in the personal care category
4) Realize global cost competitive advantage through sweeping structural reform of the supply chain management system
5) Increase corporate value through efforts to enhance corporate social responsibility (CSR) and corporate governance

Proactively addressing measures to implement these strategies, forming an innovative business model tailored to changes in the operating environment, and strengthening its relationships with customers will lead to ongoing improvements in Unicharm's brand value.

Strategic Priorities for Fiscal 2005

A glance at the business environments in which Unicharm is operating reveals the first signs of a recovering trend in performance in Japan, but intense competition is expected to make the market environment tight overall. Elsewhere in Asia, competition between global brands is expected to escalate and intensify as the widening of the market gains pace.

Under such conditions, the Sixth Medium-Term Management Plan has basic strategies that pay constant, precise attention to the needs of Unicharm's customers, and marketing activities to create new markets and increase brand value alongside the strengthening of product development and technological prowess. Such proactive business expansion will lead to the resurgence of mature markets and overall market growth. Furthermore, by reducing overall supply chain management costs and increasing cost effectiveness, I believe that plans can be made for fundamental cost structure reforms and I would like to see further improvements in earnings potential.

Domestically, in the baby and child care business, the promotion of *Moony Man* and *Moony* as premium brands by product reform, the newly launched *Moony Man Mizu-Asobi Pants,* and larger sizes of *Moony Man* are intended to bring strengthened earnings and increased sales by creating new demand and revitalizing the market. In the feminine care business, vigorously developing a newly created category with the *Sofy Wide-Guard* series is bringing with it further brand strengthening. In addition, in Unicharm's health care business, the development of an extensive lineup that can pinpoint the varied needs of *Lifree* brand consumers and market penetration of a continence rehabilitation care system is being planned. These will broaden the Company's business portfolio at a speed that will exceed market growth. The product lineup is being extended and brand penetration accelerated as new markets are being formed in the clean & fresh business, with the launch of the new model *Wave Pyu-Pyutto Mop* as part of the *Wave* disposable cleaner series.

In the pet care business, there have been additions to the lineup of pet toiletry products, which have arisen from the Company's technical expertise in absorbent materials and nonwoven fabric. It is also planned to increase earnings by upgrading the highly functional, high-value-added product line and proactive marketing development. These will correspond to changes in the pet food market, where the pet population is getting older, and reflect current trends for smaller pets and for pets that can be kept indoors.

Overseas, growth in the feminine care business will be further accelerated in all major Asian countries with the *Sofy* brand. Through active market development of the *Mamy Poko* brand, the baby and child care business will proceed with accelerated broadening of the market and brand penetration as well as upgrades to its manufacturing and supply systems.

In addition, in the health care business, proactive marketing of *Lifree* paper briefs for adults in Taiwan and Thailand will cultivate the third pillar of the Company's overseas operations.

As a result of the above, record highs are predicted for fiscal 2005 with the aim of posting net consolidated sales of ¥252.0 billion (an increase of 5.0% compared with fiscal 2004), operating income of ¥32.2 billion (up 4.9%), ordinary income of ¥32.5 billion (up 4.5%), and net income of ¥17.4 billion (up 7.4%). Consequently, net income per share is set to increase to ¥259.40, an increase of ¥19.14 compared with the fiscal year under review.

Basic Profit-Sharing Policy

The Company considers the paying of dividends to its shareholders as the most important management policy and, for this reason, works to increase corporate value by generating cash flow.

With regard to shareholder dividends, the Company adheres to its policy of continued increases and stable dividend distribution. At the same time, it is working to strengthen its business structure and proactively expand operations in order to improve earnings potential.

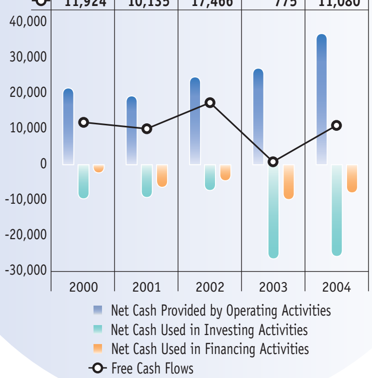
Moreover, in the case of free cash flow activities, from the perspective of future increases in corporate value, the utmost priority is also given to concentrating funding on investment. This is geared to extending the business portfolio in Japan and overseas, R&D, and IT system upgrades and the like. Such opportunities, as with the acquisition of treasury stock, to increase shareholder returns can arise, but due consideration is likewise given to management efficiency from the long-term perspective.

In accordance with its basic policy as outlined above, Unicharm declared a full-year cash dividend of ¥28.00 per share in the fiscal year under review. This marked an increase of ¥4.00 per share compared with the previous term, in keeping with its commitment to continuous dividend increases. Dividend increases are planned to continue in fiscal 2005, with ¥2.00 per share being added for a full-year dividend of ¥30.00 per share. In order to improve capital efficiency and continuously provide adequate returns to shareholders, the Company acquired by tender 999,000 of its own shares for ¥5.3 billion during the period under review to be held as treasury stock.

CASH FLOWS

(Millions of yen)

	2000	2001	2002	2003	2004
Net Cash Provided by Operating Activities	21,530	19,370	24,728	27,186	36,916
Net Cash Used in Investing Activities	-9,606	-9,235	-7,262	-26,411	-25,836
Net Cash Used in Financing Activities	-2,299	-6,344	-4,406	-9,806	-7,933
Free Cash Flows	11,924	10,135	17,466	775	11,080

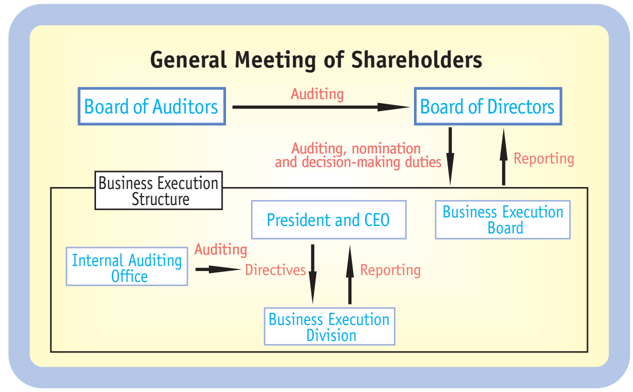


Capital expenditures for the period under review were up ¥4.7 billion compared with the previous fiscal year, to ¥19.5 billion. This came about as a result of the Company actively carrying out improvements to its facilities related to product revamps and the construction of its second plant in China, establishing more sites to extend the overseas business portfolio with the Asian region as its focus. In Japan, new product manufacturing facilities for the Company's core businesses were introduced.

Strengthening Corporate Governance

Unicharm has positioned strengthening of corporate governance, increasing corporate value, and fulfilling CSR as priority management issues and actively addresses them.

An executive officer system has been in place since June 1999 to improve the Company's corporate governance management control structure, but structural reforms of the management structure reform have been implemented since June of this year. These are intended to increase oversight and separate executive and supervisory functions. Abolishing such posts as president and managing director, respective roles have been added to executive officers and the position of president and CEO created to head the executive function. Each executive officer, selected to be in office for a period of twelve months at the Board of Directors' meeting that follows the annual general meeting of shareholders, assumes responsibility



for his or her division's operations. The chairman of the Board of Directors is appointed from among those directors not holding a concurrent position of executive officer and is ultimately responsible for the audit function, to maintain the separation between functions. Newly formed in April 2004 to give added impetus to a swift decision-making process on issues concerning executive matters and the strengthening of the audit function related to the Company's business affairs, the Business Execution Board is comprised of standing members holding positions as both executive officers and directors. Every month, the committee is chaired by a representative director and chief operating officer to give due consideration and devise swift solutions to tabled issues that are of pressing concern to the Company's business affairs and the Companywide business status as it relates to the standing members' divisions.

Unicharm, as a company with a statutory Board of Auditors, has also enforced and implemented two years ahead of time more than half of the external auditor nominations required of it. By so doing, the Board of Auditors is made up of two in-house and four external appointments, thus strengthening the audit function that oversees the Board of Directors.

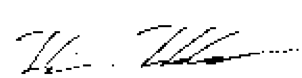
Together with this upgrading of its management control functions, the Company is committed to actively increasing corporate value and fulfilling its CSR by making further efforts to imbue each and every employee with a sense of correct corporate management.

Improving Corporate Value by Reinforcing CSR

Our goal is to remain a company that is truly trusted by society. Since its foundation, Unicharm has been guided by its desire to be perceived as a genuinely good company in the eyes of both society at large and of its customers. To this end, the Company is actively engaged in maintaining sustained corporate growth and the well-being of its employees, and fulfilling its CSR. These form the basis of its corporate creed. As shareholders pass an increasingly keen eye over a company's ability to fulfill its CSR, Unicharm actively promotes corporate management's best practices and maintains an acute awareness of the critical nature of increasing corporate value and CSR. Such matters are being addressed in a practical manner on a Groupwide basis by improvements to the management control structure and increasing awareness among employees, further reinforced through the issue of the Group's corporate behavior guidelines.

The disposable diaper and feminine napkin are both mainstay products of the Company for which the assurance of safety plays a vital role in gaining customer trust. As a manufacturing enterprise, the Company has established a CSR Department in order to strengthen and integrate its CSR activities. This will act as the Company's principal CSR management organization covering environmental issues, product quality, adherence to regulatory requirements, and product safety assurance. It is also intended to strengthen corporate competitiveness and maximize customer satisfaction by combining ecological and quality issues. Furthermore, the Corporate Ethics Department that has been newly established within the CSR Department will further raise awareness of correct corporate management throughout the Company.

We thank you for your continued support and understanding.



October 2004

Takahisa Takahara

President and CEO

Business Overview

Lifestyle Products Division

Baby and Child Care

- Pants-type disposable diapers
- Toilet training pants
- Pants to prevent bed wetting
- Baby wipes
- Wet tissues

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Feminine Care

- Feminine napkins
- Tampons
- Panty liners
- Sanitary shorts

Health Care

- Adult Pants-type disposable diapers
- Absorbent pads for light discharges
- Shorts to guard against light discharges
- Care products
- *Superdimensional Mask*

Clean & Fresh

- Moist towelettes
- Cosmetic puffs
- Disposable cleaning sheets
- Kitchen paper towels

Pet Care Division

- Dog food
- Cat food
- Pet sheets
- Pet disposable diapers
- Pet toiletries

Other Division

Sales in fiscal 2004 amounted to ¥205.3 billion, a 7.0% increase compared with the previous fiscal year, and operating income increased 15.5%, to ¥27.2 billion.

Unicharm entered the baby and child care market in 1981 with the release of *Moony* disposable diapers. With nearly 50% of the market, the Company now commands the largest share. In 1992, Unicharm released the world's first pants-type diaper, *Moony Man*, creating new value and transforming the structure of the market. Furthermore, the Company created new product categories with *Oyasumiman* sleeping underwear, *Trepanman* toilet training pants and *Moony Man for Hai Hai*, diaper pants for babies who are at the crawling stage. These have also served to expand and invigorate the market.

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 an extensive range of feminine products. Unicharm is the sole Japanese manufacturer of a comprehensive range of feminine care products such as feminine napkins, sanitary tampons and panty liners. Furthermore, with a product lineup that incorporates a wide range of functions to pinpoint customer needs even more accurately, the Company has commanded the top share of this market for the past eight years.

Since its entry into the field of continence rehabilitation with *Lifree Rehabili-Pants* in 1995, Unicharm has provided innovative, high-value-added products that meet a diverse range of needs and contribute to lightening the physical, economic and psychological burdens of both patients and caregivers. In addition, since 1997, we have been providing the *Lifree Iki-iki Hotline* service, in which professional advisors address customers' concerns and questions about discharge care. Unicharm's nonwoven fabric and absorbency technologies are also used at hospitals and other medical institutions. In addition, we have developed the *Unicharm Superdimensional Mask*, a surgical-type mask for those who suffer from severe pollen allergies. Developed using Unicharm's technological expertise in nonwoven fabrics, this product eliminates the past shortcomings of using flat masks intended for flu sufferers thanks to its completely new three-dimensional design.

