Unicharm Corporation

Annual Report 2006

unicharm
NOLA & DOLA

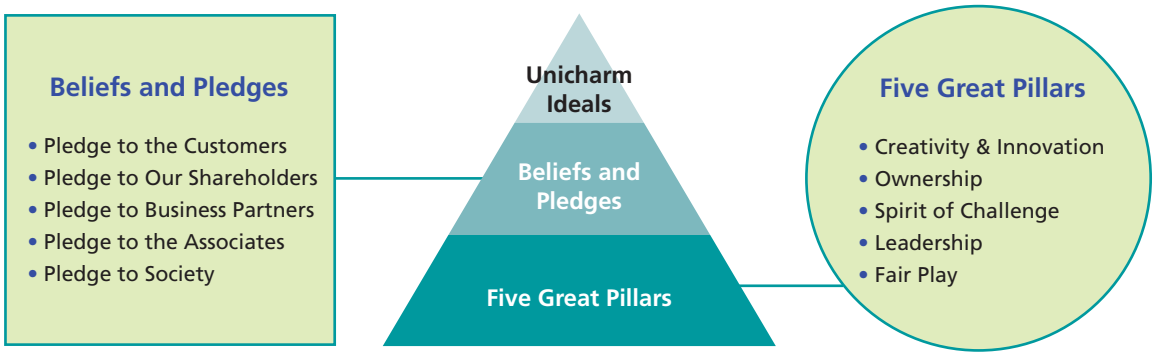
Aiming for a 10% Global Market Share

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

Our mission is to provide the best products and services to people of all ages, from infants to the elderly. We are striving to position ourselves as a category leader in high-growth markets by actively expanding into new areas, particularly in Asia, and delivering a product lineup in tune with customer needs and the regions in which we operate. In this manner, we aim to acquire a 10% global market share.

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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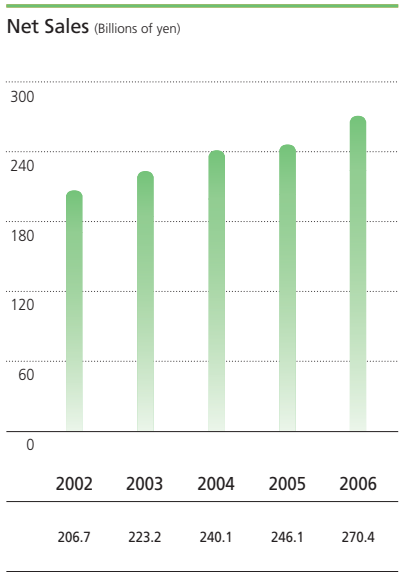
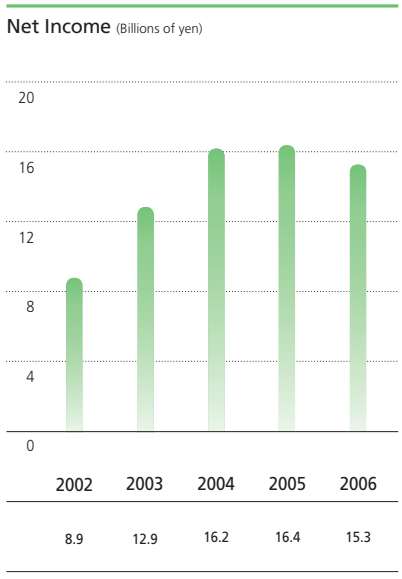
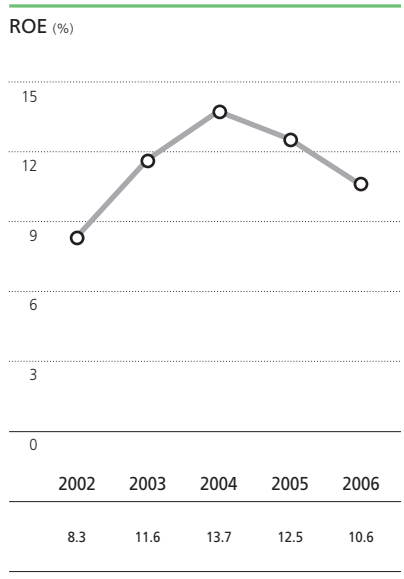
Financial Highlights

CONSOLIDATED	Millions of yen 2006	2005	2004	Thousands of U.S. dollars 2006
FOR THE YEAR:				
Net sales	**¥270,380**	¥246,051	¥240,110	**$2,310,940**
Operating income	**28,531**	27,285	30,727	**243,854**
Net income	**15,288**	16,382	16,240	**130,667**
Capital expenditures	**13,609**	13,737	19,488	**116,316**
Depreciation	**13,063**	12,330	11,616	**111,650**
R&D expenses	**4,018**	3,747	4,689	**34,342**
AT YEAR-END:				
Shareholders' equity	**¥151,183**	¥137,697	¥123,709	**$1,292,162**
Total assets	**250,355**	215,365	209,002	**2,139,786**
PER SHARE DATA:	Yen			U.S. dollars
Net income	**¥229.34**	¥244.25	¥240.26	**$1.96**
Cash dividends applicable to the year	**32.00**	30.00	28.00	**0.27**

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, 2006 of ¥117=U.S.$1.







Takahisa Takahara
President and CEO

Fiscal 2006 Performance Overview

Sales

In fiscal 2006, ended March 31, 2006, Unicharm positioned the health care business, pet care business, and Asia-centered overseas business as Group growth drivers, working to accelerate sales growth and increase profit. As a result of steady progress in these businesses, consolidated net sales rose ¥24.3 billion, or 9.9%, compared with the previous fiscal period, to ¥270.4 billion, marking a year of record sales for Unicharm. Domestic sales increased ¥9.6 billion, or 5.0%, year on year, to ¥201.7 billion. Overseas sales focusing mainly on major Asian countries, including China, Thailand, Indonesia and Malaysia grew substantially. As a result, sales in Asia climbed ¥8.6 billion, or 24.7%, to ¥43.2 billion. In other overseas areas, mainly in Europe, sales of pants-type disposable diapers for infants and adult incontinence products increased. Including contributions from Unicharm GHI*[1], a Middle Eastern subsidiary newly acquired in December 2005, sales in other overseas areas rose ¥6.1 billion, or 31.5%, year on year to ¥25.5 billion. Accounting for these factors, sales to external customers overseas increased ¥14.7 billion, or 27.2%, to ¥68.7 billion, expanding to comprise 25% of consolidated net sales.

Operating Income and Net Income

Despite the impact of increased sales and marketing expenses incurred through efforts to bolster our competitiveness and from higher raw material costs, gross profit in the fiscal year under review increased in line with growth in domestic and overseas sales. Along with our efforts to reduce costs, these factors resulted in a ¥1.2 billion, or 4.6%, increase in operating income to ¥28.5 billion. Reflecting the extraordinary gain of ¥3.9 billion from the return of the entrusted government's portion of the welfare pension fund, net income dipped ¥1.1 billion, or 6.7%, year on year to ¥15.3 billion.

*1. Unicharm GHI: Unicharm Gulf Hygienic Industries Ltd.; Headquarters: Riyadh, Saudi Arabia; President: Mahdy S. Katbe

Strategic Priorities for Fiscal 2007

Although both consumer spending and corporate performance in the domestic economy remain steady, the business environment surrounding Unicharm is expected to confront change due to intense competition within the mature market and Japan's rapidly declining birthrate and aging population. In Asia, competition between global brands is forecast to become more severe, consistent with fast-paced market expansion. Furthermore, anxiety regarding rising raw material prices, carried over from the previous fiscal year, is unlikely to subside.

Against this backdrop, Unicharm will strive to rejuvenate mature markets and vigorously expand business in markets that exhibit growth potential by further developing its ability to consistently and accurately grasp customer needs, implementing marketing initiatives to create new markets and high brand value, and bolstering product development and technological capabilities,.

Looking to fulfill these aims, Unicharm formulated its medium-term vision, "Global 10," in 2005. Focusing particularly on Asia, Unicharm currently develops products and technologies such as pants-type disposable diapers for infants and feminine care products in over 24 countries worldwide. Under these circumstances, the medium-term vision clarifies Unicharm's goals to become Asia's No. 1 company in nonwoven fabric and absorbent materials and to acquire a 10% global market share. Global 10 also aims to position Unicharm, both in name and

substance, among the industry's top three companies worldwide. Basic Global 10 strategies are to obtain an overwhelming market share in Japan, Taiwan, Thailand, China and Indonesia by developing processes and fostering humans resources that facilitate cost structure reform and the strengthening of products, sales channels and communication with customers.

Overseas Strategic Priorities

In Asia, the Company will advance efforts to fortify its dominance particularly in Taiwan, Thailand, China and Indonesia. Through the development of high-value-added baby, child and feminine care products, we will raise brand recognition and expand our share of the market. Furthermore, we will strive to expand our area of business development by fortifying relationships with each of our business partners, such as LG Household & Health Care Ltd.*2 with whom we have established a joint business venture in Korea, and Unicharm GHI, acquired in December 2005, to develop business in the Middle East and North Africa, and introducing products that address regional needs in a timely fashion.

Domestic Strategic Priorities

In a mature domestic market, Unicharm will work to maintain and improve profitability in its baby and child care business by offering higher-value-added products and ascertaining in which segments consumers find value. From our *Moonyman* lineup, the Company will launch *Moonyman Ase Sukkiri*, the world's first disposable diaper to feature an antibacterial, perspiration absorbent sheet. Owing to this enhanced functionality, we will be able to set the unit rate per diaper at 30% above standard *Moonyman* products, and will promote a shift in competition from price to value. Also, in fall 2006, Unicharm will release *Moonyman Sarara Magic* and *Moony Sarara Magic*, which in addition to realizing innovation in absorbency, respond to growing needs for baby skin care. In line with this product launch, we will promote a shift to premium value products through price increases, while working to restore the health of the entire market.

In the feminine care business, the Company will concentrate efforts on premium market building by strengthening its lineup of nighttime protection napkins. With the introduction of *Sofy Bodyfit Cho-Jukusui Guard 400*, a new high-value-added napkin, we will reinforce line extensions of nighttime protection napkins. Unicharm will also work to strengthen its new *Center-In* line of products, a business transferred from Shiseido Co., Ltd. in June 2006. The *Center-In* brand finds support in the significant level of sense and design that suits napkin users. By further developing the *Sofy* and *Center-In* brands that are underpinned by an emphasis on function, Unicharm aims to provide all napkin users with high value products, and secure a dominant position in the domestic napkin business.

The health care business that is designated as a growth business domestically will continue to achieve double-digit percentage growth and surpass the overall rate of market expansion. The Unicharm Group will also concentrate on securing an overwhelming lead in the commercial-use market in conjunction with Unicharm Molnlycke K. K., which became a subsidiary in the previous fiscal year. In the retail market, we will work to fortify the particularly promising high-growth, highly profitable field of incontinence products for healthy individuals. In addition, we will strive to realize further growth in the highly profitable business of medical masks, by enhancing the features and functions of our *Cho-Rittai Mask*.

In the clean and fresh business, the Company will renew the disposable paper cloth *Wave* series with enhanced features, and exert efforts to expand the market for handy-type disposable cloths. In the pet care business, we will accelerate business growth by continuing to develop aggressive marketing strategies, and introducing high-function products that respond to changes in Japan's peculiar pet rearing environment, especially for elderly, indoor, small and overweight pets.

Fiscal 2007 Business Forecasts

Consolidated net sales in fiscal 2007, the fiscal year ending March 31, 2007, are forecast to increase 9.1% year on year to ¥295.0 billion. Operating income is anticipated to grow 6.9% to ¥30.5 billion, with a 4.7% increase in net income to ¥16.0 billion. As a result, net income per share is expected to amount to ¥244.76, ¥15.42 less than in the fiscal year under review.

*2. LG Household & Health Care Ltd.
Headquarters: South Korea, Seoul; CEO: Yon Suk Cha

Basic Profit-Sharing Policy

Basic Policy

The Company considers the paying of dividends to its shareholders as its most important management policy, and for this reason works to increase corporate value by generating cash flow. In order to improve our earnings potential, the Company is working to strengthen its business structure and proactively expand its operations. At the same time, Unicharm adheres to a policy of continued increases and stable dividend distribution.

Free Cash Flow Application

Unicharm strives to outpace the market, increase its industry position and enhance corporate value as the most effective means to deliver returns to shareholders. In addition, by undertaking active investment in the domestic health care field as well as opportunities to establish an overwhelming position in the growth markets of Asia, we are aiming to secure a 10% global share and become a company characterized by its high growth potential, ranking among the top three companies worldwide.

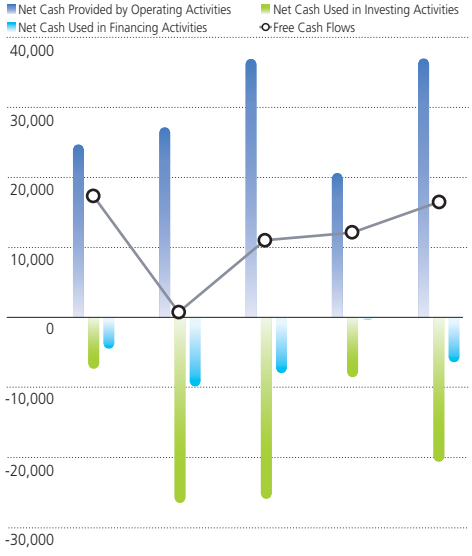
Buoyed by the concept of maximizing future corporate value, Unicharm gives the utmost priority to selectively allocating free cash flows among overseas businesses, focusing on China and Thailand. At the same time, we invest in efforts to expand business scope, R&D, information systems and other infrastructure in domestic growth areas such as the health care business. From a long-term perspective, we pursue business activities while reviewing management efficiency.

Profit-Sharing

As a measure to directly return profit to shareholders, Unicharm maintains a basic policy to provide continuous shareholder returns of 50% of net income, combining dividend distributions with the acquisition of treasury stock. Furthermore, the Company aims to consistently provide increased dividends, targeting a dividend payout ratio of 20%.

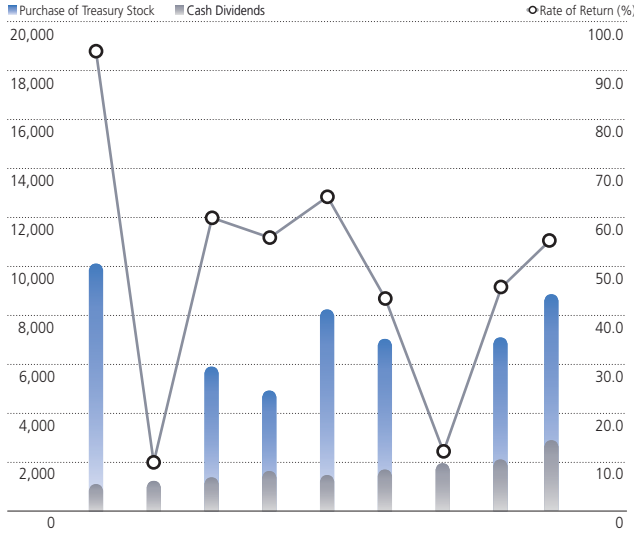
In accordance with its basic policy, Unicharm declared a year-on-year dividend increase of ¥2.00 per share, for a total of ¥32.00 per share in the fiscal year under review, realizing its commitment to continuously increase dividends. In fiscal 2007, full-year dividends are projected to increase significantly to ¥44.00 per share, up ¥12.00 per share. Also, with regard to share buy-backs to provide shareholder returns, the Company purchased 943,000 shares of treasury stock for an acquisition amount of ¥6.0 billion during July 31 through August 25, 2006.

Cash Flows (Millions of yen)



	2002	2003	2004	2005	2006
Net Cash Provided by Operating Activities	24,728	27,186	36,916	20,607	36,889
Net Cash Used in Investing Activities	-7,262	-26,411	-25,836	-8,437	-20,252
Net Cash Used in Financing Activities	-4,406	-9,806	-7,933	-208	-6,218
Free Cash Flows	17,466	775	11,080	12,170	16,637

Return of Profit to Shareholders (Millions of Yen)



	1999	2000	2001	2002	2003	2004	2005	2006	2007(E)
Purchase of Treasury Stock	8,983	–	4,512	3,278	6,750	5,324	–	4,973	6,000
Cash Dividends	1,147	1,275	1,417	1,678	1,517	1,740	1,994	2,109	2,858
Rate of Return (%)	93.9	10.1	59.9	56.0	64.2	43.5	12.2	46.0	55.4

Strengthening Corporate Governance

Unicharm's essential concept of corporate governance is exemplified by its corporate ideal to pursue correct corporate management principles that bring together corporate growth, well-being among associates, and fulfill its social responsibilities. The Company works tirelessly to realize this ideal through every facet of its daily activities. In May 2006, Unicharm formulated its basic policy relating to the implementation of an internal control system pursuant to the Corporations Law and the Corporations Law Enforcement Regulations.

