



Unicharm Corporation

Annual Report 2007

Year Ended March 31, 2007

unicharm
NOLA&DOLA

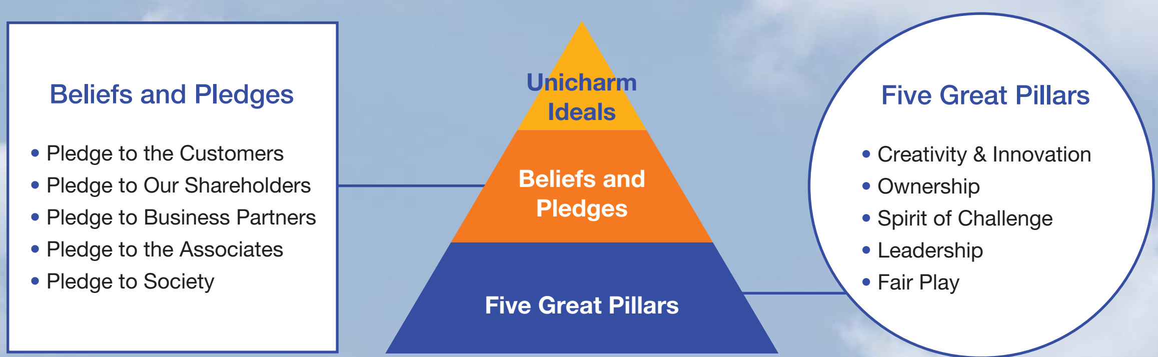
Aiming for a 10% Global Market Share

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.



Contents

Note: Unless otherwise specified, years referred to throughout this report represent fiscal years ended March 31.

IMPORTANT NOTE ON FORWARD-LOOKING STATEMENTS

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

Fiscal 2007 Highlights

1.

Overseas sales grew 38% year on year while operating income achieved record growth, at 59% year on year

Unicharm took steps toward a new earnings-driven growth stage while accelerating the expansion of sales in the Middle East and the Company's four focus markets in Asia.

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2.

Redoubled efforts help sustain high-growth momentum in the health care business's domestic growth fields

Unicharm launched a new light-incontinence pad product to meet the needs of a growing market segment of healthy individuals with incontinence concerns. A stronger lineup of nighttime protection products also helped maintain high growth in the health care business.

3.

Pet care business sales grew 12%, while operating income expanded by a high 17% margin year on year

Unicharm made a full-scale entry into the moist cat food and dog treat markets while achieving significant growth in its pet toiletries business by strengthening products to meet the needs of the growing number of indoor pets and their owners.

4.

Unicharm promoted a premium product category shift by offering higher-value-added baby and child care products domestically

The Company moved into the premium-value market by enhancing product functions to fulfill the needs of both premium-value product users, with the *Moony* and *Moonyman* lineups, and economy-value product users, with *Mamy Poko* and *Mamy Poko Pants* products.

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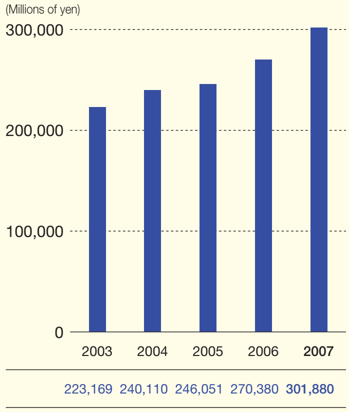
	Millions of yen			Thousands of U.S. dollars
CONSOLIDATED	**2007**	2006	2005	**2007**
FOR THE YEAR:				
Net sales	**¥ 301,880**	¥ 270,380	¥ 246,051	**$2,558,305**
Operating income	**29,930**	28,531	27,285	**253,644**
Net income	**15,059**	15,288	16,382	**127,619**
Capital expenditure	**21,307**	13,609	13,737	**180,568**
Depreciation	**13,185**	13,063	12,330	**111,737**
R&D expense	**4,332**	4,018	3,747	**36,712**
AT YEAR-END:				
Total equity	**¥ 177,049**	¥ 151,183	¥ 137,697	**$1,500,415**
Total assets	**268,763**	250,355	215,365	**2,277,653**
PER SHARE DATA:		Yen		U.S. dollars
Net income	**¥ 232.31**	¥ 229.34	¥ 244.25	**$ 1.97**
Cash dividends applicable to the year	**44.0**	32.00	30.00	**0.37**

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, 2007 of ¥118 = US$1.