Since starting sales of cosmetic puffs in 1974, Unicharm has been developing products for clean, sanitary and fresh environments based on its core nonwoven fabric, absorbency, and manufacturing process technologies. Today, in addition to cosmetic puffs, the Company provides new value in a variety of fields through the development of products for general household, industrial, and medical use. These include products to keep homes clean: moist towelettes for general cleaning in the kitchen and toilet, as well as for skin care use.

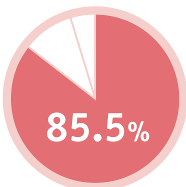
Sales in fiscal 2004 amounted to ¥23.6 billion, a 7.5% increase compared with the previous fiscal year, and operating income increased ¥1.0 billion, to ¥2.2 billion.

Having entered the market in 1986, Unicharm's pet care business is now managed by consolidated subsidiary Unicharm PetCare Corporation. With a business philosophy of providing pets with a healthy, clean, and comfortable life, the Company supplies new value products and services for the "pets and people together" lifestyle through its three brands: *Aiken Genki*, *Neko Genki* and *Gaines*. These products include dry, wet, and soft pet food as well as pet sheets that utilize the Company's expertise in nonwoven fabric and absorbency technologies, cat litter with deodorant, and pet diapers that draw on the technologies accumulated in the course of the development and production of baby diaper products.

Sales in fiscal 2004 amounted to ¥11.3 billion, a 20.5% increase compared with the previous fiscal year, and operating income showed a significant 30.9% increase, to ¥1.3 billion.

In other businesses, we put our expertise in nonwoven fabric and absorbency technologies to use in the marketing of commercial food packaging materials to supermarkets and other commercial customers.

Review of Operations



Lifestyle Products

Baby and Child Care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Business Overview

In the fiscal year under review, operating conditions in Japan became increasingly difficult, impacted by a drop in demand attributed to the declining birth rate, and the prolonged slump in consumer spending. Despite faint signs the decline in sales prices had bottomed out, concerns remained over long-term business stability.

Against this backdrop, Unicharm continued its policy to consistently renew its product lineup, focusing mainly on measures to gain greater market acceptance of its pants-type disposable diapers, and as a leading company, to actively implement marketing activities with the aim of delivering high-value-added products to consumers. Through these means, Unicharm worked to revitalize a stagnant industry and to significantly expand the Company's profits.

A recent example of efforts to provide innovative products is the renewal of the Company's *Moony Man* brief-type disposable diaper. With the aim of increasing customer satisfaction, *Moony Man* received a complete makeover and was released in a form closely approximating underwear. In the fiscal year under review a renewed *Moony Man* was released nationally in October 2003 and again re-released in separate formats for boys and girls with a colorful new design, in February 2004. In similar fashion, color designs of *Mamy Poko Pants* and *Oyasumiman* were introduced in 2003 and of *Trepanman* in 2004. In the tape-type disposable diaper category, Unicharm introduced a number of original derivations of the mainstay *Moony* series. In February 2004, the Company released *Moony Oshiri Pure* diapers, which feature an *unchi pocket*, in both newborn and small sizes. In March 2004, Unicharm launched *Moony Nobiru Fit* in the eastern regions of Japan. The *Moony Nobiru Fit* is a medium- and large-sized diaper with a *magical waist* providing comfort to infants of all sizes.

In the area of marketing and promotional activities, Unicharm launched a limited summer sale of the *Trepanman* Trial Pack, the Company's leading toilet training pants, and pushed forward the *Unicharm Baby Summer Campaign* with the aim of creating additional demand and revitalizing the market.

In addition to various business activities, Unicharm actively collaborates with a number of parties to provide support to those caring for babies and to enlighten parents on the wonders and joys of raising children. Together with the Combi Corporation, Wakodo Co., Ltd., and Senshukai Co., Ltd., the Company provides year-round support to mothers through the Web site, http://www.babytown.jp/. Unicharm also operates in collaboration with other related parties such as with the Web site, http://www.premama.jp/, for women preparing to give birth and has introduced a *Baby Town Point Campaign* to further contribute to those raising children. Through these activities, the Company is striving to increase brand value and to cultivate and expand a loyal customer base.

As a result, sales in the baby and child care business rose ¥8.4 billion to ¥101.0 billion, of which ¥77.6 billion was accounted for by domestic operations.

Strategies for Fiscal 2005

In fiscal 2005, the fiscal year ending March 31, 2005, the Company will continue to create new markets and revitalize existing markets, to expand sales, and enhance earnings capacity, through the release of renewed products in the *Moony Man* and *Moony* series and innovative new products such as *Moony Man Mizu-Asobi Pants.*

Feminine Care

Business Overview

The domestic market for feminine care products was weak as a result of the decline in the target population. Against this backdrop, however, and as the sole manufacturer of a complete lineup of feminine care products, Unicharm continued to develop and improve products associated with its *Sofy* brand, working to provide reassurance and comfort, and to revitalize the market, based on the principle of creating freedom and comfort for women through science.

In October 2003, the Company launched *Sofy Wide-Guard*, Japan's first extra-wide napkin for overnight protection. By raising customer satisfaction through increased overnight comfort, Unicharm successfully secured a major share of the market and provided the stimulus for further expansion in this growth field. At the same time, the Company released *Sofy Night Fit*, sanitary shorts, which served to again expand the *Sofy* lineup, and to invigorate the night-use feminine napkin market.

In sanitary tampons, an area in which Unicharm maintains an overwhelming market share, the Company provides education on effective use and product features, and promotional campaigns to generate better understanding. In 2003, as part of celebrations to mark the 20th anniversary of the *Sofy* brand, Unicharm launched the *Sofy 20th Anniversary Campaign* with the aim of stimulating increased demand.

Backed by the aforementioned activities, Unicharm has secured the number one position in the domestic market for feminine care products. At the same time, the Company has established a close bond with customers, and is recognized as Japan's leading reliable and friendly brand.

Despite these factors, and as a result of a difficult operating environment, sales in the feminine care business declined ¥0.5 billion to ¥56.3 billion, of which domestic operations accounted for ¥38.2 billion.

Strategies for Fiscal 2005

In the fiscal year ending March 31, 2005, Unicharm intends to further enhance the new *Sofy Wide-Guard* series. The Company will also release *Sofy Panty Liner Zero-Taikan*, a thin, comfortable panty liner, as part of efforts to further strengthen the *Sofy* brand and to secure a permanent position as the market leader.

Health Care

Business Overview

In fiscal 2004, the health care market in Japan was characterized by intense competition. Against this backdrop, Unicharm outstripped the market in terms of sales growth. In the context of a demographic shift to an older population spurring market growth in Japan, the Company is working to develop and improve its *Lifree* brand, guided by the business philosophy, "Pursue the Joy of Life," and with an eye on the goal expressed in the concept of "Bedridden neither in Mind nor Body."

Since its entry into the field of discharge rehabilitation, Unicharm has achieved the top share of the brief-type disposable diaper market through products such as *Lifree Rehabili-Pants*, *Lifree Thin-Type Long-Time Anshin Pants*, and *Lifree Thin-Type Keikai Pants*. Incorporating ultra-soft materials, the newest in the line offer the comfort and feel of underwear, and are easy to wear and remove. Unicharm also boasts the leading market share in absorbent pads used in disposable diapers. In response to the need for heavy consumption, the Company released Super Jumbo Packs of its *Lifree Urine Absorbing* Pads and its *Lifree Urine Absorbing Pads Super*.

In the light incontinence category, an area characterized for its high latent demand, Unicharm renewed its *Charm-Nap Sawayaka Liner* series of absorbent liners. The Company also introduced *Charm-Nap Sawayaka Extra Absorbency for Heavy Incontinence Comfort*, and *Charm-Nap Sawayaka Extra Absorbency for Long-Lasting Comfort* to further bolster its lineup. Moreover, Unicharm worked to improve and package its *Lifree Sawayaka Pad*. Through these efforts, the Company has successfully expanded sales in the light incontinence category and secured a permanent position as the category leader.

For the bedridden, assuming a sitting position is considered the first step toward rehabilitation. In 2003, Unicharm released *Lifree Sitting-Comfort Pads*, for use at medical facilities. In March 2004, the Company commenced general sales of *Lifree Sitting-Comfort Urine Absorbing Pads* through retail outlets.

In addition to efforts to further enhance its product lineup, Unicharm collaborates with external experts to develop discharge care systems at its Discharge Care Research Facility. At the same time the Company works to provide education, proposals, products, and services in continence rehabilitation that improve the quality of life for both caregivers and those cared for, by forging close ties with professionals such as nurses, care managers, home helpers, and staff at hospitals and regional care centers.

Unicharm also offers the *Lifree Iki-iki Hotline* service, in which professional advisors address customers' concerns and questions about discharge care. With the aim of further enhancing value of the *Lifree* brand, Unicharm maintains the Web site, http://www.unicharm.co.jp/, which provides nursing and care information and caregiver support from counseling services to mental care advice.

Following the release in January 2003 of the *Unicharm Superdimensional Mask*, a surgical mask for those who suffer from severe pollen allergies, which attracted wide support, the Company released *Unicharm Superdimensional Mask for Colds and Influenza* in October 2003. Through these efforts, the Company has achieved the leading market share in the mask category.

Strategies for Fiscal 2005

In the health care business, Unicharm will focus on improving and enhancing "brand, product, channel, and service" as a means to distinguish the Company from its competitors. Through its *Lifree* series, Unicharm will work to enhance brand power and will strengthen educational activities relating to continence rehabilitation systems with the aim of outpacing the industry in sales growth.

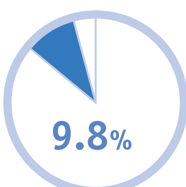
Clean & Fresh

Business Overview

In the clean & fresh segment, Unicharm has developed products based on its core technologies in absorbent materials and nonwoven fabric. In the fiscal year under review, the Company strengthened its lineup of general-use moist towelettes with the addition of *Silcot Wet Safe Disinfectant Tissues* to its *Silcot Wet Tissues* line. It also renewed and re-released its top selling *Silcot* cosmetic puffs. For the kitchen, the Company also released a renewed version of its *Cookup* moist towelettes. The *Cookup Kitchen Cloth* is a strong, practical, and economical alternative to traditional dish towels.

Strategies for Fiscal 2005

In the clean & fresh business, Unicharm will work to raise the market profile of its *Wave* series and brand. Through products such as the original *Wave Pyu-Pyutto Mop*, a mop that easily wipes liquid spills, the Company is looking to extend its number one position in the handy wipe category and to expand business through the creation of new markets.



Pet Care Products

Business Overview

Unicharm's pet care business is managed by consolidated subsidiary Unicharm PetCare Corporation. Japan's demographic shift toward 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 pet foods concentrating on taste, while at the same time addressing concerns regarding pet health. Through the release of new products such as *Neko Genki*, for overweight cats, *Neko Genki Dry Kedama Care* cat food for the treatment of hairballs, *Aiken Genki Food* for dogs over 11 years of age, and *Aiken Genki Kenko Biscuit*, Unicharm successfully cultivated a high-value-added market segment and expanded sales.

In the pet toiletries category, the Company also achieved steady growth in sales through new products using nonwoven fabric and absorbency technologies. The new products include *Unicharm Pet Care Antibacterial Oshikko Yogorefuki Sheet*, *Disposable Diapers for Large Dogs*, and *Unicharm Pet Care One Week Disinfectant Deo-Toilet*, an innovative litter that remains odorless even after a week's use. In addition, the Company released a series of pet foods in March 2004, such as *Neko Genki*, *Ginno-Spoon*, *Gains Pakkun* for small dogs, *Aiken Genki* for dogs over 11 and diced *Aiken Genki* for dogs over seven years of age. In the pet toiletries product category, Unicharm launched *Unicharm Pet Care Treatment for Fleas and Mites* and *Unicharm Pet Care Daily Disinfectant Super Deo-Sheet*. These new products allowed the Company to create and expand new markets.

Accounting for the aforementioned factors, sales in the pet care products business increased ¥1.6 billion to ¥23.6 billion, while operating income jumped ¥0.9 billion to ¥2.1 billion.