Guided by this set of corporate ideals, Unicharm strives to pursue correct corporate management principles. Working in unison, management and operating divisions strive to enhance corporate value and to fulfill Unicharm's corporate social responsibilities for which it has a keen awareness.

With this, the Company maintains a management structure that comprises directors and corporate auditors and adopts an executive officer system. This system was implemented to bolster the decision-making and supervisory functions of the Company's six directors as well as of the executive function of its 20 executive officers, five of whom hold the concurrent position of director. Aiming to increase the mobility and flexibility of management, Unicharm stipulates a one-year term for directors. Furthermore, in an effort to enhance management's focus on the frontline and accelerate strategy implementation, recognized as Group strengths, Unicharm conducts Business Plan Advisory Meetings every six months that are attended by all directors, corporate auditors and executive officers, to determine business plans for each operating division. In connection with each business plan, the Business Execution Board meets on a monthly basis. Chaired by the president and CEO, the Board strives to ensure the appropriate and prompt resolution of important issues tabled by the Board Chairman based on the status of business plan execution.

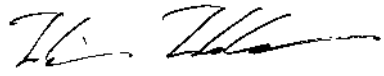
Unicharm has adopted a statutory Board of Auditors system that comprises two internal and two external auditors, aiming to further enhance the transparency of its corporate conduct and strengthen the auditing function that oversees the Board of Directors. Unicharm established the Internal Auditing Office, which comprises five members, to conduct internal audits of operating divisions. The role and function of the Office is to prepare internal audit reports identifying matters of importance that are presented to the president and CEO, the Board of Auditors and the division subject to the audit. In the event an issue is uncovered and identified, the Internal Auditing Office formulates and implements remedial plans. Internal auditors then follow-up by monitoring the results of remedial measures.

Enhancing Corporate Value by Reinforcing CSR

Based on its ideal of creating a better life for humankind by offering only the finest products and services to the customer, both at home and abroad, Unicharm engages in activities aimed at consistently creating new value and delivering unrivalled quality to all its stakeholders. In fiscal 2006, Unicharm strengthened CSR activities by holding its first stakeholder meeting where it introduced the Company's CSR activities and other related information, and listened to the opinions and wishes of its stakeholders. In fiscal 2007, the Company asserted its support of the U.N. Global Compact, aiming to become a leader and to actively contribute to global change. Looking ahead, Unicharm will exert a Groupwide effort to help address diversified and complex international issues, particularly those in Asia that include declining birthrates and aging societies, environmental concerns, public sanitation, resources, employment, education and poverty.

We thank you for your continued support and understanding.

September 2006
Takahisa Takahara
President and CEO



Lifestyle Products Division

Baby and Child Care

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

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 Products Division

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

Other Products Division

- Food packaging materials
- Sheet cleaners for industrial use

Sales in the fiscal year ended March 31, 2006 increased 10.0% to ¥228.9 billion compared with the previous fiscal year. Operating income edged up 2.7% or ¥0.6 billion to ¥23.9 billion.

Unicharm entered the baby and child care market in 1981 with the release of *Moony* disposable diapers for infants, and today commands nearly 50% of the domestic market for disposable diapers. Utilizing proprietary production methods, Unicharm took the lead in 1992 by releasing the world's first pants-type diaper, *Moonyman*, creating new value and transforming the structure of the market. The Company subsequently created new product categories with *Oyasumiman* sleeping underwear, *Trepanman* toilet training pants and *Moonyman Mizu-Asobi Pants* that allow babies to better enjoy playing in the water and swimming pools. These innovations have served to expand and invigorate the market. Overseas, Unicharm is aggressively developing its business in East Asia, while also focusing on the Middle East and North Africa. The Company's *Mamy Poko* brand boasts the top share in Thailand and Indonesia.

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 are the sole Japanese manufacturer of a comprehensive range of feminine care products that include feminine napkins, sanitary tampons, sanitary briefs and panty liners. Underpinned by continuous efforts to offer a product lineup that incorporates a wide range of newly developed functions to meet increasingly sophisticated customer needs, the Company has commanded the top share of the feminine market for the past 10 years. Furthermore, in June 2006, Unicharm acquired the *Center-In* feminine care product business from Shiseido Co, Ltd. Unicharm is actively promoting their *Sofy* brand overseas, with particular focus on East Asian markets, where *Sofy* enjoys the leading market share in Taiwan and Thailand.

Since launching adult pants-type *Lifree* disposable diapers in 1987, Unicharm has generated new value through the sale of advanced functional products and taken the lead in cultivating the adult disposable diaper market in Japan. In 1995, the Company entered the field of continence rehabilitation with the release of *Lifree Rehabilitation Pants* and took significant strides in alleviating the physical, economic, and psychological burdens of both patients and caregivers. Utilizing its technological expertise in nonwoven fabrics, Unicharm also developed the *Unicharm Cho-Rittai Mask*, a medical mask that eliminates the past shortcomings of existing masks, generating new demand in this market area.

Since launching its *Silcot* line of cosmetic puffs in 1974, Unicharm has continued to develop products to help maintain clean, sanitary and fresh environments based on its core nonwoven fabric and absorbency manufacturing process technologies. Today, Unicharm is creating new value and demand in a variety of fields by offering products for general household use such as *Wave* sheet cleaners, *Cook-Up* kitchen sheets, the *Silcot Wet Tissues* series of moist towelettes for skin care, and cosmetic puffs.

Fiscal 2006 sales grew 13.3% to ¥30.4 billion, year on year, and operating income expanded 30.4% to ¥3.4 billion.

Launched in 1986, Unicharm's pet care business is now managed by consolidated subsidiary Unicharm PetCare Corporation. With its business philosophy of providing pets with healthy, clean and comfortable lives, Unicharm provides dry, wet, and soft pet food through its three brands: *Aiken Genki*, *Neko Genki*, and *Gaines*. Furthermore, Unicharm utilizes the Group's expertise in both nonwoven fabric and absorbency manufacturing process technologies to deliver pet sheets, deodorant cat litters, and pet diapers. Offering new value through innovative products and services, Unicharm aims to create extra comfort in lives shared by pets and people.

Sales in fiscal 2006 remained on par with the previous fiscal year, totaling ¥11.1 billion, while operating income decreased 16.2% to ¥1.1 billion, year on year.

In Unicharm's other businesses, the Company employs its accumulated expertise in nonwoven fabric and absorbency manufacturing process technologies to market commercial food packaging materials to supermarkets and develop other commercial applications for food distribution. In the food packaging materials business, Unicharm focuses on developing products, such as *Tray Mate* drip sheets, that are designed to maintain food freshness and contribute to hygienic food management. As part of its commercial-use product lineup, Unicharm also developed a new line of *Wave* brand sheet cleaners.

Lifestyle Products

84.7%

Baby and Child Care

Fiscal 2006 Business Overview

While Japan's low birth rate continued to limit demand for baby and child care products, the business environment showed some signs of improvement as prices firmed for disposable diapers. Still, owing to persistently high raw material prices, the business climate was relentless. With the introduction of new products, Unicharm strove to provide consumers with high-value-added products while also, as a leading company in this field, undertaking product improvements and renewals.

Working to revive profitability and a sluggish market, the Company implemented aggressive marketing and advertisement campaigns focused on promoting market penetration of pants-type disposable diapers. One such strategy was the implementation of the industry's first participatory consumer campaign for the *Mamy Poko* brand. Consumers participated by voting from among nine Disney character designs to be adopted for the *Mamy Poko* lineup. Owing to this effort, sales expanded.

Also, Unicharm continues to spur the momentum of the market toward premium value products, as demonstrated by thrifty shoppers shifting to the Company's economy value pants-type disposable diapers. This was achieved through the release of a range of products from the affordably priced *Mamy Poko Pants* to new M-Size products. We also worked to arouse new demand for *Trepanman Big Size* to staying abreast of trends toward later toilet training.

Strategies for Fiscal 2007

As Japan's overall population continues to decline, the value of the market for baby and child care products is forecast to contract by about 2%. Against this backdrop, Unicharm will work to stimulate sales and earnings by promoting a transition to pants-type disposable diapers and an increase in prices commensurate with product enhancement. Within the *Moonyman* lineup, Unicharm will specially release summertime *Moonyman Ase Sukkiri* diapers that contain antibacterial sweat absorbing materials to help reduce the spread of staphylococcus epidermis, which is often caused by sweat. With an expected 30% premium over other *Moonyman* products, the *Moonyman Ase Sukkiri* lineup demonstrates the Company's endeavors to improve profitability and invigorate the market. With an eye on future profitability, the Company will implement a 5% price increase for *Mamy Poko* products, in line with functional design upgrades and overall product enhancements. Moreover, under the *Moony* lineup, Unicharm has developed the world's first absorption sheet to absorb urine and other liquids so quickly and efficiently they seem to magically disappear. Patented as *Kyuin Sarara Sheet*, the Company has applied this technology to new products, appropriately named *Moonyman Sarara Magic* and *Moony Sarara Magic*. Products such as *Moonyman Sarara Magic* with strengthened absorbency are expected to command a 10% premium based on added value, compared to products prior to this development.

Feminine Care

Fiscal 2006 Business Overview

Expansion in the feminine care market was slow amid a declining number of women that use feminine care products, a result of Japan's aging population and declining birthrate. As the sole manufacturer of a full lineup of feminine care products in Japan, the Company worked to revitalize the market by concentrating on the development and improvement of products that provide reassurance and comfort, in line with its business philosophy of creating freedom and comfort for women through science.

In the field of napkins, Unicharm developed *Fuwapita Absorbent* sheets newly shaped to fit a woman's curves and avoid gapping. The use of this absorbency technology in *Sofy Bodyfit Fuwapita Slim* to absorb fluids with pinpoint accuracy and provide women with a secure fit, contributed to the creation of a category of premium daytime napkins and market revitalization. Unicharm also established a brand to offer women peace of mind and a sense of comfort while sleeping, with the release of *Sofy Bodyfit* napkins for heavy nighttime and extra-heavy nighttime protection napkins. Endeavoring to strengthen the feminine care business and rejuvenate the napkin market, in spring 2006 Unicharm launched new and improved products in every feminine category from napkins, tampons and sanitary shorts to panty liners.

Unicharm unveiled its new *Sofy Fuwagokochi* panty liners that achieve a never before experienced level of comfort. Unicharm aims to create growth within this category by increasing panty liner use beyond the current penetration ratio of approximately 40%. In the tampon category of feminine care products, the Company targeted a rise in the current 30% market penetration ratio of tampons through market promotions to increase awareness of tampon usage. This effort included the release of the *Charm Nameraka Slim Tampon Trial Pack* in tandem with the simultaneous distribution of *A Book for First Time Tampon Users* to stores targeting consumers apprehensive about using tampons. Other dynamic sales promotion efforts were product-trial campaigns and the development of tampon-use awareness advertisements tailored to address the particular life stages of a woman.

Strategies for Fiscal 2007

Within a maturing domestic market for feminine products, the Company is aiming to further expand earnings and boost sales. To this end, Unicharm is striving to cultivate segment growth for high-value-added products through such measures as enhancing the features of slim-type and nighttime protection napkins. At the same time, Unicharm hopes to prompt a shift from price-based competition towards added value and enhanced function. In napkins, Unicharm will release *Sofy Bodyfit Cho-Jukusui Guard 360* and strengthen the lineup of 290, 330, 360, 400 nighttime napkins, making it easier for users to choose the best napkin to meet their needs, while also promoting a transformation to premium brand status. Unicharm will promote greater market penetration with the launch of *Catechin Deodorant* panty liners under the *Sofy Fuwagokochi* series. Advancing efforts begun in the last fiscal year to encourage tampon usage, Unicharm will air its first new TV commercial for tampons in 10 years.

This comes in line with aims to increase the percentage of tampon users. Going forward, in addition to its regular sales and marketing activities, the Company must also work to cultivate *Center-In* brand feminine care products, a business it acquired from Shiseido Co., Ltd. in June 2006. Leveraging the *Center-In* brand's market share and level of fashion significance, Unicharm will push forward with efforts to develop both the *Center-In* and *Sofy* brands and secure an overwhelming position in Japan's feminine care market.

Health Care

Fiscal 2006 Business Overview

In the health care business, sales grew at a faster rate than market growth amid increasingly intense competition in a growth market. Faced with a rapidly aging society in Japan, Unicharm concentrated on developing and improving its *Lifree* brand, guided by the business philosophy "Pursue the Joy of Life" and with an eye on the goal expressed in "Bedridden neither in Mind nor Body." With promotion of the three major principles (nursing care prevention, elderly household care, and dementia care) throughout the nursing insurance structure and the progression of a rapidly aging society, expectations are increasing for incontinence care products that take into account the special characteristics of dementia to ease caregiver tasks, while also sustaining the remaining abilities of those being cared for. Driven by these expectations, Unicharm developed new concepts based on finely adjusted Activities of Daily Living (ADL) to introduce products attuned to each activity. In doing so, Unicharm not only increased sales, but offered enhanced incontinence care that provides care recipients with a sense of dignity and independence, while providing caregivers with a sense of ease. This success was particularly apparent with the striking growth of the light incontinence market where Unicharm's release of *Charm-Nap Kyusui Sarafi Panty Liners* offered consumers new possibilities in panty liner use.

We also bolstered efforts in the market for institutional-use products. Unicharm and the Swedish company Svenska Cellulosa Aktiebolaget (SCA) launched sales of *TENA* disposable diapers for adults in a joint business venture. Unicharm Molnlycke K.K., which became a subsidiary, handles sales of this line of products. As Japan's society further advances in age, long-term growth is forecast for the adult disposable diaper market. Looking to accelerate and expand its business in adult disposable diapers for nursing care facilities and hospitals, the Unicharm Group endeavored to strengthen both the *Lifree* and *TENA* brands.

Strategies for Fiscal 2007

While Unicharm already enjoys a formidable No. 1 position in the expanding domestic health care market with a share exceeding 40%, the Company will aim for further growth by leveraging timely expansion in the market for products targeting Japan's rapidly aging society. Rooted in the concept of "From healthy incontinence to early-elder incontinence care," *Lifree Sono Shunkan mo Anshin Pads* is responding to market needs for urgent incontinence care products. At the same time, Unicharm looks forward to market growth in adult-formula moist towelettes with the release of *Lifree Oshirifuki*. Unicharm will move forward with efforts to expand operations to outpace market growth by enhancing the Company's full lineup of Lifree brand products as well as implementing activities to further promote the awareness of continence rehabilitation care systems. In the medical mask market, Unicharm will focus on increasing sales and earnings through the introduction of new masks with enhanced functions to provide strong protection against viruses and pollen. Release of the *Cho-Rittai Mask* demonstrated the popularity of nonwoven fabric type masks. This safe, lightweight, self-care product meets increasing needs for both hygiene and convenience-needs that will also play a significant role in generating new market growth.

Clean & Fresh

Fiscal 2006 Business Overview

In the clean and fresh business, Unicharm has developed products based on its core technologies in absorbent materials and nonwoven fabric to provide customers with feelings of cleanliness, freshness and peace of mind. Unicharm expanded sales by strengthening its *Silcot Wet Tissue* series with the addition of *Silcot Wet Tissues Handy Wet* and *Silcot Wet Tissues Handy Wet*, *Anshin Antibacterial Formula*. This is the industry's first line of wet tissues to come in a slim-type bottle with a one-push button function. Again applying its nonwoven fabric technology, the Company also released *Cook-Up Shakitto Shokkan Sheet*, a sheet to preserve the freshness in vegetables. Targeting general household use, this was part of the Company's efforts to generate demand through new proposals for food preservation. In disposable home cleaning products, such as *Wave Handy-Wiper* and *Aller-Care Wave*, the Company and P&G collaborated on a campaign to launch P&G's airborne house dust inhibitor, Febreze House Dust Clear. Unicharm worked to expand sales of these products through the jointly developed "Oheya Marugoto Kaiteki Campaign" and other efforts to encourage consumers to try new products.

Strategies for Fiscal 2007

With an eye set on further boosting sales, Unicharm will concentrate management resources on its No. 1 brand *Silcot Wet Tissues* and *Wave* brand sheet cleaners. This will contribute to the Company's efforts to expand business and enhance profitability. In the market for handy-wipers, Unicharm will focus on expanding sheet cleaner sales by improving the basic product features of its *Wave* brand while also increasing promotion of *Aller-Care Wave* during demand seasons. In the category of personal moist towelettes, which is demonstrating steady annual growth owing to increasing needs for hygiene and cleanliness, Unicharm will strive to grow the market and expand sales with the development of box and bottle type towelettes.