To Our Shareholders

Applause for a Year Marked by Revenue Expansion in Growth Businesses and Record-High Net Sales

Net Sales



Fiscal 2007 Performance Overview

Sales

In fiscal 2007, the year ended March 31, 2007, Unicharm continued to work toward achieving its Global 10 medium-term management vision, focusing on raising profitability in overseas businesses, while being driven by growth in the domestic health and pet care divisions. In addition, determined to strengthen the Company's baby and child care and feminine businesses in Japan, we introduced a wide range of new, high-value-added products. Reflecting these efforts, consolidated net sales in fiscal 2007 reached an all-time high of ¥301.9 billion, rising ¥31.5 billion, or 11.7%, compared with the previous fiscal year. Sales within Japan increased ¥5.2 billion, or 2.6%, to ¥206.9 billion. At the same time, we achieved increases in revenues at all overseas subsidiaries. Sales in Asia, encompassing Thailand, Indonesia, Singapore, China, and Korea, were exceptionally high, reaching ¥56.6 billion, a 31.1%, or ¥13.4 billion, surge year on year. Sales in other overseas regions were likewise bullish, with steady sales in Europe and significantly expanded sales in the Middle East and North Africa, resulting in a ¥12.8 billion, or 50.2%, jump to ¥38.3 billion. Accounting for these factors, sales to outside customers by overseas subsidiaries amounted to ¥95.0 billion, growing ¥26.3 billion, or 38.2%, to comprise 31.5% of consolidated net sales.

Operating Income and Net Income

Income in fiscal 2007 also trended positively thanks to ongoing cost-reduction measures and expanded revenue and profit in growth-area businesses, which effectively offset high raw material costs and the impact of increases in advertising and sales expenses incurred to bolster the Unicharm brand and Company competitiveness. As a result, operating income rose by ¥1.4 billion, or 4.9%, to ¥29.9 billion. Net income, however, dropped slightly, by ¥0.2 billion, or 1.5%, compared with fiscal 2006, to ¥15.1 billion.

Strategic Priorities for Fiscal 2008

Looking ahead, the domestic market environment in fiscal 2008 is expected to remain uncertain, despite continued stability in corporate performance and consumer spending. Rather, this uncertainty is a reflection of concerns surrounding inflated raw material costs, Japan's declining birthrate and aging society, and intensifying competition caused by maturing markets. In overseas markets, competition between global brands is expected to become even more fervent as a result of expanding global markets.

It is against this background that Unicharm is striving to fulfill its Global 10 vision to become Asia's No. 1 company in nonwoven fabric and absorbent materials, acquire a 10% global market share, and be placed among the industry's top-three companies worldwide in both name and performance. As we advance toward these goals, we will work to improve profitability in mature markets and aggressively promote revenue and business expansion in growth markets.

The basic Global 10 strategy is to obtain an overwhelming market share in Japan, China, Thailand, Indonesia and Taiwan by developing processes and fostering human resources that facilitate cost structure reform and the strengthening of products, sales channels and communication with customers.

Strategic Priorities Overseas

In Asia, particularly in China, Thailand, Indonesia and Taiwan, we will promote strategies that reinforce our dominance in the market with the goal of attaining an overwhelming market share. We will promote development of high-value-added products such as premium segment pants-type and tape-type disposable diapers in the baby and child care business, in addition to nighttime-use and slim-design napkins in the feminine care business. Looking specifically at China, Unicharm will target profit expansion by concentrating on positioning the baby and child care business in the premium and mid-range market categories and the feminine care business in the growth-market area of nonwoven fabrics. In Thailand, we will focus on expanding the already dominant share held by our baby and child care business by bolstering *Mamy Poko* and *Mamy Poko Pants* products. Moreover, regarding the feminine care business, we will target steady growth, while promoting a shift into the premium market category. Our goal in the Indonesian market is to attain a No. 1 share in both the feminine care and baby and child care markets by promoting greater brand awareness of our feminine care brand and further saturating the market with disposable diapers for children. In Taiwan's mature markets, we plan to increase our market share by improving upon our high-value-added products.

We will likewise continue with efforts to expand sales in Vietnam and Saudi Arabia following the commencement of sanitary napkin manufacturing operations in those countries in April and February 2007, respectively.

Strategic Priorities in Japan

In the growth area of health care, Unicharm responds to the intricate needs of consumers with its vast lineup of new developments. As we strive to outpace the market expansion, we are redoubling efforts to educate the public about continence issues with respect to the efficacy of our continence rehabilitation system. Furthermore, our release of *Lifree Absorbent Slim Wear*™ and *Lifree Men's Guard Slim* are generating a new market in the high-growth area of healthy incontinence products.

In our pet care business, we will continue to develop new markets and products to meet consumers' pet care needs in line with current trends. Specifically, we will enhance sales promotion efforts for products that respond to the four biggest concerns of pet owners, which are caring for pets that are kept in-doors, small-sized pets, aging or overweight pets.

In a maturing baby and child care market, the Company will work toward adjusting sales prices and enhancing product features in order to boost profitability. Unicharm plans to bring about an increase in

Bringing Global 10 to Fruition for Continued Expansion of Growth Businesses and Greater Profitability in Mature Markets

Operating Income and Operating Income Ratio

	2003	2004	2005	2006	2007
Operating Income (Millions of yen)	25,793	30,727	27,285	28,531	**29,930**
Operating Income Ratio (%)	11.6	12.8	11.1	10.6	**9.9**

earnings potential through the sales expansion of *Mamy Poko* brand products and promoting a brand shift of *Moony* into the premium market category.