Strategies for Fiscal 2005

Unicharm will continue to improve its unrivalled position in the pet toiletries category by expanding its lineup of products based on its nonwoven fabric and absorbency technologies. At the same time, the Company will endeavor to develop new highly functional, high-value-added products that reflect the changing market and the trend toward small and aging pets. Through active advertising and marketing efforts, Unicharm will continue to increase its profit and earnings.

Overseas Business

Unicharm is working to expand growth of lifestyle products in Asia and to achieve the number one position in East Asia's life support industry. With a population of two billion, the Company is striving to deliver original products that provide comfort and the joys of life to this lucrative market.

Since Unicharm's entry into overseas markets with the establishment of a local company in Taiwan in 1984, the Company has stepped up efforts to expand its overseas business. In addition to Unicharm's overseas network covering 10 countries in East Asia, the Company has added bases in Saudi Arabia and the Netherlands. The Company is accelerating efforts to fortify its 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.

Business Overview

In fiscal 2004, overall overseas sales climbed ¥3.8 billion compared with the previous fiscal year to ¥49.4 billion, and operating income rose ¥1.0 billion to ¥3.7 billion in line with the growth in sales. The Company experienced a significant jump in profits with particular contributions from Thailand, Indonesia and ASEAN countries.

Segment Information

Baby and Child Care

The Company is experiencing steady growth in ASEAN countries, beginning with Thailand and including Indonesia, Malaysia, Singapore, and the Philippines. Thailand in particular is a major market for Unicharm, having increased its market share to approximately 50%. In Indonesia, the Company has also secured the leading position in the market with increased sales of its brief-type disposable diaper, *Mamy Poko Pants*. In China, consumers are increasingly becoming aware of the Company's products and the unique features of the tape-type disposable diaper for boys and girls, *Mamy Poko*.

Feminine Care

Unicharm has successfully entered new markets on the back of its lineup of feminine napkins and panty liners. Overall growth in feminine care products overseas is being led by strong performance in Thailand and Indonesia. In Taiwan, Unicharm reported record profits for fiscal 2004, while sales tripled in Vietnam. Activities in China, where the Company maintains the top market share, are also continuing to show signs of a growth vector.

Health Care

In the health care segment, sales in Taiwan recorded double digit year-on-year growth. In Thailand, Unicharm launched sales of its *Lifree* brand of adult diapers and its urine guard pads, while in Europe and North America, sales of the Company's brief-type disposable diaper also recorded double digit growth and continued high earnings.

Clean & Fresh

Unicharm released *Wave*, a sheet cleaner for floors, in Taiwan and has experienced steady growth in sales. Overall overseas sales in the clean & fresh category have recorded double digit year-on-year growth. Unicharm also licenses its *Wave* sheet technology and is seeing a steady growth in sales of *Swiffer Dusters*, sold in North America through Proctor & Gamble. Royalty income from this business is contributing significantly to segment earnings.

Country or Region	Baby and Child Care	Feminine Care	Health Care	Clean & Fresh	Production	Sales
China	●	●			●	●
Taiwan	●	●	●	●	●	●
Korea		●			●	●
Thailand	●	●	●		●	●
Indonesia	●	●			●	●
Malaysia	●	●				●
Singapore	●	●				●
Vietnam		●				●
Mongolia	●	●				●
Philippines	●					●
Saudi Arabia	●					
Netherlands	●		●		●	

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 is based on technology tie-ups in the Netherlands. The Company provides licensing for household cleaning products in North America.

Strategies for Fiscal 2005

In its overseas business, Unicharm will accelerate the expansion of business activities in the feminine care category, focusing primarily on the *Sofy* brand and on sales in East Asian countries. In the baby and child care segment, the Company will actively pursue the development, manufacture, and supply of its *Mamy Poko* lineup, and concentrate on raising market awareness and brand recognition. In the health care category, Unicharm will aggressively promote business in Taiwan and Thailand of its *Lifree* adult diapers and foster the overseas business category as a third earnings pillar for the Company.

Research & Development

Following on from the previous fiscal year, Unicharm reported record-high net sales, operating income, ordinary income, and net income in fiscal 2004. The root cause and driver of this strong growth lies in the development of high-value-added, market-creating products.

Based on the underlying philosophy of "continuously creating new value through technology innovation," Unicharm is engaged in research and development activities primarily at its technical center located in Toyohama-cho, Kagawa Prefecture. The Company works tirelessly to upgrade its paper and pulp know-how and to enhance its nonwoven fabric and specialized polymer absorbency materials technology. Unicharm's goal is to develop and promptly introduce a succession of category-leading products.

Of the Company's fast-growing lineup of products, Unicharm will introduce two new market-creating products this spring, the new *Moony Man Mizu-Asobi Pants* (diapers for playing in water) from the baby and child care business and *Sofy Panty Liner Zero 0 Taikan* from the feminine care business.

Disposable diapers for playing in water to create a whole new market

About 90% of kids, from babies learning to stand, to children learning to use the toilet have had fun playing in water. From the start of May to October, babies and children enjoy playing in backyard pools, water parks, the sea and rivers. In recent years, the number of facilities for playing in water has increased as a part of efforts to upgrade safe playing facilities for children. With these changes, the frequency of children playing in water has increased to an average of nine times per month during the summer.

Mothers are anxious about whether to let their kids play naked, with a swimsuit or in diapers in the water. They worry about how others will perceive their parenting abilities if their kids go to the bathroom while naked or in a swimsuit. The problem with disposable diapers is they absorb water and become heavy, causing gaps. So, mothers have either kept their children out of the water or felt anxious while letting them play.

Moony Man Mizu-Asobi Pants

To help these mothers feel better, Unicharm developed the *Moony Man Mizu-Asobi Pants*, a new diaper designed especially for playing in water with three features not available in swimsuits or disposable diapers. First, the new diaper does not expand and become heavy with water. Second, it prevents discharge from escaping. Third, it has colorful designs for boys and girls, like a swimsuit.

1) **Featuring a thin, newly developed absorbent material that does not use polymers, the diaper does not retain water and expand or become heavy.**
2) **Employs new technologies, Waist Fit Gathers and Discharge Block Gathers, for preventing discharge from leaking around the legs and waist.**
3) **Uses colorful designs for boys and girls like a swimsuit that are clearly different from disposable diapers.**

With this new diaper for playing in water, both children and their parents can play to their hearts content without worrying about going to the bathroom.

Astounding the market with a next-generation liner that does not feel like it is there!

The usage rate of panty liners in Japan is about 40%, still low compared with the approximately 60-70% usage rate in European and American markets. Many women use panty liners every day in these markets, whereas in Japan almost all women use panty liners only when they have vaginal discharge.

If the usage rate in Japan increases to levels in Europe and the United States, demand would grow by 1.5 times, and if demand expands with daily usage, the market in Japan would grow 2.3 times. Unicharm believes the panty liner market in Japan has significant growth potential for these reasons.

In order to expand the number of users and encourage daily use, the Company believes it is important to propose products that fulfill women's needs for feeling good every day, providing the comfort and feeling of not wearing a panty liner.

In other words, the key to invigorating the market is a product that fulfills needs for both no psychological feeling of usage (the free feeling of underwear on non-period days) and the clean feeling of the liner quickly absorbing perspiration and discharge.

To preserve that underwear-only feeling, Unicharm developed *Sofy Panty Liner Zero 0 Taikan*, which does not feel like it is there from the instant it is used. This new product takes advantage of new technologies for cloth-like flexibility and micro-thin materials (about 0.7mm). The panty liner does not feel bulky, and quickly absorbs discharge before it spreads and with the capacity to absorb about nine times the average discharge volume.

About 98% of the women who used this product said they did not feel its presence, and 84% said that they would like to buy the new panty liner. Unicharm released the panty liner as an innovatively new product that is expected to expand the market.

Sofy Panty Liner Zero 0 Taikan

CSR Activities/Quality Assurance Structure

CSR Activities

Unicharm's First Year of CSR Activities/Quality Assurance Structure

In April 2003, Unicharm established the Corporate Social Responsibility (CSR) Department. From the perspective of a manufacturer, our corporate motto of fulfilling social responsibility encompasses our objective of becoming a company more trusted by society through the efforts of all our employees. With the creation of the CSR Department, Unicharm identified three priority issues.

Three Priority Issues

1. Enhance expectations by gaining the trust of all stakeholders by strengthening product safety, quality assurance, environmental preservation, and compliance.
2. Increase corporate competitiveness by eradicating waste and achieving both ecology and economy in environmental preservation efforts.
3. Establish a worry-free and reliable structure able to swiftly respond to inquiries about the safety of our products, and our coexistence with the environment and society.

The CSR Department integrates the Environmental Protection and Quality Assurance offices. Project teams made up of members from throughout the organization handle corporate ethics issues. The CSR Department chairman, who is in charge of CSR implementation, is also head of the Human Resource Development Department, creating a corporate governance and personnel system that emphasizes CSR activities. Moreover, from April 2004 the structure was reinforced with the addition of the Corporate Ethics Office and CSR Planning Team.

Medium-Term CSR Vision

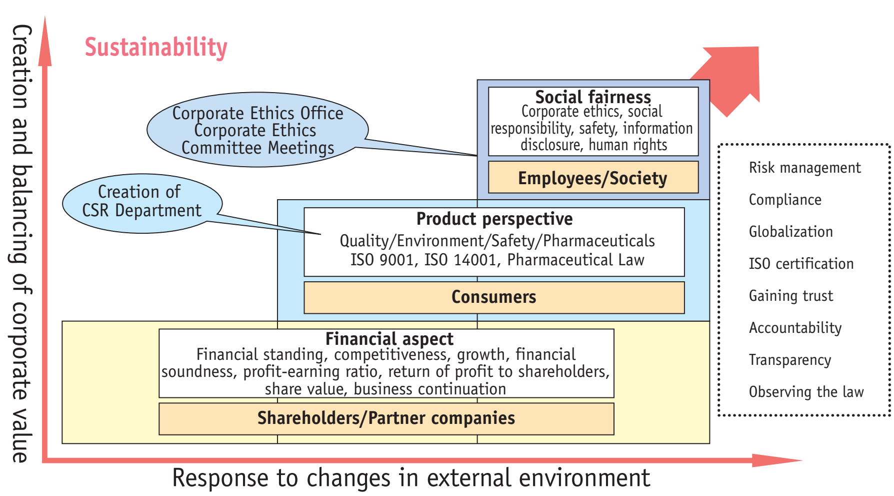
Our medium-term management vision extending to the fiscal year ending March 31, 2008, has been clarified in our aim to become a cutting-edge CSR company that continues to make every effort to sincerely and stably contribute to society. We have set our own high standards for product quality and safety as well as for environmental protection. While applying these standards, we have been instilling corporate ethics throughout all of our companies, and promise to do the right thing with courage and determination in our management activities.

To increase our corporate value for society, we are shifting our focus from economics to quality, safety, and environmental protection, and must adopt a management style that emphasizes harmony with society. Unicharm is in position to make steady progress toward becoming a cutting-edge CSR company.

Establishment of an Organization for Promoting Corporate Ethics

In the fiscal year ended March 31, 2004, Unicharm set up the Corporate Ethics Implementation Project, and staffed it with employees from the Legal Department, CSR Department, Internal Audit Office, and Human Resource Development Department. Unicharm is promoting its corporate ethics structure on three pillars, namely the establishment of a dedicated organization, implementation of training in ethics, and the creation of an internal office for consulting on corporate ethical issues. In January 2004, Unicharm provided training in corporate ethics to its executive officers. The Company also interviewed 115 employees at Group companies about corporate ethics, identifying ideas and issues to make Unicharm a better place to work.

Launched in April 2004, the CSR Department Corporate Ethics Office started the *Rinrin Hotline* consulting service for Group employees to open a channel for employees to talk about and report on infringements or possible infringements against work rules, ethical boundaries, and legal infractions, creating a working environment that is worry free for employees.



Start of CSR Accounting

Purpose: The trend of evaluating a company's CSR activities is spreading around the world. Quantitative assessment is needed in addition to qualitative assessments. However, activities to gain the trust of consumers and business partners, as well as activities that contribute to local communities, cannot be recorded on the balance sheets or statements of income. For this reason, Unicharm quantified its CSR efforts and introduced CSR accounting in the fiscal year ended March 31, 2004, thereby disclosing information for the objective assessment of its CSR activities.