Overseas Business

Unicharm is aiming to attain the "Number One" position in Asia and a 10% share of the global market for nonwoven fabric and absorbent materials. Unicharm is striving to deliver world-first, highest-quality products and services that provide comfort, excitement and the joys of life to the two billion people who live in Asia.

With particular focus on Asia, Unicharm has been expanding overseas. Its current network extends to over 24 countries, including 10 in Asia, 10 in the Middle East, two in North Africa, and the Netherlands. In the core Asian market, Unicharm is rapidly expanding its business foundation through the *Sofy* brand in feminine care and *Mamy Poko* in the baby and child care category.

Fiscal 2006 Business Overview

In fiscal 2006, Unicharm steadily increased net sales in such major Asian markets as China, Thailand, Indonesia, and Malaysia. In South Korea, the Company commenced a joint venture in February 2006 with LG Household & Health Care Ltd., a member of the LG Group, the second largest business group in South Korea. In other areas, the Company realized significant growth in sales to external customers. This reflected the contribution of Unicharm Gulf Hygienic Industries Ltd. (Unicharm GHI), which was acquired in December 2005. As a result, overall overseas sales climbed ¥14.7 billion, or 27.2%, compared with the previous fiscal year to ¥68.7 billion, accounting for 25% of consolidated net sales. Operating income rose ¥0.2 billion, or 5.3%, to ¥3.8 billion.

Segment Information

Baby and Child Care

While accelerating growth in Asian markets through continued marketing activities, Unicharm focused on promoting its premium *Mamy Poko* brand and achieved higher sales. In Thailand, where the Company commands the No. 1 position, Unicharm experienced further growth by increasing market penetration with the growing popularity of Unicharm products. In Indonesia, the Company topped overall market growth and strengthened its No. 1 position in the rapidly growing pants-type disposable diapers for infants market. In the pivotal Chinese market, Unicharm expanded sales while maintaining product superiority through product development speed that outstrips competitors.

Feminine Care

In Asian markets, the Company's performance was led by a new 35 cm long nighttime feminine napkin, which contributed to a continued sales increase in China and ASEAN countries. Unicharm significantly expanded sales in the panty liners business, strengthening its firm market foundation through the product differentiation of *Sofy Double Fresh*, a new double-layered panty liner released in Thailand and Indonesia. In China, the Company expanded its share of nighttime feminine napkins and panty liners, successfully achieving the leading position in urban markets.

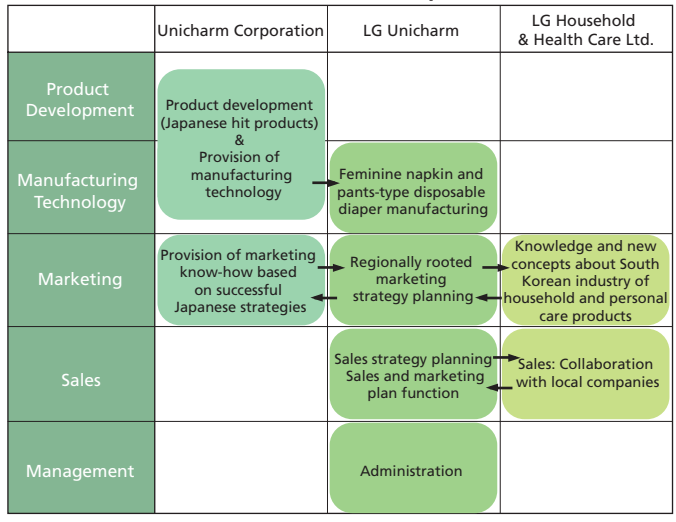
Health Care

Unicharm achieved double-digit growth in Taiwan and Thailand where the Company focused on expanding retail distribution to advance the *Lifree* brand's market penetration. Moreover, sales of pants-type disposable diapers for adults are steadily increasing in Europe.

Clean & Fresh

In Taiwan, Unicharm focused on securing the success of its *Wave* brand, which offers new possibilities in cleaning. The Company licenses its *Wave* sheet technology to Proctor & Gamble for sales in North America and Europe under the brand name of *Swiffer Dusters*. Royalty income from this business is making a solid contribution to segment earnings.

●LG Unicharm South Korean Share Expansion Scheme

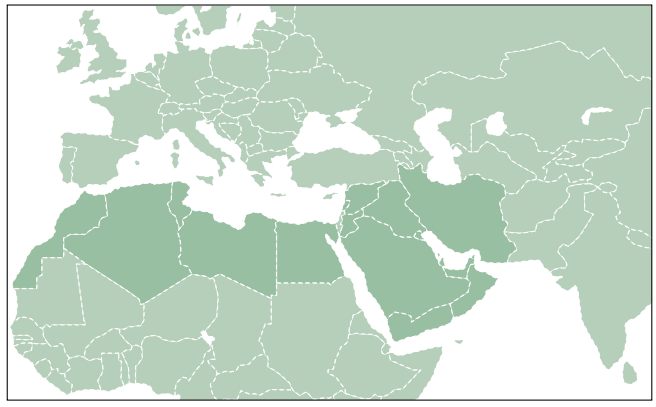


Strategies for Fiscal 2007

In feminine care, the Company will focus on sales of premium products centering on nighttime feminine napkins, accelerating business growth through the *Sofy* brand in major Asian countries. In the baby and child care business, the Company will aim to increase market penetration with aggressive marketing of the *Mamy Poko* brand, while accelerating market expansion for pants-type diapers in ASEAN countries to lift both sales and profit. In the health care business, the Company will introduce incontinence care products developed in Japan to Taiwan and Thailand. By doing so, the Company will strive to strengthen its *Lifree* brand of pants-type disposable diapers for adults, building up its third overseas business pillar. Furthermore, the Company will develop a global supply chain in pursuit of streamlining the manufacturing and supply system to rapidly growing Asian markets.

In addition to these endeavors, Unicharm will make full-scale entry into the absorbent product market in the Middle East and North Africa with the aim of further market expansion in the Company's strategic Asian base. Serving countries throughout the Middle East and North Africa, Unicharm GHI accesses a massive market of approximately 340 million people, with demonstrated potential to become a ¥16 billion market for pants-type disposable diapers for infants, feminine care products, and adult incontinence products. The Company will bolster profits in overseas business through the establishment of additional business bases in these areas.

In February 2006, Unicharm commenced a joint venture business with LG Household & Health Care Ltd. in South Korea. By combining Unicharm's product development capacity, manufacturing technology and marketing know-how, with the strong sales channels of South Korea's leading toiletry maker, the Company will promote business expansion in South Korea, one of Asia's largest markets.



Business domains in the Middle East and North Africa

Priority Issues for Fiscal 2007 in Major Asian Markets

Taiwan

Amid increasingly intense competition in a slow growth market, Unicharm will work to differentiate its products by building brand value. In the baby and child care business, the Company will leverage the appeal of value provided by its *Mamy Poko* line with skin care features, boost market composition of premium-type products, and strive to bolster brand strength and enhance profitability. To achieve new success in the relatively mature feminine care market, the Company will increase marketing investment into ultra-slim-type and nighttime napkins made of nonwoven fabric, a segment demonstrating high-profitability and high-growth. Through brand power enhancements and sales expansion, Unicharm will strive to improve profitability.

Thailand

To continue outpacing market expansion in Thailand, Unicharm, as the market leader, will promote further market expansion by increasing sales of baby and child care products *Mamy Poko* and *Mamy Poko Pants*. In the feminine care business, the Company will also promote market expansion in the high growth category of panty liners and nighttime napkins. At the same time, the Company will enhance the supply structure to respond to rapid development in the ASEAN region, and promote stable supply.

China

Unicharm is aiming for high growth, exceeding rapid market expansion. In the feminine care business, the Company will enhance product features in the growing market of feminine napkins made of nonwoven-type fabric, with the aim of expanding beyond its top market shares in Shanghai and Beijing to become a formidable leader in urban markets throughout China. In the baby and child care business, Unicharm will strive to secure the No. 1 share in major Chinese cities by concentrating efforts on the market penetration of premium brand *Mamy Poko*, raising our ratio of premium brand products in this growing market.

Indonesia

As competition amongst competitors becomes more intense, Unicharm will endeavor to surpass market growth by strengthening sales channels and product differentiation. Leveraging the strength of the *Mamy Poko* brand in the rapidly growing baby and child care market, the Company will promote increased nighttime diaper use. In the feminine care business, Unicharm will work to expand its share of the market with new proposals such as napkins with gathers to solve the problem of side leakage.

Pet Care Products

Pet Care 11.2%

Fiscal 2006 Business Overview

In the pet food category, Unicharm launched products in new segments targeting *Hairball Care* and brand food *For Cats 7 Years and Older*. These were launched as new additions to its series of *Neko Genki Ginno-Spoon* gourmet cat food that cats are able to enjoy on an everyday basis. The Company also released *Aiken Genki Ginno-Sara* gourmet dog food and the premium *Aiken Genki Sozai no Chikara* dog food containing specially selected ingredients. Through the introduction of such differentiated products and new product concepts, Unicharm strove to expand sales. In the pet toiletry category, Unicharm strengthened and increased sales of products that meet the needs of pet owners who raise pets indoors. Accordingly, Unicharm launched the hooded *Isshukan Deodorant Disinfectant Deo-Toilet* as a product for handling cat excrement, *Deodorant Sand that Won't Scatter* cat litter, and the renewed release of *Super Deo-Sheet*, a product for handling dog excrement.

Strategies for Fiscal 2007

Striving to position itself as the leading company in the pet care market, Unicharm has defined its three fundamental strategies as "generation of an added-value market," "market scale expansion," and "seizing the No. 1 spot in an expanded market." In addition it will base business development in the pet care industry on the key phrase "expand total industry assets." To this end, the Company will work to increase its lineup of pet toiletries that utilize its nonwoven fabric and absorbency technologies. It will also pursue enhanced profitability through active marketing developments and an improved lineup of high-value-added products with enhanced functions. These products meet changing market needs and cater to a wide variety of pets, including elderly, indoor, small and overweight pets.

Other Products

4.1%

Fiscal 2006 Business Overview

The food packaging business, which serves supermarkets and other commercial customers, continued to face intense price competition. Despite this, Unicharm increased sales of both commercial-use *Wave* and *Fresh Master*, a tray mat that makes use of the Company's nonwoven fabric and absorbency technologies.

Strategies for Fiscal 2007

In the food packaging materials business, Unicharm will promote ongoing efforts to acquire new customers through dining and other related channels, in addition to new efforts to expand supermarket distribution channels. Also, in the commercial-use dust control market, Unicharm will strive to obtain new sales for commercial-use *Wave* products.

Research and Development

Aiming to bring comfortable daily lives to people of all ages, Unicharm is developing its business with technology related to molding and processing of nonwoven fabrics and absorbent materials as the source of the Company's competitiveness. By developing and introducing high-value-added and market-creating products, we believe we can maintain consistent growth.

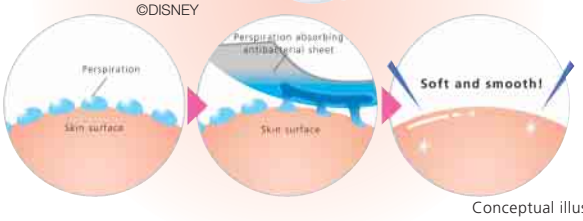
Based on the underlying philosophy of "continuously creating new value through technology innovation," Unicharm engages in research and development activities primarily at its technical center located in Kannoji City, Kagawa Prefecture. The Company works tirelessly to upgrade its paper and pulp know-how and to enhance its nonwoven fabric and specialized polymer absorbency material technology. Unicharm's goal is to develop and promptly introduce a succession of category-leading products. Leveraging these efforts throughout our domestic and overseas business fields, we consistently exert our product development capabilities to maintain our lead in the market. We are determined to stay ahead of the competition.

Research and development costs in the fiscal year ended March 31, 2006 totaled ¥4.0 billion, which represents 1.5% of consolidated net sales. Primary results of our research and development efforts are detailed below.

Lifestyle Products

In the area of baby and child care products, Unicharm channeled accumulated knowledge linked to the spread of staphylococcus epidermis and prickly heat under joint research projects conducted with universities and other academic institutions. These developments aimed to lighten the burden of mothers in the summer when babies tend to perspire more, and resulted in the limited summertime release of *Moonyman Ase Sukkiri*. Equipped with a perspiration absorbing antibacterial sheet to keep a baby's skin dry around the waistline, *Moonyman Ase Sukkiri* contributed to the creation of a new product category. Advancing Unicharm's shift to premium brand status, this product also strengthened the Company's brand power. Within the *Mamy Poko* lineup, the Company applied revolutionary moisture indicator technologies to signal when a baby's diaper needs to be changed, with just a glance. For the *Moonyman* lineup, Unicharm created a diaper that realizes an easy and natural feeling of comfort by utilizing soft touch gathers around the waist. In addition, the Company tripled the breathability of its *Moony S Size Diapers for Newborns* with super breathable sheets to provide a gentler diaper texture that protects the thin, delicate skin of infants. Exciting new features such as these served to further enhance product value.

Moonyman Ase Sukkiri
©DISNEY

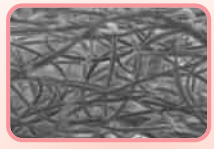


Conceptual illustration

In the field of feminine care products, Unicharm developed and launched *Sofy Fuwagokochi* panty liners. Featuring a fluffy cushion sheet made of extra-fine fabric, these provide just the right amount of comfort with a supple elastic sheet that fits well against the body and undergarments. Within the new category of slim type napkins and under the *Sofy Bodyfit Fuwapita Slim* series, the Company developed *Heavy Nighttime Protection* and *Extra-Heavy Nighttime Protection* napkins featuring an absorbent and flexible design to fit the curves of a woman's body. Adding to the *Sofy Bodyfit Cho-Jukusui Guard* line of napkins, Unicharm released its secure 40 cm, super long size napkins with special anti-distortion features that fit snugly against the body to prevent leaks and gapping, even while tossing and turning during sleep. Unveiling these new products has strengthened Unicharm's nighttime protection lineup, an area designated as a high profit growth category.

Magnified image of sheet surface

Other leading brands



Sofy Fuwagokochi

Sofy Bodyfit Cho-Jukusui Guard 400

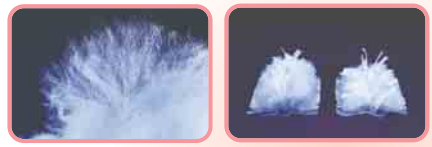
Sofy Fuwagokochi

In the realm of health care-related products, Unicharm proposed new methods of incontinence care with the release of *Charm-Nap Kyusui Sarafi Panty Liner*. A completely new type of panty liner that makes use of the Company's newly developed absorbency applied to an ultra thin 2 mm sheet able to handle both vaginal discharge and light incontinence. In the area of incontinence pads, Unicharm developed *Lifree Sono Shunkan mo Anshin Pads* that feature a snug

Lifree Instant Reassurance

body fit and three-dimensional shape to quickly absorb sudden urine leaks for people with particularly urgent incontinence conditions. The release of this product has also contributed to relieving consumer anxiety about dealing with incontinence. Also from the *Lifree* brand of disposable diapers, Unicharm launched *Donna Ugokinimo Anshin Shinshuku Tape Dome* through several functional enhancements such as widening tape tabs, a customer-requested improvement, for easier wear and expanding the adhesive area to better fit individual size variations. By providing a full lineup of *Lifree* brand products, Unicharm aims to improve overall quality of life (QOL).

Having first leveraged its nonwoven fabric technologies to create the market for three-dimensionally shaped masks, the Company moved on to improve the features of its *Unicharm Cho-Rittai Mask for Colds* and *Cho-Rittai Mask for Hay Fever*. Enhancements to these products included a 20% improvement in elastic strength to prevent the mask from slipping out of place, fit snuggly even after multiple uses and reduce discomfort around the ears during extended wear. The addition of a plant-based odor-eliminating compound to suppress smells complements the other enhancements, all of which combine to realize maximum comfort in the *Cho-Rittai Mask for Colds*.



Through the application of the Group's accumulated technologies in manufacturing and processing of nonwoven fabrics and absorbency materials, Unicharm continues to offer consumers cleanliness, security and freshness with its lineup of clean and fresh products. Unicharm focused on acquiring new customers by offering new products in its line of *Silcot Wet Tissues*, general-use moist towelettes. Accordingly, the Company launched *Silcot Handy Wet Tissues*, soft, heavyweight sheets that are easy to remove from their slim one-touch container, which provides convenience and portability. Unicharm's *Wave* series, which currently enjoys the No. 1 spot in the handy-wiper market, was strengthened with release of the improved *Handy-Wiper*. Boasting an enhanced dust trap zone, this advance contributed to market expansion and increasing brand recognition.

As a result of the foregoing developments, research and development costs for Lifestyle Products during the fiscal year under review amounted to ¥3.6 billion.

Pet Care Products

Consolidated subsidiary Unicharm PetCare Corporation conducts basic research and product development for the pet care business based on the mutual corporate philosophy of "Health and cleanliness for comfortable pet living." Unicharm focused pet food product research and development on efforts to offer pets long, healthy lives by responding precisely to the nutritional needs of pets according to such individual characteristics as age, build, and weight. Within the N*eko Genki Ginno-Spoon* series of gourmet cat food that satisfies cats daily, Unicharm bolstered brand strength by fortifying its food *For Cats 7 Years and Older* with vitamins E, B1, and B2 to promote digestion and disease resistance for aging cats. This gourmet series also benefited from the introduction of *Hairball Care* with added dietary fiber to help cats expel troublesome hairballs, as well as the development of *Umi no Gourmet*, a cat food with real fish meat to satisfy cats with the flavors of the sea they love so much. To provide dogs with a higher level of health and energy support, Unicharm developed the premium category product *Aiken Genki Sozai no Chikara* that realizes a complete nutritional balance for dogs and includes the six essential and specially selected ingredients: meat, grains, vegetables, fruit, dairy, and seaweed. In pet toiletries, Unicharm continually works to develop products that address needs for pet cleanliness and for the cleanliness of living environments shared with pets. In the fiscal year under review, Unicharm improved the convenience of its *Isshukan Deodorant Disinfectant Deo-Toilet* product for handling cat excrement with the application of a new changeable pull-out tray for easy litter disposal.

As a result of the above, research and development costs for Pet Care Products in the fiscal year under review, totaled ¥0.3 billion.

Other Products

Unicharm expanded its product line by making the most of its nonwoven fabric and absorbency technologies in the food packing business for supermarkets and other commercial customers.

As a result, research and development costs for Other Products in the fiscal year under review totaled ¥0.05 billion.

Promoting Corporate Management to Realize a Socially Responsible Company and the Continuous Enhancement of Corporate Value

The Unicharm Group strives to pursue correct corporate management principles, which bring together corporate growth, well-being among associates and the fulfillment of its social responsibilities. Guided by these established ideals, management and operating divisions work in unison to create new value and promote a corporate management structure that consistently aims to create No. 1 value for customers, shareholders, business partners, associates, society and all stakeholders alike.

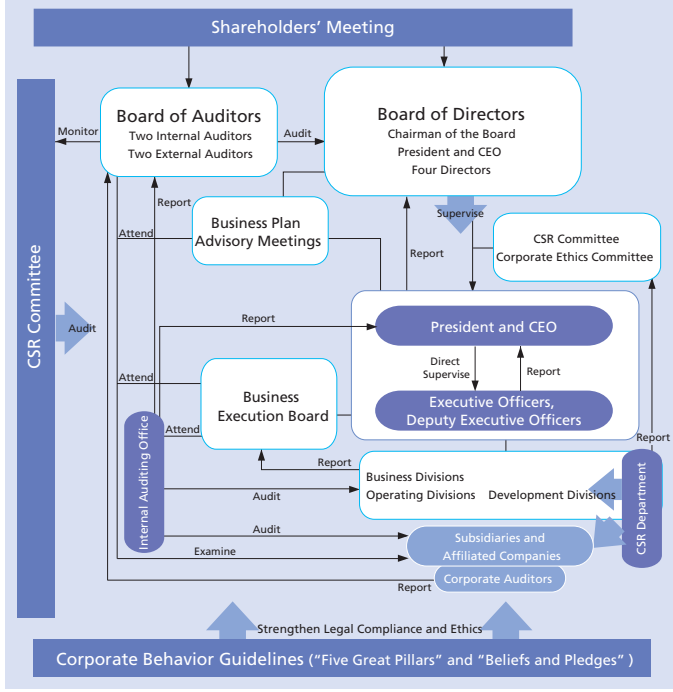
Unicharm maintains a management structure that comprises directors and corporate auditors. Within this framework, in June 1999, we introduced an executive officer system, and are endeavoring to bolster the decision-making and supervisory functions of the Board of Directors as well as the executive function of executive officers. Aiming to increase the mobility and flexibility of management, Unicharm has streamlined its Board of Directors and reduced directors' terms to one year.

Unicharm maintains a concrete structure to ensure that all directors and employees adhere to its corporate philosophy and corporate ethics not to mention domestic and overseas laws and regulations. In the natural evolution and development of the Group, we have established and continued to enhance a set of principles called the Unicharm Way. In specific terms, the Unicharm Way encompasses the Group's ideals (formulated in 1974), its Five Great Pillars (established in 1971 and revised in 1999) and its Beliefs and Pledges (announced in 1999). Working to ensure strict adherence and practice, Unicharm utilizes a variety of channels including the president and CEO's weekly message, "The President's Room," addressed to all employees, i-Navi an intranet Web site and the in-house publication *HIROBA* as Groupwide promotional tools. The president and CEO also chairs Corporate Ethics Committee Meetings that were established to respond to vital issues relating to risk management, compliance and corporate ethics. Endeavoring to address the needs of employees, the Corporate Ethics Office of the CSR Department established the *Rinrin Hotline* as a point of contact for employees seeking consultation, helping to swiftly identify risks and promote daily efforts to implement countermeasures.

Unicharm's CSR Committee, chaired by the president and CEO, meets once every quarter and is composed of the Quality Assurance Committee, Environmental Committee and CSR Promotion Committee. Collectively these committees share information and initiatives designed to address important CSR-related issues and help Unicharm fulfill its social responsibilities through cross-sectional Groupwide promotion.

Unicharm endeavors to further enhance the transparency of its corporate conduct and has adopted a corporate auditor system that comprises four corporate auditors, two of whom are appointed from outside the Group. The activities of corporate auditors are determined and guided by policies and plans formulated by the Board of Auditors. Corporate auditors also participate as standing members of major meetings that involve management decision making and take part in corporate governance. Unicharm has established the Internal Auditing Office, as a specialist organization under direct control of the president and CEO. While working to increase the number of employees engaged in the internal audit function, we are endeavoring to verify the efficiency of internal control systems within operating divisions and recommend revisions targeting reform. To complement the aforementioned corporate auditor and internal audit systems, Unicharm has added accounting audits as a third audit function. Within the framework of this three-tiered system, corporate auditors, the Internal Auditing Office and accounting auditor meet periodically and on a needs basis to share the results of their respective audit plans and ensure maximum efficacy and efficiency. Unicharm's accounting audit is conducted by certified accountants Shigeji Sugimoto and Yoshiaki Kitamura from Deloitte Touche Tohmatsu auditing firm.

●Internal Control Structure



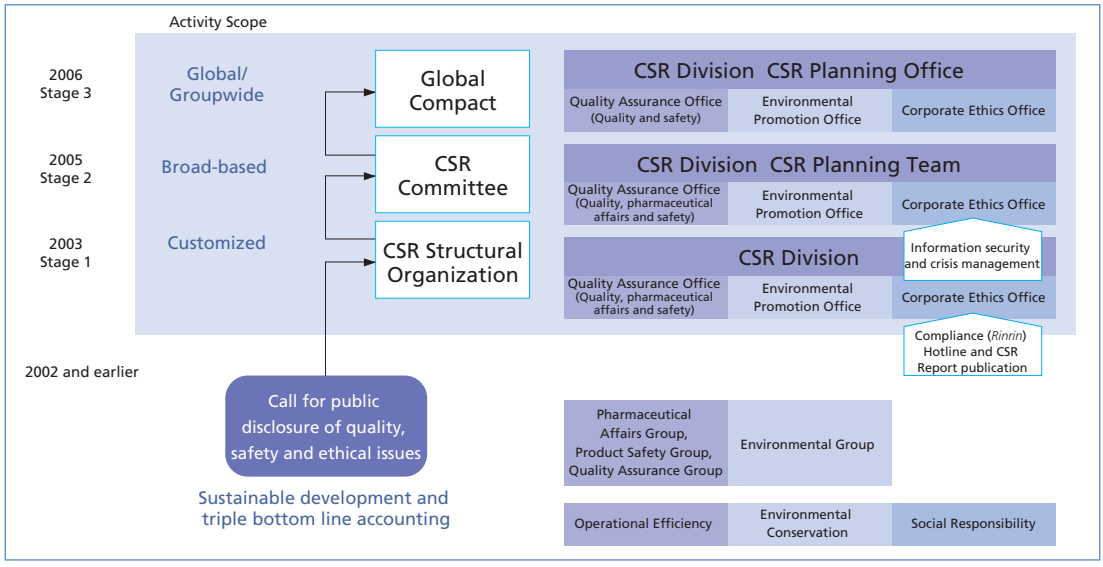
CSR Activities/Quality Assurance Structure

CSR Activities

"Providing the care. Supporting you with care." Unicharm's commitment to CSR is underpinned by the desire to offer products that can be appreciated by people at all stages of life, from infants to the elderly, and realized daily through the efforts of each employee.

Unicharm's recent CSR activities can be grouped into three progressive stages. The first took place between fiscal 2003 and fiscal 2004 when the Company worked to enhance product safety and reliability, reduce environmental load, and bolster corporate ethics and compliance through customized CSR activities for each core business area. Undertaken in fiscal 2005, the second stage marked the establishment of the CSR Committee. Chaired by the president and CEO, this committee meets four times a year to advance Groupwide CSR activities. The Committee also works to improve the Group's risk management, supplier relations, human rights and social responsibility activities. During this same period, the Group held its first stakeholder meeting to listen to the opinions of its stakeholders. Furthermore, Unicharm raised employee awareness by implementing CSR training at each Group company. Fiscal 2006 marked an exciting third stage of development. Unicharm began participation in the United Nations Global Compact and extended its CSR promotion activities throughout Group companies to a more visible global stage. In addition, Unicharm worked to realize progress in the field of human rights and other areas. Unicharm is committed to the future of its continuing social responsibility efforts.

●CSR at Unicharm: Three Stages of Development



Ethics/Compliance

Since the establishment of the Corporate Ethics Office, Unicharm has undertaken activities to promote corporate ethics, aiming to enable employees throughout the Group to fulfill their duties based on Unicharm's corporate philosophy and ethics. To achieve thorough employee adherence, Unicharm created corporate behavior guidelines for its domestic Group companies in fiscal 2005. With ethics education identified as a priority, Unicharm also implemented corporate ethics training courses including e-training and general manager training.

Unicharm has succeeded in raising employee awareness of corporate ethics through these activities. With the ultimate aim of enabling all Group company employees to make sound decisions based on the same sense of values, Unicharm will continue to implement corporate ethics training.

Quality Assurance System and Philosophy

Unicharm has adopted a comprehensive quality management system (QMS) based on ISO 9001 standards to cover processes from marketing through delivery, and established a Groupwide quality assurance system.

In concrete terms, Unicharm has positioned quality management as a key feature of its medium-term management plan. To verify the adequacy and efficiency of these measures and the system, internal quality audits as well as audits by the external auditing agencies are conducted on a regular basis. While adopting corrective and preventative measures, the Company strives to continuously improve its quality assurance system.

Unicharm acquired ISO 9001 at its overseas manufacturing plants and is committed to ensuring a consistently high quality standard across its global operations. In China, Unicharm's Plant No. 2 leveraged know-how gained through management methods, plant manager leadership, and director knowledge at Plant No. 1 to acquire certification within eight months of initial preparations. On August 8, 2005, Unicharm became the first Japanese company to acquire IQNet9004* standard certification through examination by the Japan Quality Assurance Organization (JQA), a third-party organization offering certification and registration.

* IQNet9004 allows for the objective evaluation of QMS performance by a third party based on ISO 9004 standards.

●Status of Overseas ISO 9001 Acquisition

Business Location	Initial Certification	Examining Authority
China Plant No. 1	Dec. 12, 2002	ZDHY
China Plant No. 2	Jan. 18, 2006	ZDHY
South Korea	Apr. 7, 2004	KSA
Taiwan	Nov. 27, 2002	BSMI
Thailand	Mar. 3, 2002	JQA
Indonesia	Dec. 26, 2003	LRQP

Quality Assurance from the Customer Perspective

In accordance with Pharmaceutical Law revisions, Unicharm appointed an officer with overall responsibility for manufacturing and sales, quality assurance, and safety management, and implemented a system to ensure strict adherence with quality assurance standards, represented by Good Vigilance Practice.

Under this system, applicable to all Unicharm products, Customer Feedback Response Meetings are held weekly to share customer complaints, opinions, and other feedback with employees. Unicharm then takes steps to correct, revise and implement preventative measures to address these issues through the Plan-Do-See cycle.

Environmental Activities

As stipulated in its environmental policy, the Company is dedicated to realizing a recycling-oriented society, and has formulated an environmental management system based on this policy. Unicharm is open to discussion about the responsibilities of providing disposable products to customers. The Company works hard to promote environmental activities and positions it as a priority CSR issue. The Company has also established an Environmental Task Force under the CSR Committee that promotes environmental activities based on ISO 14001 standards. Unicharm understands the influence of product lifecycle on the environment, from material procurement through consumer use and disposal, and aims to reduce its burden on the environment. In line with its action plan, Unicharm undertakes environmental activities through a working group established to address vital themes such as product environment, energy conservation measures, and waste recycling, while maximizing communication between each of its divisions on issues related to product lifestyle.

Board of Directors, Corporate Auditors and Executive Officers

Board of Directors and Corporate Auditors As of October 1, 2006

Chairman of the Board
Keiichiro Takahara

President and Chief Executive Officer
Takahisa Takahara

Director
Takaaki Okabe

Director
Kennosuke Nakano

Director
Shinji Mori

Director
Eiji Ishikawa

Internal Corporate Auditors

Shigeki Maruyama

Tsuyoshi Miyauchi

Corporate Auditor

Masahiko Hirata

Haruhiko Takenaka

Note: Masahiko Hirata and Haruhiko Takenaka are external corporate auditors who fulfill the requirements as provided for in Article 2, Item 16 of the Corporation Law Concerning Audits of Kabushiki-Kaisha.

Executive Officers As of October 1, 2006

President and Chief Executive Officer

Takahisa Takahara

Senior Executive Officers

Takaaki Okabe

Kennosuke Nakano

Shinji Mori

Eiji Ishikawa

Deputy Executive Officer	Takamitsu Igaue
Executive Officer	Shinya Takahashi
Executive Officer	Katsuhiko Sakaguchi
Executive Officer	Norio Nomura
Executive Officer	Yoshihiro Miyabayashi
Deputy Executive Officer	Kazuhira Ikawa
Executive Officer	Shigeo Moriyama
Executive Officer	Masakatsu Takai
Executive Officer	Yukihiro Kimura
Deputy Executive Officer	Hidetoshi Yamamoto
Deputy Executive Officer	Hironori Nomura
Executive Officer	Itsumi Matsuoka
Deputy Executive Officer	Masaaki Takahashi
Executive Officer	Atsushi Iwata
Deputy Executive Officer	Kenji Takaku

Financial Section

Six-Year Summary

Unicharm Corporation and Subsidiaries

	Millions of yen, except per share amounts					
	2001	2002	2003	2004	2005	**2006**
FOR THE FISCAL PERIOD:						
Net sales	¥212,199	¥206,707	¥223,169	¥240,110	¥246,051	**¥270,380**
Cost of sales	115,823	113,546	123,883	132,074	137,341	**153,264**
Net income	9,904	8,852	12,879	16,240	16,382	**15,288**
As percentage of sales	4.7%	4.3%	5.8%	6.8%	6.7%	**5.7%**
Net income per share (yen)	¥ 139.85	¥ 126.78				
New accounting standard	137.75	125.20	185.29	240.26	244.25	**229.34**
Cash dividends per share applicable to the year (yen)	24.00	20.00	24.00	28.00	30.00	**32.00**
AT FISCAL PERIOD-END:						
Total assets	¥177,396	¥187,060	¥187,988	¥209,002	¥215,365	**¥250,355**
Property, plant and equipment	69,388	71,412	71,090	77,306	72,799	**77,111**
Long-term debt— less current maturities	3,918	2,953	1,710	1,557	345	**677**
Shareholders' equity	104,156	109,306	113,137	123,709	137,697	**151,183**
Equity ratio	58.7%	58.4%	60.2%	59.2%	63.9%	**60.4%**
RATIOS:						
Operating income ratio	9.8%	9.2%	11.6%	12.8%	11.1%	**10.6%**
Return on sales	4.7%	4.3%	5.8%	6.8%	6.7%	**5.7%**
Gross profit margin	45.4%	45.1%	44.5%	45.0%	44.2%	**43.3%**
SGA ratio	35.6%	35.9%	32.9%	32.2%	33.1%	**32.8%**
Return on equity (ROE)	9.4%	8.3%	11.6%	13.7%	12.5%	**10.6%**
Return on total assets (ROA)	5.5%	4.9%	6.9%	7.8%	7.6%	**6.1%**

Contents

SCOPE OF CONSOLIDATION

The Unicharm Group comprises the Unicharm Corporation, 24 subsidiaries and one affiliated company, which mainly engage in business activities related to the manufacture and sale of baby and child care products, feminine care products, and pet care products.