Scope of Application and Accounting Methods: CSR accounting does not have any established methods or guidelines generally accepted by society. All accounting data on corporate activities is quantitatively disclosed. In the fiscal year ended March 31, 2004, Unicharm recorded expenses related to individual efforts listed in CSR reports and treated them using CSR accounting methods.

Future Plans: Socially aware of the needs of parties related to Unicharm, the Company uses tools for evaluating the fairness of developing its business activities. The Company intends to increase the transparency of information disclosure and fulfill its responsibilities by giving full explanations to stakeholders. Unicharm will occasionally review guidelines and analyze the distribution of value-added CSR activities.

Quality Assurance System

Basic Philosophy Regarding Quality

Unicharm's company credo is, "Always create the finest products and services and provide them to markets and customers in Japan and abroad." This means that continuous improvements in quality are essential in all of our businesses.

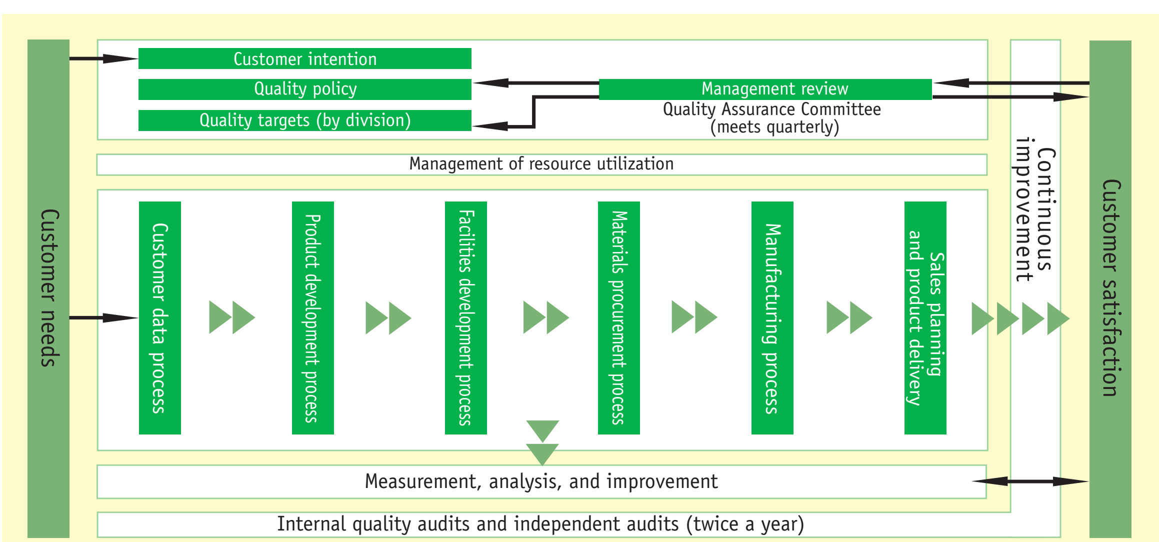
Responsibility for quality does not rest solely with manufacturing divisions, but extends to all the Company's operations from product planning, design, and development through marketing and distribution. Unicharm has developed a quality management system in accordance with the ISO 9001 global standard that covers all processes from development through marketing, and in July 2002 this system was awarded full ISO 9001 certification. At present, more than 2,000 Unicharm employees are engaged in the effort to increase customer satisfaction.

Companywide Quality Assurance System

At Unicharm, we have built a companywide quality assurance system grounded in quality management, which has customer satisfaction as its goal.

In concrete terms, under this quality management system and based on the quality policy and quality targets established in our medium-term management plan, targets for each division are established every six months. This is not just a tool for tracking progress toward targets for each process. To verify the adequacy and efficiency of these measures, internal quality audits and independent audits by external auditing agencies are conducted twice a year.

The results of these audits are used to establish corrective and preventative measures in pursuit of continuous improvement. This information is also provided to the quarterly Quality Assurance Committee for use in their Companywide management review.



Board of Directors and Corporate Auditors, Executive Officers

Board of Directors and Corporate Auditors As of October 1, 2004

Chairman of the Board
Keiichiro Takahara

President and Chief Executive Officer
Takahisa Takahara

Director
Shigeki Maruyama

Director
Takaaki Okabe

Director
Koji Inokuma

Internal Corporate Auditors
Katsuaki Ishikawa
Tsuyoshi Miyauchi

Corporate Auditor
Masahiko Hirata
Haruhiko Takenaka

Note: Masahiko Hirata and Haruhiko Takenaka are outside corporate auditors who fulfill the requirements as provided for in Article 18.1 of the Law for Special Exceptions to the Commercial Code Concerning Audits of Kabushiki-Kaisha.

Executive Officers As of October 1, 2004

President and Chief Executive Officer
Takahisa Takahara

Senior Executive Officers
Shigeki Maruyama
Takaaki Okabe
Koji Inokuma
Norizumi Yoshihara
Kennosuke Nakano
Shinji Mori
Eiji Ishikawa

Executive Officers
Shosuke Kawauchi
Hirohiko Muromachi
Shinya Takahashi
Katsuhiko Sakaguchi
Shigeo Moriyama
Masakatsu Takai
Yukihiro Kimura

Deputy Executive Officers
Takamitsu Igaue
Masamitsu Yamamoto
Kazuhira Ikawa
Tadashi Mukai
Yoshihiro Miyabayashi
Norio Nomura
Osamu Satomura
Hironori Nomura
Hidetoshi Yamamoto
Itsumi Matsuoka

Financial Section

Six-Year Summary

Unicharm Corporation and Subsidiaries

	Millions of yen, except per share amounts					
	1999	2000	2001	2002	2003	**2004**
FOR THE FISCAL PERIOD:						
Net sales	¥206,347	¥210,200	¥212,199	¥206,707	¥223,169	**¥240,110**
Cost of sales	116,445	115,765	115,823	113,546	123,883	**132,074**
Net income	10,788	12,563	9,904	8,852	12,879	**16,240**
As percentage of sales	5.2%	6.0%	4.7%	4.3%	5.8%	**6.8%**
Net income per share (yen)	¥ 150.55	¥ 177.29	¥ 139.85	¥ 126.78		
New accounting standard			137.75	125.20	185.29	**240.26**
Cash dividends per share applicable to the year (yen)	17.00	19.00	24.00	20.00	24.00	**28.00**
AT FISCAL PERIOD-END:						
Total assets	¥165,777	¥181,189	¥177,396	¥187,060	¥187,988	**¥209,002**
Property, plant and equipment	84,313	81,928	69,388	71,412	71,090	**77,306**
Long-term debt—less current maturities	4,524	4,633	3,918	2,953	1,710	**1,557**
Shareholders' equity	92,254	107,050	104,156	109,306	113,137	**123,709**
Equity ratio	55.6%	59.1%	58.7%	58.4%	60.2%	**59.2%**
RATIOS:						
Operating income ratio	10.5%	11.4%	9.8%	9.2%	11.6%	**12.8%**
Return on sales	5.2%	6.0%	4.7%	4.3%	5.8%	**6.8%**
Gross profit margin	43.6%	44.9%	45.4%	45.1%	44.5%	**45.0%**
SGA ratio	33.1%	33.5%	35.6%	35.9%	32.9%	**32.2%**
Return on equity (ROE)	11.7%	12.6%	9.4%	8.3%	11.6%	**13.7%**
Return on total assets (ROA)	6.6%	7.2%	5.5%	4.9%	6.9%	**7.8%**

Contents

Management's Discussion and Analysis

OPERATING RESULTS

Sales

In fiscal 2004, ended March 31, 2004, Unicharm's consolidated net sales rose 7.6%, from ¥223.2 billion, to a historic high of ¥240.1 billion. Sales in Japan, which accounted for 79.4% of total sales, edged up ¥13.1 billion, or 7.4%, to ¥190.7 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 a solid increase in overseas market activities, mainly in Asia. Sales in this region rose 11.2% year on year to ¥32.7 billion, representing 13.6% of total sales and a 0.4% increase. In this regard, the Company benefited from an increase in its share of entry markets for feminine, baby and child care products. In other regions, Unicharm experienced strong growth in its adult incontinence business, particularly in Europe. As a result, sales in other countries and regions climbed 3.1% to ¥16.7 billion. Despite these positive contributions, the percentage of overseas sales to total sales was 7.0%, a drop of 0.3 of a percentage point.

Cost of Sales and Selling, General and Administrative Expenses

For the fiscal year under review, the cost of sales amounted to ¥132.1 billion, while the cost of sales ratio rose 0.5 of a percentage point from 55.5% to 55.0%. Gross profit climbed 8.8% year on year to ¥108.0 billion. Selling, general and administrative (SG&A) expenses declined 5.2% to ¥77.3 billion. Although depreciation fell ¥60 million to ¥2.2 billion, sales promotion and advertising expenses rose ¥1.1 billion to ¥30.9 billion reflecting efforts to increase brand awareness and recognition. Expenditure in this area was essentially on a par with original plans.

Research and Development Expenses

Research and development expenses increased ¥0.2 billion from ¥4.5 billion in the previous fiscal year to ¥4.7 billion.

Segment Information

Sales of the Lifestyle Products Division climbed 7.0% to ¥205.3 billion, while operating income rose 15.5% to ¥27.2 billion. The operating margin rose 1.0 percentage point to 13.3%. Despite a slight recovery in certain sections of the consumer finance market, overall conditions for personal care products remained sluggish. As a leading company within the industry, Unicharm worked diligently to enhance value through the development of new products and applications.

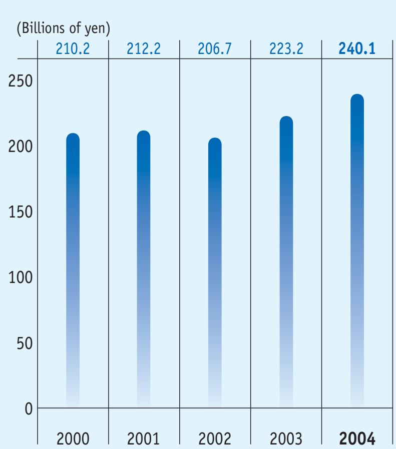
In the baby and child care segment, the Company concentrated on further penetrating the market for brief-type diapers. Unicharm worked tirelessly to renew its product lineup and through active marketing activities, to revitalize the market and increase earnings. Of particular note was the release of a new *Moony Man* product, featuring an attractive color design for both boys and girls. In an effort to further drive market growth, the Company reinforced brand power by upgrading product features and reviewing product design.

In the feminine care segment, the Japanese market is shrinking due to a decline in the number of users of feminine products. As the sole comprehensive manufacturer of feminine products, however, Unicharm aims to invigorate this market by concentrating efforts on developing and improving products such as its *Sofy* lineup that create freedom and comfort for women. In October 2003, the Company launched *Sofy Wide-Guard*, a wide-type feminine napkin, to provide greater peace of mind and comfort at night. *Sofy Wide-Guard* has served not only to increase Unicharm's market share, but also to fuel growth in the market for night-use feminine napkins. At the same time, the Company released *Sofy Night Fit*, a feminine

Geographic Segment Sales

	Millions of yen	
	2003	**2004**
Japan	¥177,561	**¥190,719**
Asia (excluding Japan)	29,416	**32,701**
Others	16,192	**16,690**
Total	¥223,169	**¥240,110**

Net Sales



Industry Segment Sales	Millions of yen				
	2000	2001	2002	2003	**2004**
Net sales	¥210,200	¥212,199	¥206,707	¥223,169	**¥240,110**
Lifestyle products	177,099	179,008	176,512	191,898	**205,291**
Pet care	—	18,407	18,916	21,918	**23,553**
Other businesses	—	14,784	11,279	9,353	**11,266**

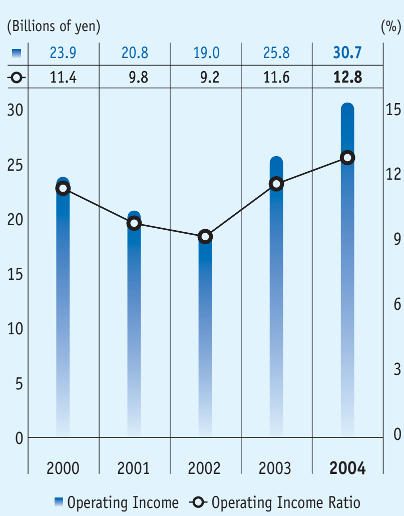
pants-type napkin to complement an already strong lineup. Unicharm's goal is to expand market share and to create new business opportunities. In addition, as part of celebrations to mark the 20th anniversary of the *Sofy* brand, Unicharm launched the *Sofy 20th Anniversary Campaign* with the aim of stimulating increased demand and to further enhance brand power.