OPERATING RESULTS

Sales

In fiscal 2006, ended March 31, 2006, Unicharm's consolidated net sales increased or 9.9% compared to ¥246.1 billion in the previous fiscal year to a record-high ¥270.4 billion. On a regional basis, sales in Japan rose ¥9.6 billion or 5.0% year on year to ¥201.7 billion, comprising 74.6% of net sales. Despite Japan's declining birthrate and aging society, revenue increased with strengthened sales, mainly for pants-type disposable diapers for infants in the baby and child care business. In contrast, sales in the feminine care business stagnated and revenue waned with the declining population of product users. In other mainstay businesses, health care and pet care sales steadily expanded.

Sales in Asia (excluding Japan) soared 24.7% over the previous fiscal year to ¥43.2 billion, marking a 1.9 percentage point increase in the net sales composition ratio to 16.0%. In Asian entry markets, market share expanded in the feminine care business, as well as the baby and child care business. In other regions, particularly Europe, sales of adult incontinence products and pants-type disposable diapers for infants grew. In the Middle East, sales contribution was added by Unicharm GHI, which was acquired on December 22, 2005. As a result, sales by overseas subsidiaries expanded ¥14.7 billion year on year, to ¥68.7 billion, representing 25.4% of consolidated net sales.

Geographic Segment Sales

	Millions of yen	
	2005	**2006**
Japan	¥192,003	**¥201,651**
Asia (excluding Japan)	34,639	**43,202**
Others	19,409	**25,527**
Total	¥246,051	**¥270,380**

Cost of Sales and Selling, General and Administrative Expenses

Mirroring the increase in net sales in the fiscal year under review, the cost of sales rose ¥15.9 billion, from ¥137.3 billion in the previous fiscal year to ¥153.3 billion, while the cost of sales ratio increased 0.9 of a percentage point, from 55.8% to 56.7%. Gross profit increased 7.7% to ¥117.1 billion. Selling general and administrative expenses rose 8.8% year on year, to ¥88.6 billion, reflecting efforts to strengthen the Company's domestic competitiveness with ¥27.7 billion in sales promotion costs and ¥15.2 billion in shipping and storage expenses. As a result, the ratio of selling, general and administrative expenses to net sales improved with a 0.3 of a percentage point dip to 32.8%.

Research and Development Costs

Research and development costs increased ¥0.3 billion, from ¥3.7 billion to ¥4.0 billion.

Income and Expenses

Unicharm continues to position a recovery in operating income ratio as a primary concern. Accordingly, it has taken steps to enhance added product value, reduce costs, and promote expenditure streamlining. Owing to these efforts, operating income rose 4.6% year on year, from ¥27.3 billion to ¥28.5 billion. In contrast, the ratio of operating income to net sales slipped 0.5 of a percentage point from 11.1% to 10.6%.

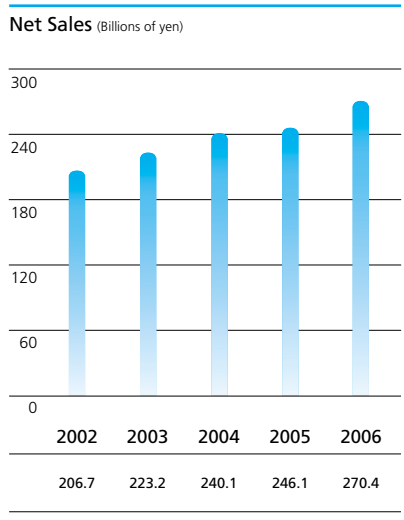
Other income significantly declined compared to the previous fiscal year, falling from ¥1.3 billion to ¥0.04 billion. Interest and dividend income amounted to ¥0.5 billion, on par with the previous fiscal period. Foreign exchange gain rose from ¥0.2 billion to ¥0.5 billion, while impairment loss plummeted to ¥0.3 billion from ¥2.2 billion, partially offsetting the absence of the ¥3.9 billion gain on transfer of the substituted portion of the governmental pension program recorded in the previous fiscal year.

As a result, income before income taxes and minority interests edged down 0.1% to ¥28.6 billion. Current income taxes declined by ¥3.0 billion, from ¥8.0 billion to ¥11.0 billion, while deferred income taxes decreased from ¥2.7 billion to ¥0.5 billion. Net income decreased 6.7% year on year to ¥15.3 billion, with net income per share amounting to ¥229.34, down ¥14.91.

FINANCIAL POSITION AND LIQUIDITY

Assets, Liability and Equity

Total assets as of March 31, 2006 stood at ¥250.4 billion, a ¥35.0 billion or 16.2% increase compared to the previous fiscal year. Under current assets, cash and cash equivalents improved ¥11.3 billion to ¥67.6 billion. Marketable securities amounted to ¥12.7 billion, a ¥10.8 billion surge over last fiscal year, owing to MMF and other stable use of funds targeting an increase in investment trusts. In notes and accounts receivable, the balance of trade receivables



grew by ¥4.1 billion to ¥33.2 billion. Inventories increased in line with a rise in merchandise, finished products and raw materials, expanding ¥4.1 billion, from ¥12.1 billion to ¥16.2 billion. Other current assets dipped ¥0.6 billion year on year to ¥2.7 billion.

Net property, plant and equipment rose by ¥4.3 billion to ¥77.1 billion. Machinery and equipment increased by ¥8.5 billion to ¥120.5 billion on account of the extension of facilities for overseas business expansion and for new products in core domestic operations. Construction in progress rose from ¥0.5 billion to ¥3.4 billion. Investments in other assets edged up from ¥37.9 billion in the previous fiscal year to ¥38.3 billion. Investment securities increased by ¥1.2 billion to ¥29.5 billion, while goodwill totaled ¥2.7 billion.

Current liabilities rose from ¥59.7 billion in the previous fiscal year by ¥12.9 billion or 21.6% to ¥72.6 billion. Short-term bank loans rose ¥3.0 billion to ¥8.6 billion, while the current portion of long-term debt dropped from ¥1.3 billion to ¥0.1 billion. Trade notes and accounts payable grew ¥6.7 billion to ¥49.7 billion.

Total long-term liabilities as of the fiscal year-end stood at ¥12.2 billion, an increase of ¥3.4 billion. Major components of this were a ¥0.9 billion increase in liability for retirement benefits to ¥6.9 billion, ¥2.5 billion in deferred tax liabilities caused by a ¥1.6 billion increase, from ¥2.7 billion, to ¥4.3 billion in unrealized gain on available-for-sale securities.

Within shareholders' equity, retained earnings climbed ¥13.7 billion or 12.0% year on year to ¥128.1 billion. Unrealized gain on available-for-sale securities, net of tax rose ¥2.4 billion, amounting to ¥6.3 billion. As a result, total shareholders' equity improved ¥13.5 billion or ¥9.8% to ¥151.2 billion, while the shareholders' equity ratio declined 3.5% compared to previous fiscal year to 60.4%.

Capital Expenditures and Depreciation

Capital expenditures amounted to ¥13.6 billion in fiscal 2006, a ¥0.1 billion decrease from ¥13.7 in the previous fiscal year. Major components of this were expansion of overseas facilities, new product facilities for core domestic businesses, and facility renovation in line with product enhancements. Depreciation and amortization amounted to ¥12.3 billion, a ¥0.7 billion increase year on year, from ¥11.6 billion.

Cash Flow

Net cash provided by operating activities rose ¥16.3 billion compared with the previous fiscal year to ¥36.9 billion. Income before income taxes and minority interests of ¥28.6 billion remained on par with the previous fiscal year. Adjustments included a ¥0.7 billion increase in depreciation and amortization to ¥13.0 billion, and a ¥7.4 billion decrease in income taxes paid to ¥7.2 billion.

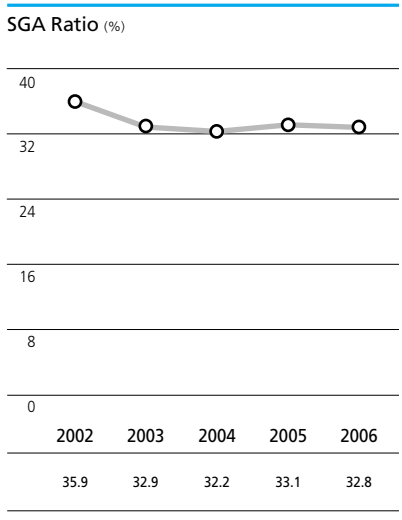
Net cash used in investing activities increased by ¥11.9 billion, from ¥8.4 billion to ¥20.3 billion. The primary factors were ¥40.3 billion in proceeds from sales of marketable securities, ¥47.6 billion in purchases of marketable securities, ¥13.6 billion in capital expenditures, ¥4.2 billion in payment for acquisition of a newly consolidated subsidiary, and ¥2.9 billion in repayment from cancellation of insurance contracts as investments.

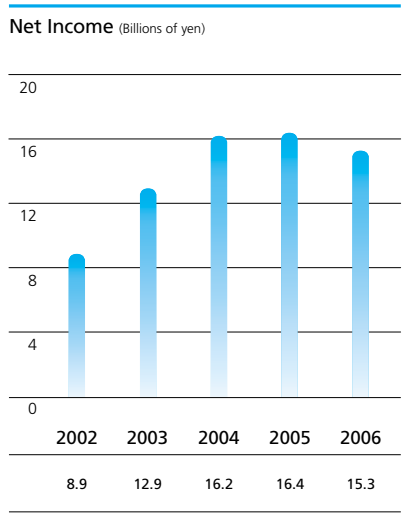
Net cash used in financing activities increased year on year by ¥6.0 billion, from ¥0.2 billion to ¥6.2 billion. Principal factors were an increase in short-term bank loans to ¥1.7 billion, ¥1.3 billion in repayments of long-term debt due to ¥1.0 billion in payment for redemption of bonds, ¥5.0 billion for the repurchase of the Company's stock, and ¥2.0 billion in dividends paid. As a result of the foregoing, cash and cash equivalents at the end of the year totaled ¥67.7 billion, rising ¥11.3 billion from the total at the beginning of the year.

OUTLOOK FOR FISCAL 2007

Although Japan's economy is expected to benefit from continued consumer spending and improved corporate performance, Unicharm's operating environment remains uncertain due to increasing competition in the market. Moreover, rapid market expansion in Asia is anticipated to usher in a new era of full-scale global brand competition.

In this setting, Unicharm will endeavor to revitalize mature markets and to actively expand activities in growth markets. Based





on its 48-month, Sixth Medium-Term Management Plan, the Schedule-Action-Performance-Spiral (SAPS) Plan, the Company will continue to accurately grasp customer needs and reinforce product development and technological capabilities, while engaging in marketing activities that lead to high brand value and the creation of new markets. In addition, Unicharm will work to drastically reform its cost structure through complete supply chain cost reductions and operating expense rationalization. Even amid an environment of high raw material costs, Unicharm will endeavor to realize a more robust earning capacity.

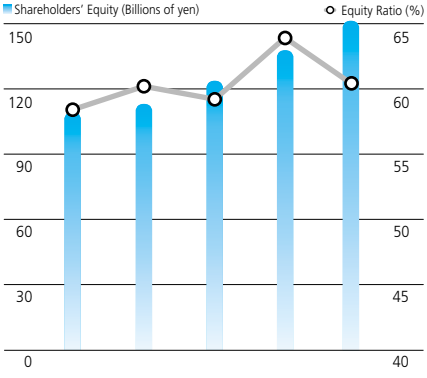
Domestically, Unicharm will exert efforts to increase use of both premium and economy products in the baby and child care business. By encouraging the use of pants-type disposable diapers for children earlier in their development, the Company will promote the creation of a premium market. Moreover, aiming to respond to special summertime needs, Unicharm will release *Moonyman Ase Sukkiri for Boys and Girls*, creating a new product category. In the feminine care business, Unicharm will advance premium product offerings in each of the napkin categories. It will also work to expand the tampon market and increase product usage by promoting daily tampon use and through product enhancements. At the same time, Unicharm will promote the features of its sanitary shorts. In this product field to which panty liners were added, Unicharm will work to bolster its feminine care business through the successive introduction of new and renewed products. Endeavoring to further solidify the position of its newly acquired *Center-In* brand in the napkin market, the Company will progress with efforts to maximize *Center-In* brand value. In the health care business, Unicharm aims to exceed the pace of market growth and expand business operations. Based on the concept, "From healthy incontinence to early-elder incontinence care," the Company will launch *Lifree Sono Shunkan mo Anshin Pads*, a product to open up the market for urgent incontinence products and work to realize products that precisely respond to a variety of customer needs with additional full-line enhancements of *Lifree* brand products. At the same time, Unicharm will help to further strengthen development activities for continence rehabilitation care systems. In the clean and fresh business, Unicharm will increase sales and promote consumer trials through the release of new *Aller-Care Wave* disposable cleaners with renewed packaging.

In the pet care business, Unicharm will work to expand its pet toiletry lineup that make the most of proprietary nonwoven fabric and absorbency technologies. Aiming to increase earnings in this field, Unicharm will pursue aggressive marketing strategies and cultivate its line up of specialized, high-value-added pet food products to meet changing market needs in Japan for elderly, indoor, small, and overweight pets.

In regard to business overseas, Unicharm will work to further accelerate the growth of the feminine care business by strengthening the *Sofy* brand with a focus on vigorous sales of premium products, particularly nighttime napkins, in major East Asian markets. Along with efforts to accelerate baby and child care market growth and penetration through more strenuous *Mamy Poko* brand marketing, the Company will stimulate the trend to pants-type disposable diapers in Thailand. Moreover, in order to respond to the rapidly expanding Asian market, the Company will work to improve its manufacturing and distribution structure. In the health care business, the Company is energetically promoting *Lifree* brand adult pants-type disposable diapers in Taiwan and Thailand with the aim of establishing this area as its third pillar of overseas business.

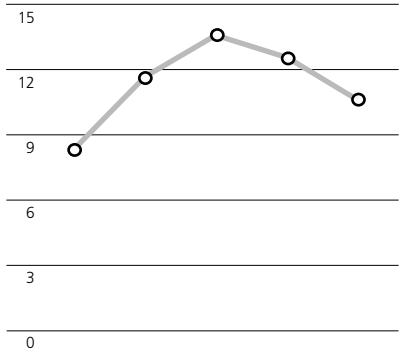
In addition to these activities, Unicharm has its sights set on the future growth markets of the Middle East, particularly Saudi Arabia and North Africa, where it plans to fully enter the absorbency material market. Furthermore, by wedding the sales capabilities of its new Middle East subsidiary, Unicharm GHI, with the Company's product development and marketing prowess, Unicharm anticipates an acceleration of earnings expansion in overseas business. In South Korea, Unicharm commenced a joint business venture with South Korea's leading toiletry manufacturer LG Household & Health Care Ltd. in February 2006. By leveraging this powerful partnership, Unicharm will push forward with efforts to expand business in South Korea, one of Asia's largest markets.

Shareholders' Equity, Equity Ratio



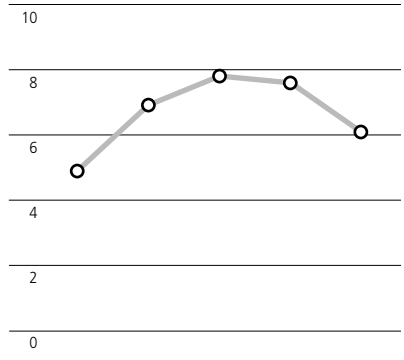
	2002	2003	2004	2005	2006
Shareholders' Equity (Billions of yen)	109.3	113.1	123.7	137.7	151.2
Equity Ratio (%)	58.4	60.2	59.2	63.9	60.4

ROE (%)



2002	2003	2004	2005	2006
8.3	11.6	13.7	12.5	10.6

ROA (%)



2002	2003	2004	2005	2006
4.9	6.9	7.8	7.6	6.1

BUSINESS RISKS

The business performance of Unicharm and the Unicharm Group (the Company) are subject to a variety of potential risks, with major considerations outlined below. This section contains various forward-looking statements that represent the opinions of Unicharm as of the fiscal year ended March 31, 2006.

1. Market Competition

Unicharm anticipates both product and price competition to become increasingly severe in Unicharm's core markets, both overseas and domestically. Given the nature of consumer products, Unicharm's core products are constantly exposed to fierce price competition and successive new product releases by competitors.

The selling environment is heavily impacted by Unicharm's marketing efforts and activities, as well as those of its competitors. Unicharm's business performance may be affected in light of expectations for increasingly fierce market competition.

2. Changing Domestic Demographics

Due to Japan's declining birthrate and aging population, the percentage of babies and menstruating women in Japan continues to fall. As a result, Unicharm's business performance may be affected by a decline in domestic demand for Unicharm's mainstay baby care and feminine care products.