In the health care segment in Japan, amid intense competition, Unicharm reported sales growth in excess of the market. Against the backdrop of an aging society and steady market growth, the Company continued to make concerted efforts to develop and improve the *Lifree* brand name, which is based on the concept of "Bedridden neither in Mind nor Body." As the first step toward rehabilitation for the bedridden, Unicharm introduced the *Lifree Sitting-Comfort Pad* in November 2003, to support users when sitting up from a lying position. The product was first provided to medical facilities and a revised model, *Lifree Sitting-Comfort Urine Absorbing Pad*, released to the general public in March 2004. First launched in January 2003, the *Unicharm Superdimensional Mask*, a surgical-type mask for those who suffer from severe pollen allergies, that utilizes the Company's accumulated technological expertise in nonwoven fabrics, has also continued to attract wide acclaim. Unicharm released an upgraded model for use by those suffering from cold and influenza in October 2003 and has successfully acquired the number one share of the mask market.

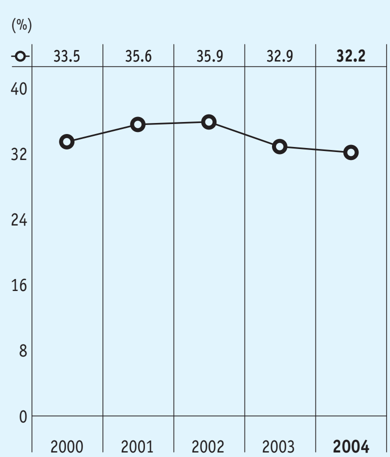
In the clean & fresh segment, Unicharm provides customers with clean, sanitary, and fresh environments based on its nonwoven fabric and absorbent material technologies. In the period under review, the Company launched *Silcot Wet Safe Disinfectant Tissues*, a brand of general-use moist towelettes. In cosmetic puffs, Unicharm introduced an improved package of its leading brand *Silcot*. For the kitchen, the Company also released a renewed version of its *Cookup* moist towelettes. The *Cookup Kitchen Cloth* is a strong, practical, and economical alternative to wiping cloths.

Sales in the pet care segment rose 7.5% compared with the previous fiscal year to ¥23.6 billion, and operating income increased ¥1.0 billion to ¥2.2 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, the Company proactively launched new pet food products that are tasty and good for the health of pets, creating a high-value-added segment of the market and expanding sales. In the area of pet sheets and litters, Unicharm continued to introduce a series of new innovations based on its nonwoven materials and absorbency technologies. In the period under review, the Company launched Unicharm *Pet Care Antibacterial Oshikko Yogorefuki Sheet* and an extra large size in disposable diapers for pets. For pets kept in enclosed

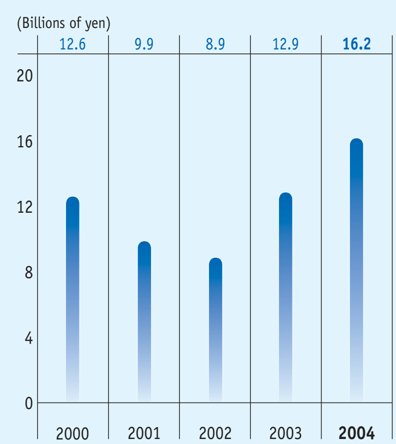
Operating Income and Operating Income Ratio



SGA Ratio



Net Income



areas within a house or condominium, the Company released the *Unicharm Pet Care One Week Antibacterial Deo-Toilet*, which has served to steadily increase earnings.

In the Other Businesses Division, sales surged 20.5% year on year to ¥11.3 billion, while operating income totaled ¥1.3 billion. This steady growth in sales is attributed to contributions from *Fresh Master* tray mats in the commercial food packaging business that uses the Company's nonwoven material and absorbency technologies.

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 climbed 19.1% to ¥30.7 billion and the operating margin improved 1.2 percentage points to 12.8%, bolstered by increased earnings in domestic business and overseas business expansion.

Non-operating expenses, net, fell significantly by ¥1.9 billion, or 64.8%, to ¥1.0 billion. Major components were an increase in interest and dividend income from ¥0.3 billion to ¥0.5 billion, and a turnaround from other expenses—net of ¥1.2 billion to other income—net of ¥0.3 billion.

As a result of these factors, income before income taxes and minority interests increased 29.7% to ¥29.7 billion and net income rose 26.1% to ¥16.2 billion. Net income per share was ¥240.26 a substantial improvement of ¥54.97.

FINANCIAL POSITION AND LIQUIDITY

Assets, Liabilities and Equity

Total assets as of March 31, 2004 stood at ¥209.0 billion, an increase of ¥21.0 billion, or 11.2%, from the previous fiscal year-end.

Within current assets, cash and cash equivalents climbed ¥2.9 billion to ¥44.4 billion. At the same time, marketable securities also increased ¥1.1 billion to ¥3.9 billion. In notes and accounts receivable, the balance of trade receivables grew ¥2.1 billion to ¥29.0 billion, while other current assets fell ¥1.3 billion to ¥2.4 billion.

Net property, plant and equipment increased ¥6.2 billion to ¥77.3 billion as of the fiscal year-end. Machinery and equipment rose ¥7.8 billion to ¥100.1 billion owing to an increase in capital expenditure resulting from the expansion in the scope of overseas business as well as facilities for new products in principal businesses in the domestic market. Construction in progress jumped ¥4.6 billion to ¥6.9 billion.

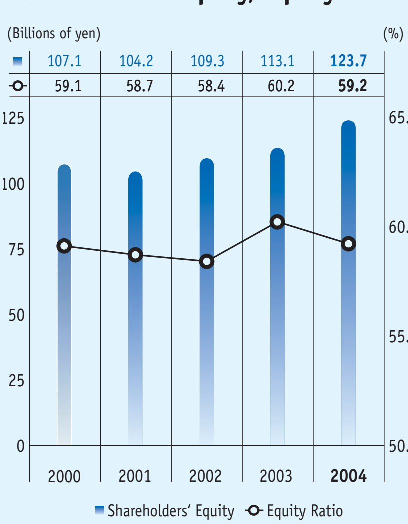
In investment and other assets, investment securities rose ¥10.9 billion to ¥27.0 billion.

On the liabilities side, current liabilities climbed ¥8.4 billion, or 14.3%, to ¥66.9 billion. This mainly comprised short-term bank loans, which increased ¥0.7 billion to ¥4.3 billion, trade payables, which rose ¥4.6 billion to ¥46.1 billion, and other notes and accounts payable, which fell ¥2.8 billion to ¥0.6 billion.

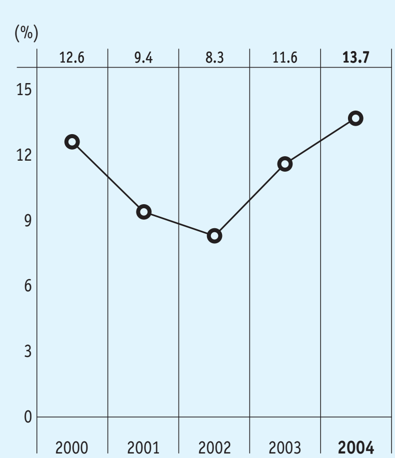
Total long-term liabilities as of the fiscal year-end stood at ¥11.5 billion, an increase of ¥1.1 billion. The major component was liability for retirement benefits, which rose ¥1.0 billion to ¥7.2 billion.

In shareholders' equity, retained earnings increased ¥14.4 billion, or 16.4%, to ¥101.8 billion. Unrealized gain on available-for-sale securities surged ¥2.6 billion to ¥4.1 billion. As a result, shareholders' equity as of March 31, 2004 stood at ¥123.7 bil-

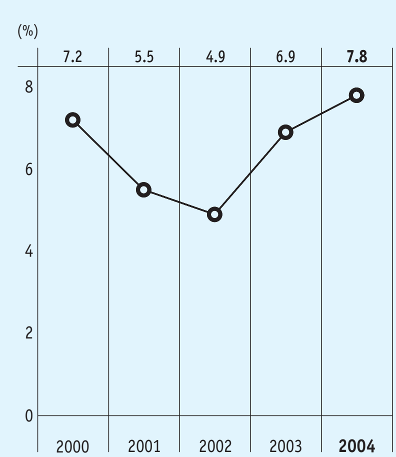
Shareholders' Equity, Equity Ratio



ROE



ROA



lion, an increase of 9.3% compared with the previous fiscal year-end. The shareholders' equity ratio, on the other hand, declined 1.0 percentage points, but remained a very healthy 59.2%.

Capital Expenditures and Depreciation

The Company's capital expenditures during fiscal 2004 increased ¥4.7 billion from ¥14.8 billion in the previous fiscal year to ¥19.5 billion. These expenditures primarily comprised investments for the 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 ¥11.6 billion, increased ¥0.6 billion from ¥11.0 billion in the previous fiscal year.

Cash Flows

Net cash provided by operating activities jumped significantly by ¥9.7 billion, or 35.8%, to ¥36.9 billion. This was mainly attributed to the substantial increase in income before income taxes and minority interests from ¥22.9 billion to ¥29.7 billion and the drop in income taxes—paid by half from ¥10.1 billion to ¥5.0 billion.

Net cash used in investing activities amounted to ¥25.8 billion essentially on par with the previous fiscal year's ¥26.4 billion. On the one hand, proceeds from sales of marketable securities rose from ¥0.7 billion in fiscal 2003 to ¥3.3 billion in the fiscal year under review. Capital expenditures, on the other hand, jumped from ¥14.8 billion to ¥19.0 billion to fund the 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.

Net cash used in financing activities decreased ¥1.9 billion, or 19.1%, from ¥9.8 billion to ¥7.9 billion. This is attributed to an increase in short-term bank loans of ¥0.6 billion compared with the decrease in short-term bank loans of ¥0.9 billion in fiscal 2003. In addition, repayments of long-term debt increased from ¥0.3 billion to ¥1.3 billion. In an effort to improve capital efficiency and to continuously increase returns to shareholders, Unicharm repurchased 999,000 shares of common stock at a purchase amount of ¥5.3 billion.

As a result of all these factors, cash and cash equivalents at the end of the fiscal year climbed ¥2.9 billion, or 6.9%, to ¥44.4 billion.

OUTLOOK FOR FISCAL 2004

Despite initial signs of a recovery in Japan's domestic corporate performance and consumer spending, the market environment is forecast to remain fiercely competitive. Market expansion in Asia is expected to accelerate, bringing stiffer competition among global brands.

In response to these circumstances, Unicharm is working to expand its business in growth markets, in accordance with the basic policy set forth in its sixth 48-month management plan (the SAPS Plan), through continual and precise monitoring of customer needs, marketing activities that lead to high brand value and create new markets, and reinforcement of product development and technological capabilities. In addition cost reductions and rationalization of operating costs connected with Supply Chain Total have produced dramatic improvement in the Company's profit structure, and served to further enhance its profitability.