3. Overseas Operation

Unicharm currently undertakes product manufacturing in Thailand, Indonesia, Taiwan, South Korea, China, the Netherlands, and Saudi Arabia. The Company is therefore subject to a number of risks inherent in overseas business development. These include changes in raw material prices and demand due to fluctuating exchange rates, as well as changes in the economic and regulatory environment due to foreign governments. There is also the possibility of political or social instability in overseas countries. Unicharm's business performance may be affected by any or all of these factors.

4. Raw Material Price Fluctuation

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

5. Market Response to Product Reliability

As a manufacturer and purveyor of consumer products, Unicharm considers issues related to product quality, safety, and the raw materials used in its products to be of vital importance. Complaints about product reliability and safety, especially, could be linked to a sudden drop in sales and negatively impact Unicharm's business results. Although, Unicharm has never been subject to large-sum compensation or had to face significant issues regarding complaints, it cannot guarantee the absence of such issues in the future. If such an issue were to arise, Unicharm's business performance may be affected.

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

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

7. Environmental Issues

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

Although Unicharm believes there is no negative impact on its performance or financial standing from current laws and regulations, there is the possibility that future legal restrictions may affect its business performance.

8. Buy-outs, Tie-ups and Other Forms of Business Elimination and Consolidation

Unicharm aims to maximize corporate value through the effective use of continuously held management resources. Based on this goal, there is the possibility that under Unicharm's corporate activities, it will engage in business acquisitions and capital subscriptions, tie-ups with other companies, business elimination and consolidation, and rationalization and spin offs. In the event that Unicharm decides to implement any of the foregoing measures, the Company's future business structure and business performance may be affected.

9. Information Leakage

Unicharm possesses a variety of information, including personal information acquired through confidentiality agreements or in accordance with the consent of customers and clients. Accordingly, Unicharm has established an information security policy and stipulated corporate behavioral guidelines and other rules to attain a secure information environment, and strives for full compliance by thoroughly disseminating such rules to directors and employees. However, in the event of information leakage, Unicharm may lose credibility and its business performance may be affected.

Consolidated Balance Sheets

Unicharm Corporation and Subsidiaries March 31, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 1)
ASSETS	**2006**	2005	2004	**2006**
CURRENT ASSETS:				
Cash and cash equivalents	**¥ 67,649**	¥ 56,359	¥ 44,434	**$ 578,197**
Marketable securities (Note 3)	**12,744**	1,904	3,922	**108,923**
Notes and accounts receivables:				
Trade	**33,160**	29,076	29,016	**283,419**
Allowance for doubtful accounts	**(68)**	(127)	(173)	**(581)**
Inventories (Note 4)	**16,177**	12,073	12,421	**138,265**
Deferred tax assets (Note 11)	**2,642**	2,048	2,531	**22,581**
Other current assets	**2,680**	3,324	2,425	**22,906**
Total current assets	**134,984**	104,657	94,576	**1,153,710**
PROPERTY, PLANT AND EQUIPMENT:				
Land (Note 5)	**10,143**	9,930	13,326	**86,692**
Buildings and structures	**49,204**	47,063	47,955	**420,547**
Machinery and equipment	**120,522**	111,990	100,067	**1,030,103**
Furniture and fixtures	**5,280**	4,483	3,824	**45,128**
Construction in progress	**3,425**	511	6,856	**29,273**
Total	**188,574**	173,977	172,028	**1,611,743**
Accumulated depreciation	**(111,463)**	(101,178)	(94,722)	**(952,675)**
Net property, plant and equipment	**77,111**	72,799	77,306	**659,068**
INVESTMENTS AND OTHER ASSETS:				
Investment securities (Note 3)	**29,519**	28,349	26,958	**252,299**
Investments in affiliates	**81**	396	352	**692**
Goodwill	**2,677**			**22,880**
Software	**1,322**	1,845	2,008	**11,299**
Intangibles	**266**	492	895	**2,274**
Deferred tax assets (Note 11)		177	1,007	
Deferred tax assets—land revaluation (Notes 5 and 11)	**227**	212	1,409	**1,940**
Other assets	**4,739**	7,402	5,533	**40,504**
Allowance for doubtful accounts	**(571)**	(964)	(1,042)	**(4,880)**
Total investments and other assets	**38,260**	37,909	37,120	**327,008**
TOTAL	**¥ 250,355**	¥ 215,365	¥209,002	**$2,139,786**

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2006	2005	2004	Thousands of U.S. dollars (Note 1) 2006
CURRENT LIABILITIES:				
Short-term bank loans (Note 7)	**¥ 8,614**	¥ 5,636	¥ 4,319	**$ 73,624**
Current portion of long-term debt (Note 7)	**63**	1,267	252	**538**
Notes and accounts payable:				
Trade	**49,665**	42,952	46,142	**424,487**
Others	**759**	793	647	**6,487**
Income taxes payable	**6,723**	2,847	9,291	**57,462**
Accrued expenses	**6,105**	5,250	5,484	**52,180**
Other current liabilities	**716**	1,000	739	**6,120**
Total current liabilities	**72,645**	59,745	66,874	**620,898**
LONG-TERM LIABILITIES:				
Long-term debt (Note 7)	**677**	345	1,557	**5,786**
Liability for retirement benefits (Note 8)	**6,877**	6,023	7,151	**58,778**
Guarantee deposits from customers	**1,962**	1,936	2,112	**16,769**
Deferred tax liabilities (Note 11)	**2,476**			**21,162**
Other long-term liabilities	**231**	472	686	**1,975**
Total long-term liabilities	**12,223**	8,776	11,506	**104,470**
MINORITY INTERESTS	**14,304**	9,147	6,913	**122,256**
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 13 and 15)				
SHAREHOLDERS' EQUITY (Notes 9 and 17)**:**				
Common stock—authorized, 275,926,364 shares in 2006, 196,390,411 shares in 2005 and 2004; issued, 68,981,591 shares in 2006, 2005 and 2004	**15,993**	15,993	15,993	**136,692**
Additional paid-in capital	**18,591**	18,591	18,591	**158,897**
Retained earnings	**128,107**	114,411	101,832	**1,094,932**
Land revaluation difference, net of tax (Note 5)	**(330)**	(309)	(2,053)	**(2,821)**
Unrealized gain on available-for-sale securities, net of tax (Note 3)	**6,289**	3,934	4,109	**53,752**
Foreign currency translation adjustments	**(362)**	(2,799)	(2,654)	**(3,094)**
Treasury stock—at costs shares: 3,611,190 in 2006, 2,509,451 in 2005, 2,506,594 in 2004	**(17,105)**	(12,124)	(12,109)	**(146,196)**
Total shareholders' equity	**151,183**	137,697	123,709	**1,292,162**
TOTAL	**¥250,355**	¥215,365	¥209,002	**$2,139,786**

Consolidated Statements of Income

Unicharm Corporation and Subsidiaries Years Ended March 31, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2006	2005	2004	**2006**
NET SALES	**¥270,380**	¥246,051	¥240,110	**$2,310,940**
COST OF SALES (Note 12)	**153,264**	137,341	132,074	**1,309,949**
Gross profit	**117,116**	108,710	108,036	**1,000,991**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 10, 12 and 18)	**88,585**	81,425	77,309	**757,137**
Operating income	**28,531**	27,285	30,727	**243,854**
OTHER INCOME (EXPENSES):				
Interest and dividend income	**494**	506	505	**4,222**
Interest expense	**(305)**	(315)	(298)	**(2,607)**
Foreign exchange gain (loss)	**518**	201	(310)	**4,427**
Loss on write-down of investment securities	**(3)**		(33)	**(25)**
Gain on transfer of the substituted portion of the governmental pension program (Note 8)		3,886		
Charge for transitional obligation for employees' retirement benefits (Note 8)		(951)	(1,224)	
Impairment loss (Note 6)	**(281)**	(2,248)		**(2,402)**
Other—net (Note 18)	**(387)**	233	340	**(3,307)**
Other income (expenses)—net	**36**	1,312	(1,020)	**308**
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	**28,567**	28,597	29,707	**244,162**
INCOME TAXES (Note 11)**:**				
Current	**11,014**	7,985	12,827	**94,137**
Deferred	**451**	2,663	(723)	**3,854**
Total income taxes	**11,465**	10,648	12,104	**97,991**
MINORITY INTERESTS IN NET INCOME	**1,814**	1,567	1,363	**15,504**
NET INCOME	**¥ 15,288**	¥ 16,382	¥ 16,240	**$ 130,667**

	Yen			U.S. dollars
	2006	2005	2004	**2006**
PER SHARE OF COMMON STOCK (Notes 2. q. and 16)**:**				
Net income	**¥229.34**	¥244.25	¥240.26	**$1.96**
Diluted net income	**229.00**	242.69		**1.95**
Cash dividends applicable to the year	**32.00**	30.00	28.00	**0.27**

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Unicharm Corporation and Subsidiaries Years Ended March 31, 2006, 2005 and 2004

		Millions of yen						
	Outstanding Number of Shares of Common Stock	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, 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 (Note 5)					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 9)	(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)
Net income				16,382				
Cash dividends, ¥29.00 per share				(1,928)				
Bonuses to directors and corporate auditors				(131)				
Land revaluation difference, net of tax (Note 5)				(1,744)	1,744			
Net decrease in unrealized gain on available-for-sale securities, net of tax						(175)		
Net decrease in foreign currency translation adjustments							(145)	
Treasury stock acquired—net	(2,857)							(15)
BALANCE, MARCH 31, 2005	66,472,140	15,993	18,591	114,411	(309)	3,934	(2,799)	(12,124)
Net income				15,288				
Cash dividends, ¥31.00 per share				(2,043)				
Bonuses to directors and corporate auditors				(109)				
Increase in retained earnings due to fiscal year-end change for subsidiaries (Note 2.a)				539				
Land revaluation difference, net of tax (Note 5)				21	(21)			
Net increase in unrealized gain on available-for-sale securities, net of tax						2,355		
Net increase in foreign currency translation adjustments							2,437	
Treasury stock acquired—net	(1,101,739)							(4,981)
BALANCE, MARCH 31, 2006	**65,370,401**	**¥15,993**	**¥18,591**	**¥128,107**	**¥ (330)**	**¥6,289**	**¥ (362)**	**¥(17,105)**

	Thousands of U.S. dollars (Note 1)						
BALANCE, MARCH 31, 2005	$136,692	$158,897	$ 977,872	$(2,641)	$33,624	$(23,923)	$(103,624)
Net income			130,667				
Cash dividends, $0.27 per share			(17,462)				
Bonuses to directors and corporate auditors			(932)				
Increase in retained earnings due to fiscal year-end change for subsidiaries (Note 2.a)			4,607				
Land revaluation difference, net of tax (Note 5)			180	(180)			
Net increase in unrealized gain on available-for-sale securities, net of tax					20,128		
Net increase in foreign currency translation adjustments						20,829	
Treasury stock acquired—net							(42,572)
BALANCE, MARCH 31, 2006	**$136,692**	**$158,897**	**$1,094,932**	**$(2,821)**	**$53,752**	**$(3,094)**	**$(146,196)**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Unicharm Corporation and Subsidiaries Years Ended March 31, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2006	2005	2004	**2006**
OPERATING ACTIVITIES:				
Income before income taxes and minority interests	**¥ 28,567**	¥ 28,597	¥ 29,707	**$ 244,162**
Adjustments for:				
Income taxes—paid	**(7,192)**	(14,567)	(4,985)	**(61,470)**
Depreciation and amortization	**13,063**	12,330	11,616	**111,650**
Gain on transfer of the substituted portion of the governmental pension program		(3,886)		
Net periodic retirement benefit costs	**853**	862	1,093	**7,291**
Loss on write-down of investment securities	**3**		33	**25**
Loss on disposals and sales of property, plant and equipment	**935**	1,557	910	**7,991**
Increase in trade receivables	**(2,389)**	(60)	(2,135)	**(20,419)**
(Increase) decrease in inventories	**(1,821)**	348	(489)	**(15,564)**
Increase (decrease) in trade payables	**3,442**	(2,134)	(1,789)	**29,419**
Increase (decrease) in other current liabilities	**2,772**	(1,045)	3,085	**23,692**
Impairment loss	**281**	2,248		**2,402**
Other—net	**(1,625)**	(3,643)	(130)	**(13,889)**
Total adjustments	**8,322**	(7,990)	7,209	**71,128**
Net cash provided by operating activities	**36,889**	20,607	36,916	**315,290**
INVESTING ACTIVITIES:				
Proceeds from sales of marketable securities	**40,299**	4,103	3,330	**344,436**
Proceeds from sale of property, plant and equipment	**418**	4,647	894	**3,572**
Purchases of marketable securities	**(47,559)**	(1,571)	(2,205)	**(406,487)**
Capital expenditures	**(13,609)**	(13,737)	(19,050)	**(116,316)**
Payment for purchase of investment securities	**(3,858)**	(3,011)	(10,831)	**(32,974)**
Payment for acquisition of a subsidiary	**(4,214)**			**(36,017)**
Proceeds from sales of investment securities	**4,654**	1,016	2,076	**39,778**
Repayment from cancellation of insurance contracts as investments	**2,930**			**25,043**
Decrease (increase) in other assets	**687**	116	(50)	**5,871**
Net cash used in investing activities	**(20,252)**	(8,437)	(25,836)	**(173,094)**
FORWARD	**¥ 16,637**	¥ 12,170	¥ 11,080	**$ 142,196**

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2006	2005	2004	**2006**
FORWARD	**¥16,637**	¥12,170	¥11,080	**$142,196**
FINANCING ACTIVITIES:				
Increase in short-term bank loans	**1,689**	1,032	567	**14,436**
Proceeds from long-term debt	**35**	25	50	**299**
Repayments of long-term debt	**(1,258)**	(254)	(1,311)	**(10,752)**
Cash dividends paid	**(2,049)**	(1,928)	(1,740)	**(17,513)**
Investment from minority interests	**965**	1,256	230	**8,248**
Additional acquisition of the subsidiaries	**(132)**		(79)	**(1,128)**
Repurchase of the Company's stock	**(4,980)**	(15)	(5,334)	**(42,564)**
Cash dividends paid to minority interests	**(488)**	(324)	(316)	**(4,171)**
Net cash used in financing activities	**(6,218)**	(208)	(7,933)	**(53,145)**
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	**499**	(37)	(281)	**4,265**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**10,918**	11,925	2,866	**93,316**
CASH AND CASH EQUIVALENTS, DUE TO FISCAL YEAR-END CHANGE FOR SUBSIDIARIES (Note 2. a)	**372**			**3,180**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**56,359**	44,434	41,568	**481,701**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥67,649**	¥56,359	¥44,434	**$578,197**
ADDITIONAL INFORMATION:				
Payment for acquisition of Unicharm Gulf Hygienic Industries Ltd., net of cash acquired (Note 2. a)	**¥ 4,214**			**$ 36,017**
Assets acquired	**7,275**			**62,180**
Goodwill	**2,711**			**23,171**
Liabilities assumed	**(3,873)**			**(33,103)**
Minority interests	**(1,667)**			**(14,248)**
Cash paid for the capital	**4,446**			**38,000**
Cash and cash equivalents in this subsidiary	**(232)**			**(1,983)**
Cash and cash equivalents, due to fiscal year-end change for subsidiaries	**¥ 4,214**			**$ 36,017**

See notes to consolidated financial statements.

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law of Japan and its related accounting regulations, and in conformity with accounting principles 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 that is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2005 and 2004 financial statements to conform to the classifications used in 2006.

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 ¥117 to $1, the approximate rate of exchange at March 31, 2006. Such translation 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 24 (24 in 2005 and 27 in 2004) subsidiaries (together, the "Group").

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

During the year ended March 31, 2006, one affiliated company accounted for by the equity method in prior periods became a subsidiary since the Company acquired additional equity. In addition, the Company acquired one subsidiary (Unicharm Gulf Hygienic Industries Ltd.).

Investments in one affiliate (two in 2005 and 2004) are accounted for by the equity method.

United Charm Co., Ltd., Uni-Charm (Thailand) Co., Ltd. and another two of the Company's foreign subsidiaries have changed their fiscal year end from December 31 to March 31, which was effective for the year ended March 31, 2006. The Company accounted for the financial results of the three-month period from January 1 to March 31, 2005 of these subsidiaries as an adjustment to retained earning as of April 1, 2005, which amounted to ¥539 million ($4,607 thousand), and accounted for cash flows as cash and cash equivalents, which amounted to ¥372 million ($3,180 thousand) in 2006.

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, Goodwill, is amortized using the straight-line method over a period of less than 20 years in 2006, and 5 years in 2005 and 2004, which is the estimated available life.