In Japan, Unicharm is working to expand sales and increase profitability in the baby and child care segment by creating and energizing markets, on the strength of the radically improved new *Moony Man,* new *Moony* diapers, and the recently introduced *Moony Man Mizu-Asobi Pants.*

In the feminine care segment, the Company has established a new category within the *Sofy Wide-Guard* series, and is endeavoring to raise its brand power another level through a vigorous marketing program. In the health care segment, Unicharm has strengthened the product power of its *Lifree* brand, and the industry's foremost lineup of superb products that accurately address diverse needs. Together with this, the Company has stepped up educational activities with regard to its continence rehabilitation system, and this business is expanding at a rate that outstrips market growth. In the clean & fresh segment, Unicharm is continuing to heighten market acceptance of the *Wave* series brand, while at the same time developing a new market through wide-ranging product innovation.

In addition to the business activities described above, Unicharm has enhanced its support for assisted living by establishing a Web site for home caregivers that offers information and links on continence care (http://www.carenavi.jp/).

In the pet care segment, the Company has expanded its lineup of pet toiletry products using nonwoven fabric and absorbent material technology. Together with this, Unicharm has increased earnings in the pet food market by responding to changes with an enhanced line of high-performance, high-value-added products and a vigorous marketing campaign.

In its overseas business, the *Sofy* brand is fueling accelerated growth in the feminine care segment in the major countries of East Asia. The baby and child care segment will also expand and attain increased market acceptance at a faster rate, due to an energetic *Mamy Poko* marketing program and progress in efforts to enhance manufacturing and supply systems. In the health care segment, Unicharm is energetically marketing the *Lifree* brand of adult disposable diapers in Taiwan and Thailand, and this product will evolve into the third pillar of the Company's overseas business.

Consolidated Balance Sheets

Unicharm Corporation and Subsidiaries March 31, 2004, 2003 and 2002

ASSETS	Millions of yen 2004	2003	2002	Thousands of U.S. dollars (Note 1) 2004
CURRENT ASSETS:				
Cash and cash equivalents	**¥ 44,434**	¥ 41,568	¥ 50,786	**$ 419,189**
Marketable securities (Note 3)	**3,922**	2,852	599	**37,000**
Notes and accounts receivables:				
Trade	**29,016**	26,881	28,669	**273,736**
Allowance for doubtful accounts	**(173)**	(267)	(148)	**(1,632)**
Inventories (Note 4)	**12,421**	11,932	11,575	**117,179**
Deferred tax assets (Note 10)	**2,531**	1,820	1,817	**23,877**
Other current assets	**2,425**	3,713	2,638	**22,877**
Total current assets	**94,576**	88,499	95,936	**892,226**
PROPERTY, PLANT AND EQUIPMENT:				
Land (Note 5)	**13,326**	13,610	15,710	**125,717**
Buildings and structures	**47,955**	47,662	45,988	**452,406**
Machinery and equipment	**100,067**	92,297	85,131	**944,028**
Furniture and fixtures	**3,824**	3,738	3,667	**36,075**
Construction in progress	**6,856**	2,233	3,223	**64,680**
Total	**172,028**	159,540	153,719	**1,622,906**
Accumulated depreciation	**(94,722)**	(88,450)	(82,307)	**(893,604)**
Net property, plant and equipment	**77,306**	71,090	71,412	**729,302**
INVESTMENTS AND OTHER ASSETS:				
Investment securities (Note 3)	**26,958**	16,032	6,589	**254,321**
Investments in affiliates	**352**	289	218	**3,321**
Software	**2,008**	2,167	3,050	**18,943**
Intangibles	**895**	1,142	247	**8,453**
Deferred tax assets (Note 10)	**1,007**	2,829	3,049	**9,500**
Deferred tax assets—land revaluation (Notes 5 and 10)	**1,409**	1,402	4,242	**13,292**
Other assets	**5,533**	5,680	3,203	**52,189**
Allowance for doubtful accounts	**(1,042)**	(1,142)	(886)	**(9,830)**
Total investments and other assets	**37,120**	28,399	19,712	**350,189**
TOTAL	**¥209,002**	¥187,988	¥187,060	**$1,971,717**

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2004	2003	2002	Thousands of U.S. dollars (Note 1) 2004
CURRENT LIABILITIES:				
Short-term bank loans (Note 6)	**¥ 4,319**	¥ 3,616	¥ 4,615	**$ 40,745**
Current portion of long-term debt (Note 6)	**252**	1,301	72	**2,377**
Notes and accounts payables:				
Trade	**46,142**	41,566	44,933	**435,302**
Others	**647**	3,452	565	**6,104**
Income taxes payable	**9,291**	2,638	5,572	**87,651**
Accrued expenses	**5,484**	5,305	4,902	**51,736**
Other current liabilities	**739**	643	1,277	**6,972**
Total current liabilities	**66,874**	58,521	61,936	**630,887**
LONG-TERM LIABILITIES:				
Long-term debt (Note 6)	**1,557**	1,710	2,953	**14,689**
Liability for retirement benefits (Note 7)	**7,151**	6,184	5,095	**67,462**
Guarantee deposits from customers	**2,112**	1,971	2,056	**19,925**
Other long-term liabilities	**686**	562	350	**6,471**
Total long-term liabilities	**11,506**	10,427	10,454	**108,547**
MINORITY INTERESTS	**6,913**	5,903	5,364	**65,217**
COMMITMENTS AND CONTINGENT LIABILITIES (Note 12)				
SHAREHOLDERS' EQUITY (Notes 8 and 14)**:**				
Common stock—authorized, 196,390,411 shares in 2004, 2003 and 2002 issued, 68,981,591 shares in 2004, 2003 and 2002	**15,993**	15,993	15,993	**150,877**
Additional paid-in capital	**18,591**	18,591	18,591	**175,387**
Retained earnings	**101,832**	87,463	80,049	**960,679**
Land revaluation difference, net of tax (Note 5)	**(2,053)**	(2,060)	(5,857)	**(19,368)**
Unrealized gain on available-for-sale securities, net of tax (Note 3)	**4,109**	1,479	1,442	**38,764**
Foreign currency translation adjustments	**(2,654)**	(1,554)	(910)	**(25,037)**
Total	**135,818**	119,912	109,308	**1,281,302**
Treasury stock—at cost shares 2,506,594 in 2004, 1,505,849 in 2003, 549 in 2002	**(12,109)**	(6,775)	(2)	**(114,236)**
Total shareholders' equity	**123,709**	113,137	109,306	**1,167,066**
TOTAL	**¥209,002**	¥187,988	¥187,060	**$1,971,717**

Consolidated Statements of Income

Unicharm Corporation and Subsidiaries Years Ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2004	2003	2002	**2004**
NET SALES	**¥240,110**	¥223,169	¥206,707	**$2,265,189**
COST OF SALES	**132,074**	123,883	113,546	**1,245,981**
Gross profit	**108,036**	99,286	93,161	**1,019,208**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 9)	**77,309**	73,493	74,187	**729,330**
Operating income	**30,727**	25,793	18,974	**289,878**
OTHER INCOME (EXPENSES):				
Interest and dividend income	**505**	320	193	**4,764**
Interest expense	**(298)**	(361)	(332)	**(2,811)**
Foreign exchange (loss) gain	**(310)**	(51)	120	**(2,925)**
Loss on write-down of investment securities	**(33)**	(391)	(2,839)	**(311)**
Charge for transitional obligation for employees' retirement benefits (Note 7)	**(1,224)**	(1,224)	(1,282)	**(11,547)**
Gain on transfer of business			2,705	
Other—net	**340**	(1,190)	(1,309)	**3,207**
Other expenses—net	**(1,020)**	(2,897)	(2,744)	**(9,623)**
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	**29,707**	22,896	16,230	**280,255**
INCOME TAXES (Note 10)**:**				
Current	**12,827**	5,946	8,938	**121,009**
Deferred	**(723)**	3,024	(1,811)	**(6,821)**
Total income taxes	**12,104**	8,970	7,127	**114,188**
MINORITY INTERESTS IN NET INCOME	**1,363**	1,047	251	**12,859**
NET INCOME	**¥ 16,240**	¥ 12,879	¥ 8,852	**$ 153,208**

	Yen			U.S. dollars
PER SHARE OF COMMON STOCK (Note 2.o)**:**				
Net income	**¥240.26**	¥185.29	¥125.20	**$2.27**
Cash dividends applicable to the year	**28.00**	24.00	20.00	**0.26**

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Unicharm Corporation and Subsidiaries Years Ended March 31, 2004, 2003 and 2002

	Outstanding 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, 2001	69,945,651	¥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	(309)							(1)
Repurchase of the Company's stock (Note 8)	(964,300)			(3,278)				
BALANCE, MARCH 31, 2002	68,981,042	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	(5,300)							(23)
Repurchase of treasury stock (Note 8)	(1,500,000)							(6,750)
BALANCE, MARCH 31, 2003	67,475,742	15,993	18,591	87,463	(2,060)	1,479	(1,554)	(6,775)
Net income				16,240				
Cash dividends, ¥26.00 per share				(1,740)				
Bonuses to directors and corporate auditors				(131)				
Land revaluation difference, net of tax					7			
Net increase in unrealized gain on available-for-sale securities, net of tax						2,630		
Net decrease in foreign currency translation adjustments							(1,100)	
Treasury stock acquired—net	(1,745)							(9)
Repurchase of treasury stock (Note 8)	(999,000)							(5,325)
BALANCE, MARCH 31, 2004	**66,474,997**	**¥15,993**	**¥18,591**	**¥101,832**	**¥(2,053)**	**¥4,109**	**¥(2,654)**	**¥(12,109)**
Thousands of U.S. dollars (Note 1)								
BALANCE, MARCH 31, 2003		$150,877	$175,387	$825,123	$(19,434)	$13,953	$(14,660)	$ (63,915)
Net income				153,208				
Cash dividends, $0.25 per share				(16,415)				
Bonuses to directors and corporate auditors				(1,237)				
Land revaluation difference, net of tax					66			
Net increase in unrealized gain on available-for-sale securities, net of tax						24,811		
Net decrease in foreign currency translation adjustments							(10,377)	
Treasury stock acquired—net								(85)
Repurchase of treasury stock (Note 8)								(50,236)
BALANCE, MARCH 31, 2004		**$150,877**	**$175,387**	**$960,679**	**$(19,368)**	**$38,764**	**$(25,037)**	**$(114,236)**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Unicharm Corporation and Subsidiaries Years Ended March 31, 2004, 2003 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2004	2003	2002	**2004**
OPERATING ACTIVITIES:				
Income before income taxes and minority interests	**¥ 29,707**	¥ 22,896	¥ 16,230	**$ 280,255**
Adjustments for:				
Income taxes—paid	**(4,985)**	(10,069)	(8,154)	**(47,028)**
Depreciation and amortization	**11,616**	11,023	10,500	**109,585**
Net periodic retirement benefit costs	**1,093**	1,051	982	**10,311**
Loss on write-down of investment securities	**33**	391	2,839	**311**
Loss on disposals and sales of property, plant and equipment	**910**	1,128	821	**8,585**
Gain on transfer of business			(2,705)	
(Increase) decrease in trade receivables	**(2,135)**	1,788	3,392	**(20,142)**
Increase in inventories	**(489)**	(555)	(1,524)	**(4,613)**
Decrease in trade payables	**(1,789)**	(4,001)	(2,117)	**(16,877)**
Increase in other current liabilities	**3,085**	2,523	3,101	**29,104**
Other—net	**(130)**	1,011	1,363	**(1,227)**
Total adjustments	**7,209**	4,290	8,498	**68,009**
Net cash provided by operating activities	**36,916**	27,186	24,728	**348,264**
INVESTING ACTIVITIES:				
Proceeds from sales of marketable securities	**3,330**	721	2,377	**31,415**
Proceeds from sale of property, plant and equipment	**894**	3,115	743	**8,434**
Purchases of marketable securities	**(2,205)**	(3,011)	(1,665)	**(20,802)**
Capital expenditures	**(19,050)**	(14,811)	(12,916)	**(179,717)**
Payment for purchase of investment securities	**(10,831)**	(10,709)	(1,854)	**(102,179)**
Proceeds from sales of investment securities	**2,076**	722	3,312	**19,585**
Proceeds from transfer of business			2,750	
Payment for insurance as investments		(2,865)		
(Increase) decrease in other assets	**(50)**	427	(9)	**(472)**
Net cash used in investing activities	**(25,836)**	(26,411)	(7,262)	**(243,736)**
FORWARD	**¥ 11,080**	¥ 775	¥ 17,466	**$ 104,528**

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2004	2003	2002	**2004**
FORWARD	**¥11,080**	¥ 775	¥17,466	**$104,528**
FINANCING ACTIVITIES:				
Increase (decrease) in short-term bank loans	**567**	(941)	2,267	**5,349**
Proceeds from long-term debt	**50**			**471**
Repayments of long-term debt	**(1,311)**	(296)	(1,352)	**(12,368)**
Cash dividends paid	**(1,740)**	(1,518)	(1,679)	**(16,415)**
Investment from minority interests	**203**			**2,170**
Repurchase of the Company's stock from minority interest	**(79)**			**(745)**
Repurchase of the Company's stock	**(5,334)**	(6,773)	(3,278)	**(50,321)**
Cash dividends paid to minority interests	**(316)**	(278)	(364)	**(2,981)**
Net cash used in financing activities	**(7,933)**	(9,806)	(4,406)	**(74,840)**
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	**(281)**	(187)	193	**(2,650)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**2,866**	(9,218)	13,253	**27,038**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**41,568**	50,786	37,533	**392,151**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥44,434**	¥41,568	¥50,786	**$419,189**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Unicharm Corporation and Subsidiaries Years Ended March 31, 2004, 2003 and 2002

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

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

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. In addition, certain reclassifications have been made in the 2003 and 2002 financial statements to conform to the classifications used in 2004.

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 translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥106 to $1, the approximate rate of exchange at March 31, 2004. Such translations should not be construed as representation that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation

The consolidated financial statements include the accounts of the Company and all 27 (26 in 2003 and 24 in 2002) subsidiaries (together, the "Group").

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in 2 affiliates (2 in 2003 and 2002) 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 5 years.

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

b. Cash Equivalents

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

c. Inventories

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

d. 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 2 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. Stock Issue Costs

Stock issue costs are charged to income as incurred.

g. 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 5 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.

h. Research and Development Costs

Research and development costs are charged to income as incurred.

i. 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.

j. 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.

k. Appropriations of Retained Earnings

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

l. 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.

m. 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.

n. 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 are 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.

o. 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 66,942,629 shares for 2004, 68,695,197 shares for 2003 and 69,821,541 shares for 2002.

Diluted net income per share is not disclosed because it is anti-dilutive.

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.

p. New Accounting Pronouncement

In August 2002, the Business Accounting Council issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan ("ASB") issued ASB Guidance No. 6, "Guidance for Accounting Standard for Impairment of Fixed Assets." These new pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

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

The Company is currently in the process of assessing the effect of adoption of these pronouncements.

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities at March 31, 2004, 2003 and 2002, consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	**2004**
Current:				
Government and corporate bonds		¥ 1,990		
Trust fund investments and other	**¥ 3,922**	862	¥ 599	**$ 37,000**
Total	**¥ 3,922**	¥ 2,852	¥ 599	**$ 37,000**
Non-current:				
Marketable equity securities	**¥10,211**	¥ 8,141	¥6,419	**$ 96,330**
Government and corporate bonds	**13,465**	7,776	15	**127,028**
Trust fund investments and other	**3,238**	115	155	**30,963**
Total	**¥26,958**	¥16,032	¥6,589	**$254,321**

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2004, 2003 and 2002 were as follows:

	Millions of yen			
March 31, 2004	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	**¥ 2,471**	**¥7,741**	**¥ 1**	**¥10,211**
Debt securities	**13,100**		**784**	**12,316**
Held-to-maturity	**10**			**10**
Total	**¥15,581**	**¥7,741**	**¥785**	**¥22,537**

	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

	Thousands of U.S. dollars			
March 31, 2004	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	**$ 23,311**	**$73,028**	**$ 9**	**$ 96,330**
Debt securities	**123,585**		**7,396**	**116,189**
Held-to-maturity	**94**			**94**
Total	**$146,990**	**$73,028**	**$7,405**	**$212,613**

Available-for-sale securities and held-to-maturity securities whose fair value is not readily determinable as of March 31, 2004, 2003 and 2002 were as follows:

	Carrying Amount			
	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	**2004**
Available-for-sale:				
Equity securities	**¥ 282**	¥ 280	¥355	**$ 2,661**
Debt securities	**3,000**	3,000		**28,302**
Held-to-maturity	**5,061**	4,790		**47,745**
Total	**¥8,343**	¥8,070	¥355	**$78,708**

Proceeds from sales of available-for-sale securities for the years ended March 31, 2004, 2003 and 2002 were ¥12,310 million ($116,132 thousand), ¥7,435 million and ¥43,879 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥25 million ($236 thousand) and ¥7 million ($66 thousand), respectively, for the year ended March 31, 2004, ¥34 million and ¥162 million, 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, 2004, 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	¥ 1,100	¥2,823	$ 10,377	$26,632
Due after one year through five years	6,948	2,248	65,548	21,208
Due after ten years	4,268		40,264	
Total	¥12,316	¥5,071	$116,189	$47,840

4. INVENTORIES

Inventories at March 31, 2004, 2003 and 2002, consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	**2004**
Merchandise and finished products	**¥ 8,099**	¥ 7,460	¥ 6,843	**$ 76,406**
Work in process	**257**	190	164	**2,424**
Construction work in progress			38	
Raw materials	**3,631**	3,870	4,142	**34,255**
Supplies	**434**	412	388	**4,094**
Total	**¥12,421**	¥11,932	¥11,575	**$117,179**

5. LAND REVALUATION

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

The resulting "land revaluation difference" represents unrealized appreciation of land and is stated, net of income taxes, as a component of 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 difference account and related deferred tax assets.

As at March 31, 2004, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥1,679 million.

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

Short-term bank loans at March 31, 2004, 2003 and 2002, consisted of notes to banks and bank overdrafts. Short-term loans were made under general security agreements with banks. The annual interest rates applicable to the short-term bank loans ranged from 2.3% to 4.5%, 3.6% to 4.7% and 2.6% to 5.3% at March 31, 2004, 2003 and 2002, respectively.

Long-term debt at March 31, 2004, 2003 and 2002, consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	**2004**
Unsecured 2.21% bonds, due July 2003		¥1,000	¥1,000	
Unsecured 2.35% bonds, due July 2005	**¥1,000**	1,000	1,000	**$ 9,434**
Loans from banks and municipal corporation, due serially to 2009 with interest rates raging from 2.0% to 3.1% in 2004, 2.2% to 3.8% in 2003, 1.9% to 3.7% in 2002	**809**	1,011	1,025	**7,632**
Total	**1,809**	3,011	3,025	**17,066**
Less current portion	**(252)**	(1,301)	(72)	**(2,377)**
Long-term debt, less current portion	**¥1,557**	¥1,710	¥2,953	**$14,689**

Annual maturities of long-term debt as of March 31, 2004 for the next five years were as follows:

Year Ending March 31	Millions of yen	Thousands of U.S. dollars
2005	¥ 252	$ 2,377
2006	1,252	11,811
2007	255	2,406
2008	20	189
2009	30	283
Total	¥1,809	$17,066

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, 2004, 2003 and 2002 include retirement benefits for directors and corporate auditors of ¥1,124 million ($10,604 thousand), ¥1,250 million and ¥1,212 million. The retirement benefits for the Company's directors and corporate auditors are paid subject to the approval of the shareholders in accordance with Japanese Commercial Code (the "Code").

The liability for employees' retirement benefits at March 31, 2004, 2003 and 2002 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	**2004**
Projected benefit obligation	**¥ 25,716**	¥23,867	¥22,430	**$ 242,604**
Fair value of plan assets	**(13,898)**	(10,835)	(10,781)	**(131,113)**
Unrecognized transitional obligation	**(1,192)**	(2,416)	(3,640)	**(11,246)**
Unrecognized actuarial loss	**(6,353)**	(6,693)	(4,046)	**(59,934)**
Unrecognized prior service cost	**1,754**	1,011	(80)	**16,547**
Net liability	**¥ 6,027**	¥ 4,934	¥ 3,883	**$ 56,858**

The components of net periodic benefit costs for the years ended March 31, 2004, 2003 and 2002 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	**2004**
Service cost	**¥1,006**	¥1,334	¥1,394	**$ 9,491**
Interest cost	**603**	561	544	**5,689**
Expected return on plan assets	**(433)**	(431)	(395)	**(4,085)**
Amortization of transitional obligation	**1,224**	1,224	1,282	**11,547**
Recognized actuarial loss	**751**	442	375	**6,085**
Amortization of prior service cost	**(427)**	(251)	6	**(4,029)**
Additional retirement payments			462	
Net periodic benefit costs	**¥2,724**	¥2,879	¥3,668	**$24,698**

Assumptions used for the year ended March 31, 2004, 2002 and 2002 are set forth as follows:

	2004	2003	2002
Discount rate	**2.0%**	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	5 years
Divide of projected benefit obligation	**The straight-line method**	The straight-line method	The straight-line method

The Company and certain domestic subsidiaries have two types of pension plans for employees: a non-contributory and a contributory funded defined benefit pension plan. The contributory funded defined benefit pension plan, established under the Japanese Welfare Pension Insurance Law, covers a substitutional portion of the governmental pension program managed by the Company on behalf of the government and a corporate portion established at the discretion of the Company. In accordance with the Defined Benefit Pension Plan Law enacted in April 2002, the Company applied for an exemption from obligation to pay benefits for future employee services related to the substitutional portion which would result in the transfer of the pension obligations and related assets to the government upon approval. The Company obtained approval for exemption from the future obligation by the Ministry of Health, Labour and Welfare on July 25, 2003.

The substitutional portion of the plan assets which will be transferred to the government in the subsequent year is measured to be approximately ¥4,557 million as at March 31, 2004. If such substitutional portion of the plan assets would be transferred to the government on March 31, 2004, income before income taxes and minority interests would have increased by approximately ¥3,817 million.

8. SHAREHOLDERS' EQUITY

Japanese companies are subject to 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.

The Code also permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

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 the balance 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 the balance of stated capital. The amount of total additional paid-in capital and legal reserve which exceeds 25% of the balance 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 ($18,792 thousand), as of March 31, 2004 and

¥1,992 million as of March 31, 2003 and 2002, respectively.

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 dividends plus the amount of common stock, 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 ¥63,001 million ($594,349 thousand) as of March 31, 2004, 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 2004, the Company repurchased 999 thousand shares of the Company's stock upon obtaining authorization from the Company's shareholders at a meeting held on June 27, 2003, for the purpose of improving its financial position.

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.

On June 27, 2003, shareholders approved to implement a stock option plan in accordance with the Code. Stock option were granted to the directors and key employees of the Company, and its consolidated subsidiaries. The plan provides for granting options to 580 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 ¥5,731.

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

9. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended March 31, 2004, 2003 and 2002 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	**2004**
Sales promotion	**¥21,411**	¥20,672	¥24,462	**$201,991**
Advertising	**9,450**	9,051	6,918	**89,151**
Shipping and storage expenses	**13,561**	11,480	10,368	**127,934**
Employees' salaries	**8,364**	8,118	8,144	**78,906**
Depreciation	**2,210**	2,273	1,951	**20,849**
Other	**22,313**	21,899	22,344	**210,499**
Total	**¥77,309**	¥73,493	¥74,187	**$729,330**

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, 2004, 2003 and 2002. 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, 2004, 2003 and 2002 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	**2004**
Deferred tax assets—current:				
Accrued expenses	**¥1,977**	¥1,075	¥1,136	**$18,651**
Unrealized gains	**25**	53	225	**236**
Land			10	
Other	**529**	915	446	**4,990**
Total	**2,531**	2,043	1,817	**23,877**
Deferred tax assets—non-current:				
Investment securities	**1,107**	1,094	1,717	**10,443**
Pension and severance costs	**2,707**	2,197	1,623	**25,538**
Intangibles	**244**	495	762	**2,302**
Less allowance for doubtful accounts	**319**	410	298	**3,009**
Tax loss carryforwards of subsidiaries			243	
Other	**189**	61	241	**1,783**
Valuation allowance	**(36)**		(570)	**(339)**
Total	**4,530**	4,257	4,314	**42,736**

Deferred tax liabilities—current:				
Accrued enterprise taxes		101		
Other		122		
Total		223		
Deferred tax liabilities—non-current:				
Net unrealized gain on available-for-sale securities	**2,831**	1,008	1,045	**26,708**
Undistributed earnings of subsidiaries	**649**	409	220	**6,123**
Other	**43**	11		**405**
Total	**3,523**	1,428	1,265	**33,236**
Net deferred tax assets—current	**¥2,531**	¥1,820	¥1,817	**$23,877**
Net deferred tax assets—non-current	**¥1,007**	¥2,829	¥3,049	**$ 9,500**
Deferred tax assets—land revaluation	**¥1,409**	¥1,402	¥4,242	**$13,292**

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 is as follows:

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

For the year ended March 31, 2004 and 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 for the year ended March 31, 2003.

11. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥4,689 million ($44,236 thousand), ¥4,529 million and ¥4,749 million for the years ended March 31, 2004, 2003 and 2002, respectively.

12. LEASES

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

Total rental expenses for the years ended March 31, 2004, 2003 and 2002, were ¥585 million ($5,519 thousand), ¥699 million and ¥727 million, respectively, including ¥467 million ($4,406 thousand), ¥542 million and ¥430 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, 2004, 2003 and 2002, was as follows:

	Millions of yen			Thousands of U.S. dollars
Furniture and Fixtures	**2004**	2003	2002	**2004**
Acquisition cost	**¥1,810**	¥1,997	¥1,885	**$17,075**
Accumulated depreciation	**1,283**	1,020	652	**12,104**
Net leased property	**¥ 527**	¥ 977	¥1,233	**$ 4,971**

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

Obligations under finance leases for the years ended March 31, 2004, 2003 and 2002, were as follows:

	Millions of yen			Thousands of U.S. dollars
Furniture and Fixtures	**2004**	2003	2002	**2004**
Due within one year	**¥282**	¥446	¥ 398	**$2,660**
Due after one year	**245**	531	835	**2,311**
Total	**¥527**	¥977	¥1,233	**$4,971**

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 ¥467 million ($4,406 thousand), ¥542 million and ¥430 million for the years ended March 31, 2004, 2003 and 2002.

13. DERIVATIVES

The Group enters into foreign exchange forward contracts, 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, currency 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, 2004, 2003 and 2002 are excluded from the disclosure of market value information.

The Group had the following derivatives contracts outstanding at March 31, 2004, 2003 and 2002:

	Millions of yen									Thousands of U.S. dollars		
	2004			2003			2002			2004		
	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. dollar payment/yen receipt				¥ 279	¥(7)	¥(7)	360	(53)	(53)			
Thai baht payment/U.S. dollar receipt				136			245	4	4			
Thai baht payment/JPY receipt	**¥849**	**¥38**	**¥38**	1,418	3	3				**$8,009**	**$358**	**$358**

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. SUBSEQUENT EVENTS

The following appropriations of retained earnings at March 31, 2004, were approved at the Company's shareholders' meeting held on June 29, 2004:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥14 ($0.1) per share	¥931	$8,783
Bonuses to directors and corporate auditors	114	1,075

The Company also approved the following stock option plan for the Group'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, 2007 to June 30, 2009. 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.

15. SEGMENT INFORMATION

The Group operates in the following industries: Industry A consists of baby and child care, feminine hygiene, health care, and clean & fresh.
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, health care, and clean & fresh," "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 the 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 sales to foreign customers of the Group is as follows:

(1) Industry Segments

a. Sales and Operating Income

	Millions of yen				
	2004				
	Industry A	Industry B	Industry C	Corporate	Consolidated
Sales to customers	**¥205,291**	**¥23,553**	**¥11,266**		**¥240,110**
Intersegment sales	**42**		**47**	**¥ (89)**	
Total sales	**205,333**	**23,553**	**11,313**	**(89)**	**240,110**
Operating expenses	**178,111**	**21,385**	**9,990**	**(103)**	**209,383**
Operating income	**¥ 27,222**	**¥ 2,168**	**¥ 1,323**	**¥ 14**	**¥ 30,727**

b. Assets, Depreciation and Capital Expenditures

	Millions of yen				
	2004				
	Industry A	Industry B	Industry C	Corporate	Consolidated
Assets	**¥121,783**	**¥13,204**	**¥33,376**	**¥40,639**	**¥209,002**
Depreciation	**10,917**	**242**	**457**		**11,616**
Capital expenditures	**18,766**	**303**	**419**		**19,488**

a. Sales and Operating Income

	Thousands of U.S. dollars				
	2004				
	Industry A	Industry B	Industry C	Eliminations	Consolidated
Sales to customers	**$1,936,708**	**$222,198**	**$106,283**		**$2,265,189**
Intersegment sales	**396**		**443**	**$(839)**	
Total sales	**1,937,104**	**222,198**	**106,726**	**(839)**	**2,265,189**
Operating expenses	**1,680,292**	**201,745**	**94,245**	**(971)**	**1,975,311**
Operating income	**$ 256,812**	**$ 20,453**	**$ 12,481**	**$ 132**	**$ 289,878**

b. Assets, Depreciation and Capital Expenditures

	Thousands of U.S. dollars				
	2004				
	Industry A	Industry B	Industry C	Corporate	Consolidated
Assets	**$1,148,896**	**$124,566**	**$314,868**	**$383,387**	**$1,971,717**
Depreciation	**102,991**	**2,283**	**4,311**		**109,585**
Capital expenditures	**177,038**	**2,858**	**3,953**		**183,849**

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

To conform to the segmentation used in 2003, the segment information of the year ended March 31, 2002, 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

(2) Geographic Segments

a. Sales and Operating Income

	Millions of yen				
	2004				
	Japan	Asia (Excluding Japan)	Other	Eliminations	Consolidated
Sales to customers	**¥190,719**	**¥32,701**	**¥16,690**		**¥240,110**
Intersegment sales	**5,511**	**1,752**		**¥(7,263)**	
Total sales	**196,230**	**34,453**	**16,690**	**(7,263)**	**240,110**
Operating expenses	**169,198**	**31,379**	**16,103**	**7,297**	**209,383**
Operating income	**¥ 27,032**	**¥ 3,074**	**¥ 587**	**¥ 34**	**¥ 30,727**

b. Assets

	Millions of yen				
	2004				
	Japan	Asia (Excluding Japan)	Other	Corporate	Consolidated
Assets	**¥121,286**	**¥25,270**	**¥11,637**	**¥50,809**	**¥209,002**

a. Sales and Operating Income

	Thousands of U.S. dollars				
	2004				
	Japan	Asia (Excluding Japan)	Other	Eliminations	Consolidated
Sales to customers	**$1,799,236**	**$308,500**	**$157,453**		**$2,265,189**
Intersegment sales	**51,991**	**16,528**		**$(68,519)**	
Total sales	**1,851,227**	**325,028**	**157,453**	**(68,519)**	**2,265,189**
Operating expenses	**1,596,208**	**296,028**	**151,915**	**(68,840)**	**1,975,311**
Operating income	**$ 255,019**	**$ 29,000**	**$ 5,538**	**$ 321**	**$ 289,878**

b. Assets

	Thousands of U.S. dollars				
	2004				
	Japan	Asia (Excluding Japan)	Other	Corporate	Consolidated
Assets	**$1,144,208**	**$238,396**	**$109,783**	**$479,330**	**$1,971,717**

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

	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

(3) Sales to Foreign Customers

Sales to foreign customers for the years ended March 31, 2004, 2003 and 2002, amounted to ¥55,069 million ($519,519 thousand), ¥47,971 million and ¥37,004 million, respectively.

Independent Auditors' Report

Deloitte.

Deloitte Touche Tohmatsu
MS Shibaura Building,
4-13-23, Shibaura,
Minato-ku, Tokyo 108-8530, Japan
Tel: +81-3-3457-7321
Fax: +81-3-3457-1694
www.deloitte.com/jp

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, 2004, 2003 and 2002, 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 generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Unicharm Corporation and subsidiaries as of March 31, 2004, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then end in conformity with accounting principles generally accepted in Japan.

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

Deloitte Touche Tohmatsu

June 29, 2004

Subsidiaries and Affiliated Companies

As of March 31, 2004

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	44
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	95
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)

Investor Information

As of March 31, 2004

Fiscal Year-end March 31, 2004

Annual Shareholders' Meeting June 29, 2004

Common Stock Authorized: 196,390,411
Issued: 68,981,591

Number of Shareholders 18,392

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

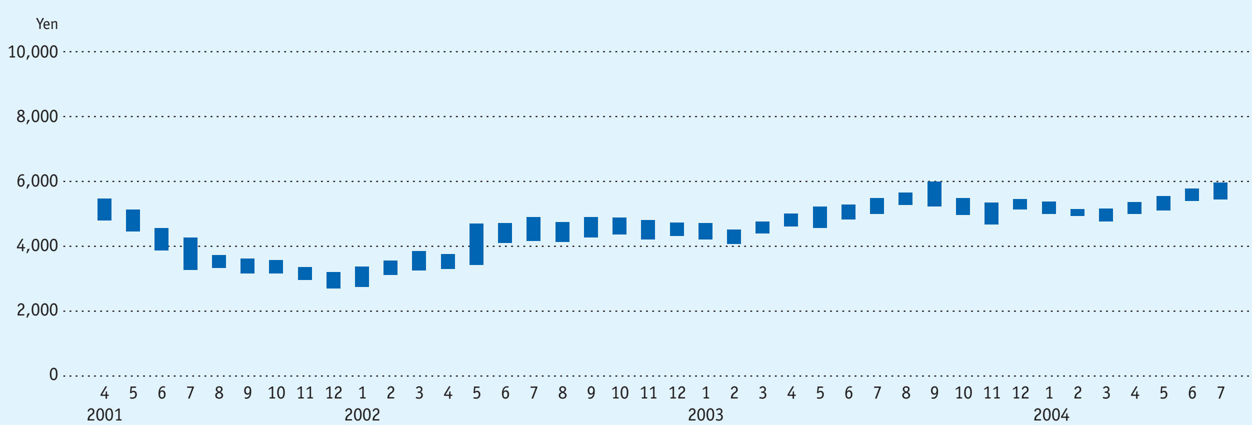
Principal Shareholders

Shareholder	Number of shares (Thousands)	Percentage of voting rights
Unitec Corporation	12,268	17.79%
Takahara Kosan K.K.	3,918	5.68
The Master Trust Bank of Japan, Ltd. (Trust Account)	3,367	4.88
Makoto Shoji Yugengaisha	3,120	4.52
The Chase Manhattan Bank NA London	3,015	4.37
Japan Trustee Services Bank, Ltd. (Trust Account)	2,510	3.64
Nippon Life Insurance Company	2,416	3.50
State Street Bank and Trust Company	2,065	3.00
The Hiroshima Bank, Ltd.	1,920	2.79
The Iyo Bank, Ltd.	1,699	2.46

Equity Policy

September	2003	Repurchase of treasury stock pursuant to Article 210.1 of the Commercial Code of Japan (999,000 shares purchased at ¥5,330 per share)
January	2003	Repurchase of treasury stock pursuant to Article 210.1 of the Commercial Code of Japan (1,500,000 shares purchased at ¥4,500 per share)
February	2002	Repurchase and retirement of shares (964,300 shares purchased at ¥3,400 per share)
March	2001	Repurchase and retirement of shares (921,000 shares purchased at ¥4,900 per share)
July	1999	Sales of shares in Japan and overseas (2,400,000 shares and 300,000 green shoe shares) (Price: ¥6,128; Purchasers: The Tokai Bank, Ltd., Takahara Shinko K.K., The Fuji Bank, Ltd.)
August	1998	Repurchase and retirement of shares (1,724,289 shares purchased at ¥5,210 per share)

Common Stock Price Range



Corporate Data

As of March 31, 2004

Registered Office of the Company	182 Shimobun Kinsei-cho, Shikokuchuo-City, 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	987 (5,057 on a consolidated basis)
Information	Corporate Planning Office 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.

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

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