The Company has adopted a revised method for acquisitions during or after the fiscal year 2006, in which goodwill is amortized over the effective investment period, calculated on an individual basis, using the straight-line method up to a maximum of 20 years. In order to expand business in the strategic areas of Asia and the Middle East, the Company acquired a 51% interest in Gulf Hygienic Industries Ltd. in Saudi Arabia in December 2005. As a result of this acquisition and possible future business expansion through additional mergers and acquisitions, the Company believes it is necessary to review the effective investment life will be more than 20 years.

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

b. 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. Allowance for Doubtful Accounts

The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the companies' past credit loss experience and an evaluation of potential losses in the receivables outstanding.

e. Marketable and Investment Securities

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

f. 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 two to 60 years for buildings and structures, from two to 20 years for machinery and equipment and from two to 20 years for furniture and fixtures.

g. Long-lived Assets

In August 2002, the Business Accounting Council ("BAC") issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan ("ASBJ") issued ASBJ Guidance No. 6, "Guidance for Accounting Standard for Impairment of Fixed Assets." These new pronouncements were effective for fiscal years beginning on or after April 1, 2005.

The Group adopted the new accounting standard for impairment of fixed assets as of April 1, 2004. The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

h. Stock Issue Costs

Stock issue costs are charged to income as incurred.

i. Retirement and Pension Plans

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

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

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

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

j. Research and Development Costs

Research and development costs are charged to income as incurred.

k. 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.

l. Income Taxes

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

m. Appropriations of Retained Earnings

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

n. Foreign Currency Transactions

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

o. Foreign Currency Financial Statements

The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for 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.

p. Derivatives and Hedging Activities

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

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: (a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions 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.

q. Per Share Information

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

The weighted-average number of common shares used in the computation was 65,775,016 shares for 2006, 66,473,685 shares for 2005 and 66,942,629 shares for 2004.

Diluted net income per share is not disclosed because it is anti-dilutive in 2004.

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

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

r. New Accounting Pronouncements

Business combination and business separation

In October 2003, the BAC issued a Statement of Opinion, "Accounting for Business Combinations," and on December 27, 2005 the ASBJ issued "Accounting Standard for Business Separations" and ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Business Separations." These new accounting pronouncements are effective for fiscal years beginning on or after April 1, 2006.

The accounting standard for business combinations allows companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. These specific criteria are as follows:

(a) the consideration for the business combination consists solely of common shares with voting rights,

(b) the ratio of voting rights of each predecessor shareholder group after the business combination is nearly equal, and

(c) there are no other factors that would indicate any control exerted by any shareholder group other than voting rights.

For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures. Goodwill, including negative goodwill, is to be systematically amortized over 20 years or less, but is also subject to an impairment test.

Under the accounting standard for business separations, in a business separation where the interests of the investor no longer continue and the investment is settled, the difference between the fair value of the consideration received for the transferred business and the book value of net assets transferred to the separated business is recognized as a gain or loss on business separation in the statement of income. In a business separation where the interests of the investor continue and the investment is not settled, no such gain or loss on business separation is recognized.

Stock options

On December 27, 2005, the ASBJ issued "Accounting Standard for Stock Options" and related guidance. The new standard and guidance are applicable to stock options newly granted on and after May 1, 2006.

This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of shareholders' equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

Bonuses to directors and corporate auditors

Prior to the fiscal year ended March 31, 2005, bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings in the fiscal year following approval at the general shareholders meeting. The ASBJ issued ASBJ Practical Issues Task Force (PITF) No. 13, "Accounting Treatment for Bonuses to Directors and Corporate Auditors," which encouraged companies to record bonuses to directors and corporate auditors on the accrual basis with a related charge to income, but still permitted the direct reduction of such bonuses from retained earnings after approval of the appropriation of retained earnings.

The ASBJ replaced the above accounting pronouncement by issuing a new accounting standard for bonuses to directors and corporate auditors on November 29, 2005. Under the new accounting standard, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings. This accounting standard is effective for fiscal years ending on or after May 1, 2006. The companies must accrue bonuses to directors and corporate auditors at the year end to which such bonuses are attributable.

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities at March 31, 2006, 2005 and 2004 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	**2006**
Current:				
Government and corporate bonds	**¥ 10**	¥ 343		**$ 85**
Trust fund investments and other	**12,734**	1,561	¥ 3,922	**108,838**
Total	**¥12,744**	¥ 1,904	¥ 3,922	**$108,923**
Non-current:				
Marketable equity securities	**¥14,236**	¥ 9,802	¥10,211	**$121,675**
Government and corporate bonds	**2,000**	15,090	13,465	**17,094**
Trust fund investments and other	**13,283**	3,457	3,282	**113,530**
Total	**¥29,519**	¥28,349	¥26,958	**$252,299**

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2006, 2005 and 2004 are as follows:

	Millions of yen			
March 31, 2006	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	**¥ 2,477**	**¥11,760**	**¥ 1**	**¥14,236**
Debt securities	**14,662**	**1**	**1,133**	**13,530**
Held-to-maturity	**10**			**10**
Total	**¥17,149**	**¥11,761**	**¥1,134**	**¥27,776**

	Millions of yen			
March 31, 2005	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 2,479	¥7,327	¥ 4	¥ 9,802
Debt securities	15,537	15	684	14,868
Held-to-maturity	10			10
Total	¥18,026	¥7,342	¥688	¥24,680

	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

	Thousands of U.S. dollars			
March 31, 2006	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	**$ 21,171**	**$100,513**	**$ 9**	**$121,675**
Debt securities and other	**125,316**	**9**	**9,684**	**115,641**
Held-to-maturity	**85**			**85**
Total	**$146,572**	**$100,522**	**$9,693**	**$237,401**

Available-for-sale securities and held-to-maturity securities whose fair value is not readily determinable as of March 31, 2006, 2005 and 2004 were as follows:

	Carrying Amount			
	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	**2006**
Available-for-sale:				
Equity securities	**¥ 379**	¥ 281	¥ 282	**$ 3,239**
Debt securities and other	**3,108**	3,166	3,000	**26,564**
Held-to-maturity	**11,000**	2,126	5,061	**94,018**
Total	**¥14,487**	¥5,573	¥8,343	**$123,821**

Proceeds from sales of available-for-sale securities for the years ended March 31, 2006, 2005 and 2004 were ¥20,370 million ($174,103 thousand), ¥9,643 million and ¥12,310 million, respectively. Gross realized gains and losses on these sales, computed on the moving-average cost basis, were ¥880 million ($7,521 thousand) and ¥10 million ($85 thousand), respectively, for the year ended March 31, 2006, ¥24 million and ¥12 million, respectively, for the year ended March 31, 2005 and ¥25 million and ¥7 million, respectively, for the year ended March 31, 2004.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2006, 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	¥ 3,734	¥ 9,010	$ 31,915	$77,008
Due after one year through five years	5,512		47,111	
Due after five years through ten years	404		3,453	
Due after ten years	3,880	2,000	33,162	17,095
Total	¥13,530	¥11,010	$115,641	$94,103

The carrying amounts of securities pledged as a deposit for a real estate business were ¥10 million for the years ended March 31, 2005 and 2004.

4. INVENTORIES

Inventories at March 31, 2006, 2005 and 2004 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	**2006**
Merchandise and finished products	**¥ 9,188**	¥ 7,970	¥ 8,099	**$ 78,530**
Work in process	**328**	226	257	**2,803**
Raw materials	**6,036**	3,335	3,631	**51,590**
Supplies	**625**	542	434	**5,342**
Total	**¥16,177**	¥12,073	¥12,421	**$138,265**

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 statement of income. Continuous readjustment is not permitted unless the land value subsequently declines significantly such that the amount of the decline in value should be removed from the land revaluation diminish account and related deferred tax assets.

In the case when land is sold or the Company recognizes an impairment loss, the land revaluation difference account will be reversed.

As at March 31, 2006, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥458 million.

6. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of the year ended March 31, 2005 and, as a result, recognized an impairment loss of ¥2,248 million as other expenses for certain leisure facilities and certain idle facilities in Kagawa Prefecture due to a continuous operating loss of those facilities and the carrying amount of the relevant land, buildings and others were written down to the recoverable amount. The recoverable amounts of the land, buildings and others were measured at their value in use, and the discount rate used for computation of present value of future cash flows was 4.3%; and the recoverable amounts of the idle facilities were measured at their net selling price determined by quotation from a third–party vendor.

The Group reviewed its long-lived assets for impairment as of the year ended March 31, 2006 and, as a result, recognized an impairment loss of ¥281 million ($2,402 thousand) as other expenses for a certain software operating loss which was written down to the recoverable amount. The recoverable amount of the software was measured at its value in use, and the discount rate used for computation of present value of future cash flows was 4.3%.

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

Short-term bank loans at March 31, 2006, 2005 and 2004, 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 3.0%, 2.0% to 3.0% and 2.3% to 4.5% at March 31, 2006, 2005 and 2004, respectively.

Long-term debt at March 31, 2006, 2005 and 2004 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	**2006**
Unsecured 2.35% bonds, due July 2005		¥ 1,000	¥1,000	
Loans from banks and municipal corporations, due serially to 2012 with interest rates ranging from 2.0% to 6.8% in 2006, 2.0% to 2.3% in 2005 and 2.0% to 3.1% in 2004	**¥740**	612	809	**$6,324**
Total	**740**	1,612	1,809	**6,324**
Less current portion	**(63)**	(1,267)	(252)	**(538)**
Long-term debt, less current portion	**¥677**	¥ 345	¥1,557	**$5,786**

Annual maturities of long-term debt as of March 31, 2006 for the next five years were as follows:

Year Ending March 31	Millions of yen	Thousands of U.S. dollars
2007	¥ 63	$ 538
2008	133	1,137
2009	153	1,308
2010	156	1,333
2011 and thereafter	235	2,008
Total	¥740	$6,324

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

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

8. RETIREMENT AND PENSION PLANS

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

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from certain subsidiaries and annuity payments from a trustee. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age. The liability for retirement benefits at March 31, 2006, 2005 and 2004 includes retirement benefits for directors and corporate auditors of ¥1,136 million ($9,709 thousand), ¥1,178 million and ¥1,124 million, respectively. The retirement benefits for the Company's directors and corporate auditors are paid subject to the approval of the shareholders in accordance with the Japanese Commercial Code (the "Code").

The liability for employees' retirement benefits at March 31, 2006, 2005 and 2004 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	**2006**
Projected benefit obligation	**¥ 19,287**	¥ 17,854	¥ 25,716	**$ 164,846**
Fair value of plan assets	**(15,242)**	(11,140)	(13,898)	**(130,274)**
Unrecognized transitional obligation			(1,192)	
Unrecognized actuarial loss	**(670)**	(646)	(6,353)	**(5,726)**
Unrecognized prior service cost	**(488)**	(3,334)	1,754	**(4,171)**
Prepaid pension cost	**2,854**	2,111		**24,394**
Net liability	**¥ 5,741**	¥ 4,845	¥ 6,027	**$ 49,069**

The components of net periodic benefit costs for the years ended March 31, 2006, 2005 and 2004 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	**2006**
Service cost	**¥1,439**	¥ 982	¥1,006	**$12,299**
Interest cost	**358**	393	603	**3,060**
Expected return on plan assets	**(334)**	(443)	(433)	**(2,855)**
Amortization of transitional obligation		1,191	1,224	
Recognized actuarial loss	**461**	3,579	751	**3,940**
Amortization of prior service cost	**159**	(1,681)	(427)	**1,359**
Net periodic benefit costs	**¥2,083**	¥ 4,021	¥2,724	**$17,803**

Assumptions used for the years ended March 31, 2006, 2005 and 2004 are set forth as follows:

	2006	2005	2004
Discount rate	**2.0%**	2.0%	2.0%
Expected rate of return on plan assets	**3.0%**	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
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 that 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. In 2005, the Company applied for transfer of the substitutional portion of past pension obligations to the government and obtained approval by the Ministry of Health, Labour and Welfare on August 1, 2004. The actual transfer of the pension obligations and related assets to the government took place after the government's approval.

Based upon the above approval in August 2004, the Company and certain subsidiaries recognized a gain on transfer of the substitutional portion of the governmental pension program in the amount of ¥3,886 million for the year ended March 31, 2005.

The Company thereafter transferred the substitutional portion of the pension obligations and related assets to the government on November 19, 2004.

9. SHAREHOLDERS' EQUITY

Through May 1, 2006, Japanese companies are subject to the Code.

The Code requires that all shares of common stock be issued with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds are required to be presented as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration by way of a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The Code also provides that an amount of 10% or more of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period (such as bonuses to directors) shall be appropriated as a legal reserve (a component of retained earnings) until the total of such reserve and additional paid-in capital equals 25% of common stock. The amount of total legal reserve and additional paid-in capital that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders after transferring such excess in accordance with the Code. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The Company's legal reserve amount, which is included in retained earnings, totals ¥1,992 million ($18,617 thousand) as of March 31, 2006 and ¥1,992 million as of March 31, 2005 and 2004, respectively.

The Code allows Japanese companies to purchase treasury stock and dispose of such treasury stock upon resolution of the Board of Directors. The aggregate purchased 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 that could be transferred to retained earnings or other capital surplus other than additional paid-in capital upon approval of such transfer at the annual general meeting of shareholders.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash outlays, the Code also imposes certain limitations on the amount of capital surplus and retained earnings available for dividends. The amount of capital surplus and retained earnings available for dividends under the Code was ¥72,462 million ($619,333 thousand) as of March 31, 2006, based on the amount recorded in the parent company's general books of account.

Dividends are approved by the shareholders at a meeting held subsequent to the end of 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.

On May 1, 2006, a new corporate law (the "Corporate Law") became effective, which reformed and replaced the Code with various revisions that would, for the most part, be applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below:

a. Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as: (1) having a Board of Directors, (2) having independent auditors, (3) having a Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation; the Board of Directors may declare dividends (except for dividends-in-kind) if the company has prescribed so in its articles of incorporation.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitations and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of

the company so stipulate. Under the Code, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends. The Corporate Law also provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. *Increases/Decreases and Transfer of Common Stock, Reserve and Surplus*
The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Code, the aggregate amount of additional paid-in capital and legal reserve that exceeds 25% of the common stock may be made available for dividends by resolution of the shareholders. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

c. *Treasury Stock and Treasury Stock Acquisition Rights*
The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of shareholders' equity.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of shareholders' equity or deducted directly from stock acquisition rights.

On December 9, 2005, the ASBJ published a new accounting standard for presentation of shareholders' equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of shareholders' equity. Such items include stock acquisition rights, minority interest, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006.

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.

On June 27, 2003, shareholders approved implementation of the stock option plan in accordance with the Code. The stock option was granted to the directors and key employees of the Company and its consolidated subsidiaries. The plan provides for granting options to 565 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.

On June 29, 2004, shareholders approved implementation of the stock option plan in accordance with the Code. The stock option was granted to the directors and key employees of the Company and its consolidated subsidiaries. The plan provides for granting options to 732 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 ¥5,702.

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

10. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended March 31, 2006, 2005 and 2004 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	**2006**
Sales promotion	**¥27,688**	¥24,310	¥21,411	**$236,650**
Advertising	**9,002**	10,219	9,450	**76,940**
Shipping and storage expenses	**15,214**	13,844	13,561	**130,034**
Employees' salaries	**9,776**	8,763	8,364	**83,556**
Depreciation	**1,444**	1,754	2,210	**12,342**
Other	**25,461**	22,535	22,313	**217,615**
Total	**¥88,585**	¥81,425	¥77,309	**$757,137**

11. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes, which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 41% for the year ended March 31, 2006, 2005 and 2004. 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, 2006, 2005 and 2004, are as follows:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	**2006**
Deferred tax assets—current:				
Accrued bonuses	**¥ 1,114**	¥1,100	¥1,173	**$ 9,521**
Unrealized gains	**55**	52	25	**470**
Other	**1,473**	952	1,333	**12,590**
Total	**2,642**	2,104	2,531	**22,581**
Deferred tax assets—non-current:				
Investment securities	**1,035**	1,030	1,107	**8,846**
Pension and severance costs	**1,578**	1,641	2,707	**13,487**
Intangibles			244	
Less allowance for doubtful accounts	**137**	306	319	**1,171**
Impairment loss	**850**	832		**7,265**
Other	**984**	208	189	**8,411**
Valuation allowance		(71)	(36)	
Total	**4,584**	3,946	4,530	**39,180**
Deferred tax liabilities—current:				
Accrued enterprise taxes		54		
Other		2		
Total		56		
Deferred tax liabilities—non-current:				
Net unrealized gain on available-for-sale securities	**4,302**	2,685	2,831	**36,769**
Undistributed earnings of subsidiaries	**1,466**	844	649	**12,530**
Other	**1,292**	240	43	**11,043**
Total	**7,060**	3,769	3,523	**60,342**
Net deferred tax assets—current	**¥ 2,642**	¥2,048	¥2,531	**$ 22,581**
Net deferred tax assets (liabilities)—non-current	**¥(2,476)**	¥ 177	¥1,007	**$(21,162)**
Deferred tax assets—land revaluation	**¥ 227**	¥ 212	¥1,409	**$ 1,940**

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 year ended March 31, 2005 was as follows:

	2005
Normal effective statutory tax rate	40.7%
Expenses not deductible for income tax purposes	0.6
Lower income tax rates applicable to income in certain foreign countries	(3.5)
Tax benefits not recognized on operating losses of subsidiaries	1.0
Deduction of income tax for research and development costs	(1.0)
Undistributed earnings of subsidiaries	0.7
Other—net	(1.3)
Actual effective tax rate	37.2%

For the years ended March 31, 2004 and 2006, a reconciliation is not required to be disclosed because the difference is less than 5% of the normal effective statutory tax rate.

12. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥4,018 million ($34,342 thousand), ¥3,747 million and ¥4,689 million for the years ended March 31, 2006, 2005 and 2004, respectively.

13. LEASES

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

Total rental expenses for the years ended March 31, 2006, 2005 and 2004, were ¥359 million ($3,068 thousand), ¥408 million and ¥585 million, respectively, including ¥174 million ($1,487 thousand), ¥254 million and ¥467 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 and 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, 2006, 2005 and 2004, were as follows:

Furniture and Fixtures	Millions of yen 2006	2005	2004	Thousands of U.S. dollars 2006
Acquisition cost	**¥975**	¥1,129	¥1,810	**$8,333**
Accumulated depreciation	**879**	861	1,283	**7,512**
Net leased property	**¥ 96**	¥ 268	¥ 527	**$ 821**

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

Obligations under finance leases for the years ended March 31, 2006, 2005 and 2004 were as follows:

	Millions of yen 2006	2005	2004	Thousands of U.S. dollars 2006
Due within one year	**¥84**	¥177	¥282	**$718**
Due after one year	**12**	91	245	**103**
Total	**¥96**	¥268	¥527	**$821**

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 ¥174 million ($1,487 thousand), ¥254 million and ¥467 million for the years ended March 31, 2006, 2005 and 2004, respectively.

The minimum rental commitments under noncancelable operating leases at March 31, 2006 were as follows:

	Millions of yen	Thousands of U.S. dollars
Due within one year	¥4,581	$39,154
Due after one year	2,291	19,581
Total	¥6,872	$58,735

14. DERIVATIVES

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

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

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

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

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

Foreign currency forward contracts and currency options that qualify for hedge accounting for the years ended March 31, 2006, 2005 and 2004 are excluded from the disclosure of market value information.

The Group had the following derivatives contracts outstanding at March 31, 2006, 2005 and 2004:

	Millions of yen									Thousands of U.S. dollars		
	2006			2005			2004			**2006**		
	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
Credit default swap option	**¥6,000**	**¥ 27**	**¥ 27**	¥7,000	¥ 19	¥ 19				**$51,282**	**$ 231**	**$ 231**
Currency swaps:												
Thai baht payment/yen receipt				599	9	9	¥ 849	¥ 38	¥ 38			
Forward exchange contracts— selling U.S. dollar forward				1,633	1,523	(110)	3,377	3,126	(251)			

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

The credit default swap option is the part of the embedded derivative which is a kind of compound financial instruments. It is measured at fair value and the gains/losses is recognized in the income statement. The notional amounts of it is the face values of the embedded derivative, the fair value of it is the information about only it.

15. CONTINGENT LIABILITIES

At March 31, 2006, the Group had the following contingent liabilities:

	Millions of yen	Thousands of U.S. dollars
Guarantees and similar items of bank loans	¥194	$1,658

16. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2006 and 2005 is as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars
Year Ended March 31, 2006	Net Income	Weighted-average Shares	EPS	
Basic EPS—Net income available to common shareholders	**¥15,084**	**65,775**	**¥229.34**	**$1.96**
Effect of dilutive securities—Adjustment of warrants of subsidiary	**(22)**			
Diluted EPS—Net income for computation	**¥15,062**	**65,775**	**¥229.00**	**$1.95**

	Millions of yen	Thousands of shares	Yen
Year Ended March 31, 2005	Net Income	Weighted-average Shares	EPS
Basic EPS—Net income available to common shareholders	¥16,235	66,473	¥244.25
Effect of dilutive securities—Adjustment of warrants of subsidiary	(103)		
Diluted EPS—Net income for computation	¥16,132	66,473	¥242.69

17. SUBSEQUENT EVENTS

The following appropriations of retained earnings at March 31, 2006 were approved at the Company's shareholders' meeting held on June 29, 2006:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥16 ($0.137) per share	¥1,045	$8,932
Bonuses to directors and corporate auditors	128	1,094

18. RELATED PARTY TRANSACTIONS

Transactions of the Company with related parties for the years ended March 31, 2006, 2005 and 2004 were as follows:

a. Takahara Kosan K.K.

Takahara Kosan K.K. is directly owned 20.0% share by Mr. Takahisa Takahara, President and Chief Executive Officer of the Company, 1.0% by Mr. Keiichiro Takahara, Chairman of the Board of the Company, 44.5% directly owned by their close relatives, and another 34.5% indirectly owned by their close relatives.

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	**2006**
Insurance premium	**¥11**	¥159	¥81	**$94**

b. Unitec Corporation

Unitec Corporation is directly owned 0.7% share by Mr. Takahisa Takahara, 1.5% by Mr. Keiichiro Takahara's close relatives, and another 97.8% indirectly owned by Mr. Keiichiro Takahara's close relatives.

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	**2006**
Rental expenses	**¥200**	¥193	¥188	**$1,709**

c. Takahara Fund Ltd.

Takahara Fund Ltd. is directly owned 100% share by Mr. Keiichiro Takahara.

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	**2006**
Sale of investment securities	**¥2,581**			**$22,060**
Proceeds from sale of investment securities	**834**			**7,128**

19. SEGMENT INFORMATION

The Group operates in the following industries:

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

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

(1) Industry Segments

a. Sales and Operating Income

	Millions of yen				
	2006				
	Industry A	Industry B	Industry C	Eliminations	Consolidated
Sales to customers	**¥228,884**	**¥30,361**	**¥11,135**		**¥270,380**
Intersegment sales	**60**		**4**	**¥ (64)**	
Total sales	**228,944**	**30,361**	**11,139**	**(64)**	**270,380**
Operating expenses	**205,057**	**26,952**	**9,991**	**(151)**	**241,849**
Operating income	**¥ 23,887**	**¥ 3,409**	**¥ 1,148**	**¥ 87**	**¥ 28,531**

b. Assets, Depreciation, Impairment Loss and Capital Expenditures

	Millions of yen				
	2006				
	Industry A	Industry B	Industry C	Corporate	Consolidated
Assets	**¥145,350**	**¥17,578**	**¥26,912**	**¥60,515**	**¥250,355**
Depreciation	**12,460**	**332**	**271**		**13,063**
Impairment loss	**281**				**281**
Capital expenditures	**12,906**	**569**	**134**		**13,609**

a. Sales and Operating Income

	Thousands of U.S. dollars				
	2006				
	Industry A	Industry B	Industry C	Eliminations	Consolidated
Sales to customers	**$1,956,273**	**$259,496**	**$95,171**		**$2,310,940**
Intersegment sales	**513**		**34**	**$ (547)**	
Total sales	**1,956,786**	**259,496**	**95,205**	**(547)**	**2,310,940**
Operating expenses	**1,752,624**	**230,359**	**85,393**	**(1,290)**	**2,067,086**
Operating income	**$ 204,162**	**$ 29,137**	**$ 9,812**	**$ 743**	**$ 243,854**

b. Assets, Depreciation, Impairment Loss and Capital Expenditures

	Thousands of U.S. dollars				
	2006				
	Industry A	Industry B	Industry C	Corporate	Consolidated
Assets	**$1,242,308**	**$150,239**	**$230,017**	**$517,222**	**$2,139,786**
Depreciation	**106,496**	**2,838**	**2,316**		**111,650**
Impairment loss	**2,402**				**2,402**
Capital expenditures	**109,769**	**4,863**	**1,684**		**116,316**

a. Sales and Operating Income

	Millions of yen				
	2005				
	Industry A	Industry B	Industry C	Eliminations	Consolidated
Sales to customers	¥208,016	¥26,807	¥11,228		¥246,051
Intersegment sales	42		18	¥ (60)	
Total sales	208,058	26,807	11,246	(60)	246,051
Operating expenses	184,808	24,192	9,876	(110)	218,766
Operating income	¥ 23,250	¥ 2,615	¥ 1,370	¥ 50	¥ 27,285

b. Assets, Depreciation, Impairment Loss and Capital Expenditures

	Millions of yen				
	2005				
	Industry A	Industry B	Industry C	Corporate	Consolidated
Assets	¥126,622	¥16,419	¥25,612	¥46,712	¥215,365
Depreciation	11,625	253	452		12,330
Impairment loss			2,248		2,248
Capital expenditures	13,169	273	295		13,737

a. Sales and Operating Income

	Millions of yen				
	2004				
	Industry A	Industry B	Industry C	Eliminations	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

(2) Geographic Segments

a. Sales and Operating Income

	Millions of yen				
	2006				
	Japan	Asia (Excluding Japan)	Other	Eliminations	Consolidated
Sales to customers	**¥201,651**	**¥43,202**	**¥25,527**		**¥270,380**
Intersegment sales	**4,851**	**2,505**		**¥(7,356)**	
Total sales	**206,502**	**45,707**	**25,527**	**(7,356)**	**270,380**
Operating expenses	**181,810**	**42,578**	**24,870**	**(7,409)**	**241,849**
Operating income	**¥ 24,692**	**¥ 3,129**	**¥ 657**	**¥ 53**	**¥ 28,531**

b. Assets

	Millions of yen				
	2006				
	Japan	Asia (Excluding Japan)	Other	Corporate	Consolidated
Assets	**¥121,308**	**¥35,492**	**¥21,373**	**¥72,182**	**¥250,355**

a. Sales and Operating Income

	Thousands of U.S. dollars				
	2006				
	Japan	Asia (Excluding Japan)	Other	Eliminations	Consolidated
Sales to customers	**$1,723,513**	**$369,248**	**$218,179**		**$2,310,940**
Intersegment sales	**41,462**	**21,410**		**$(62,872)**	
Total sales	**1,764,975**	**390,658**	**218,179**	**(62,872)**	**2,310,940**
Operating expenses	**1,553,932**	**363,915**	**212,564**	**(63,325)**	**2,067,086**
Operating income	**$ 211,043**	**$ 26,743**	**$ 5,615**	**$ 453**	**$ 243,854**

b. Assets

	Thousands of U.S. dollars				
	2006				
	Japan	Asia (Excluding Japan)	Other	Corporate	Consolidated
Assets	**$1,036,821**	**$303,350**	**$182,675**	**$616,940**	**$2,139,786**

a. Sales and Operating Income

	Millions of yen				
	2005				
	Japan	Asia (Excluding Japan)	Other	Eliminations	Consolidated
Sales to customers	¥192,003	¥34,639	¥19,409		¥246,051
Intersegment sales	6,760	2,671		¥(9,431)	
Total sales	198,763	37,310	19,409	(9,431)	246,051
Operating expenses	175,082	34,225	18,898	(9,439)	218,766
Operating income	¥ 23,681	¥ 3,085	¥ 511	¥ 8	¥ 27,285

b. Assets

	Millions of yen				
	2005				
	Japan	Asia (Excluding Japan)	Other	Corporate	Consolidated
Assets	¥115,830	¥27,892	¥14,114	¥57,529	¥215,365

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

(3) Sales to Foreign Customers

Sales to foreign customers for the years ended March 31, 2006, 2005 and 2004 amounted to ¥72,250 million ($617,521 thousand), ¥59,368 million and ¥55,069 million, respectively.

Independent Auditors' Report

Deloitte.

Deloitte Touche Tohmatsu
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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, 2006, 2005 and 2004, 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, 2006, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As discussed in Note 2.g to the consolidated financial statements, the Group adopted the new accounting standard for impairment of fixed assets as of April 1, 2004.

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, 2006

Member of
Deloitte Touche Tohmatsu

Subsidiaries and Affiliated Companies

As of March 31, 2006

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	39
	Unicharm Mölnlycke K.K.	Sales of adult incontinence care products	51
Taiwan	United Charm Co., Ltd.	Production and sales of baby care, feminine care and other products	53
Thailand	Uni-Charm (Thailand) Co., Ltd.	Production and sales of baby care, feminine care and other products	94
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	97
	Uni-Charm Consumer Product Service (Shanghai) Co., Ltd.	Production of baby care products, sales of feminine care and other products	100
Republic of Korea	LG Uni-Charm Co., Ltd.	Production and sales of baby care, feminine care and other products	51
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
Saudi Arabia	Unicharm Gulf Hygienic Industries Ltd.	Production and sales of baby care, feminine care and other products	51
			(Plus 9 others)

Affiliated Companies

		Major Operations	Percentage of Equity
Japan	The Fun Co., Ltd.	Data storage, processing and disposal services	25%

Investor Information

As of March 31, 2006

Fiscal Year-end March 31, 2006

Annual Shareholders' Meeting June 29, 2006

Common Stock Authorized: 275,926,364
Issued: 68,981,591

Number of Shareholders 16,920

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

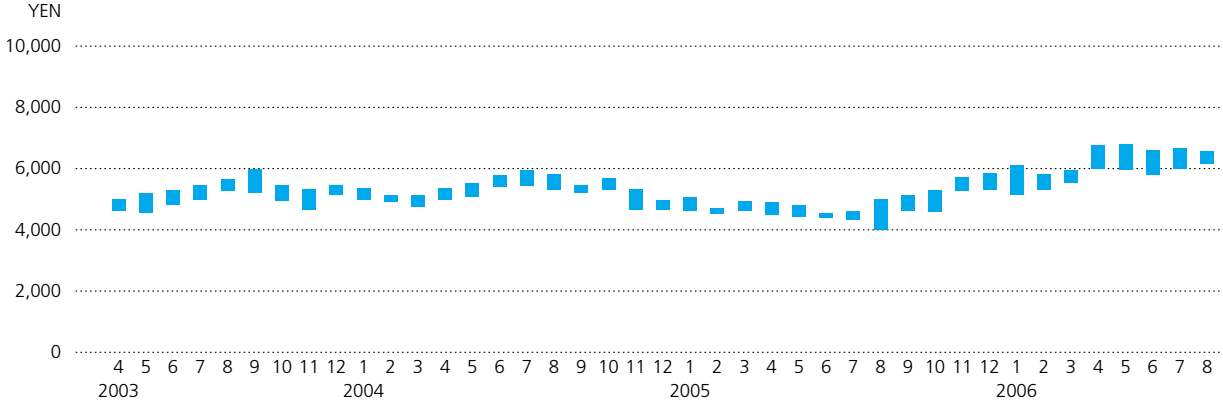
Principal Shareholders

Shareholder	Number of shares (Thousands)	Percentage of voting rights
Unitec Corporation	12,368	17.93%
Investors Bank	3,943	5.72
Takahara Kosan K.K.	3,418	4.96
Takahara Kikin	3,120	4.52
The Master Trust Bank of Japan, Ltd. (Trust Account)	2,990	4.34
State Street and Trust Company	2,495	3.62
The Chase Manhattan Bank N.A. London	2,404	3.49
Nippon Life Insurance Company	1,934	2.80
The Hiroshima Bank, Ltd.	1,920	2.78
The Iyo Bank, Ltd.	1,699	2.46

Equity Policy

July-August 2006	Repurchase of treasury stock pursuant to Article 459, paragraph 1, item 1 of the Corporation Law of Japan (total number of shares acquired: 943,000; aggregate amount of acquisition cost: ¥5,999,992,000)
July-August 2005	Repurchase of treasury stock pursuant to Article 211-3, paragraph 1, item 2 of the Commercial Code of Japan (total number of shares acquired: 1,100,000; aggregate amount of acquisition cost: ¥4,972,890,000)
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 October 31, 2006

Registered Office of the Company	182 Shimobun Kinsei-cho, Shikokuchuo-City, Ehime 799-0111, Japan
Head Office	Sumitomo Fudosan Mita Twin Bldg. West Wing, 3-5-27, Mita, Minato-ku, Tokyo, Japan 108-8575
Date of Establishment	February 10, 1961
Paid-in Capital	¥15,993 million
Number of Associates	1,004 (6,030 on a consolidated basis as of March 31, 2006)
Information	Corporate Planning Department Sumitomo Fudosan Mita Twin Bldg. West Wing, 3-5-27, Mita, Minato-ku, Tokyo, Japan 108-8575 Tel: +81-3-3451-5111 Fax: +81-3-6722-1016

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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