In the feminine care business, we are looking to reinvigorate the market and increase profitability by tapping into a potential group of premium napkin users by introducing the *Sofy Hada Omoi* series with never-before-seen revolutionary functions and features. We will also pursue new value offerings with renewed *Center-In* brand products, particularly with the *compact* and *deodorant compact* napkin types.

Fiscal 2008 Business Forecasts

In the current fiscal year, ending March 31, 2008, Unicharm forecasts consolidated net sales of ¥328.0 billion, marking a year-on-year increase of 8.7%. Operating income is projected to rise 10.3%, year on year, to ¥33.0 billion, along with a 2.9% increase in net income to ¥15.5 billion. Consequently, net income per share will total ¥240.59, resulting in an increase of ¥8.28 compared to the fiscal year under review.

Unicharm Cares about Giving Back to Shareholders and Does Its Utmost to Maximize Corporate Value through Consistent Business Growth and Enhancement of Earning Capacity

Basic Profit-Sharing Policy

Basic Policy

Unicharm considers the paying of dividends to shareholders as its most important management policy, and for this reason works to increase corporate value through the generation of cash flow. In order to improve its earnings potential, the Company works to strengthen its business structure and proactively expands its operations, while adhering to a policy of consistent increases and stable dividend distribution.

Free Cash Flow Application

Unicharm strives to outpace the market, raise its industry position and enhance corporate value as the most effective means to deliver returns to shareholders. Also, as the Company aims to secure a 10% global market share and become recognized as a high-growth company capable of attaining the No. 1 position in Asia, we are undertaking active investment to accelerate the expansion of the domestic health care business and secure an overwhelming share of the Asian market.

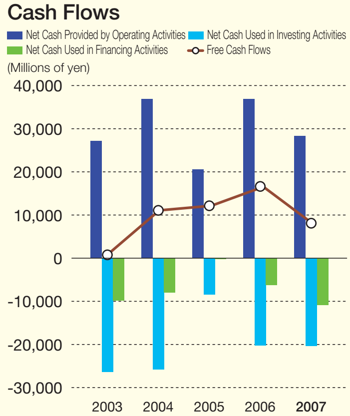
Drawing on the concept of maximizing future corporate value, Unicharm gives priority to selectively allocating free cash flows among overseas businesses, focusing on China and Thailand. At the same time, the Company invests in efforts to expand its business scope, R&D, information systems and other infrastructure in domestic growth areas such as the health care business. From a long-term perspective, Unicharm pursues business activities with consideration for management efficiency.

Profit-Sharing

Unicharm maintains a basic policy of providing continuous shareholder returns of 50% of net income, combining dividend distributions with the acquisition of treasury stock. Furthermore, the Company aims to consistently provide stable increases in dividend distribution and views this as being of the utmost importance.

In accordance with this basic policy, Unicharm declared a year-on-year dividend increase of ¥12.00 per share, for a total of ¥44.00 per share in fiscal 2007, realizing its commitment to continuously increase dividends. In fiscal 2008, we are planning for a ¥2.00 increase in full-year dividends to ¥46.00 per share.

Cash Flows



	2003	2004	2005	2006	2007
	27,186	36,916	20,607	36,889	28,358
	-26,411	-25,836	-8,437	-20,251	-20,329
	-9,806	-7,933	-208	-6,219	-10,796
	775	11,080	12,170	16,638	8,029

Strengthening Corporate Governance

The Unicharm Group promotes a corporate management structure that aims to provide stakeholders with superior value, guided by its corporate ideal of pursuing correct corporate management principles, which bring together corporate growth and well-being among associates, and fulfilling its social responsibilities.

Through its business operations, Unicharm's management and operating divisions work in unison to simultaneously enhance corporate value and fulfill its corporate social responsibilities. Keenly aware of the importance of achieving these aims, the Company adopts an executive officer system to facilitate the swift execution of operations and clarify executive power and accountability.

Unicharm's Board of Directors meets once a month to meet the need for substantive discussions and for the deliberation of significant issues related to executive officers' execution of operations. These meetings also provide directors with an opportunity to thoroughly analyze the Company's progress in achieving management targets and to resolve management issues.

Unicharm's current governance structure comprises seven directors, 21 executive officers, six of whom hold concurrent positions as directors, and four corporate auditors, including the Company's two outside auditors.

Furthermore, we are continuing to promote the clarification of management goals and a management structure that effectively and efficiently deals with priority issues based on the Schedule-Action-Performance-Schedule (SAPS) Plan launched in 2004. Ultimately, the Company endeavors to bring about efficiency in the execution of directors' functions.

Unicharm Ideals and CSR Efforts Come Hand in Hand

Unicharm engages in CSR activities supported by its corporate ideal of creating a better life for humankind by offering only the finest products and services to customers, both at home and abroad. Our approach to environmental conservation and the efficient use of resources, coupled with contributions to a better livelihood, is to maintain a Group awareness and accountability for our development and production of disposable products. As such, we consider it our mission to continually seek solutions to related environmental issues.

The group of products offered by Unicharm's mainstay baby and child care, feminine care, and health care businesses has a significant impact on society in that they bring to life our corporate motto of "Easy Comfort." Our ability to contribute to the spread of health and hygiene through our products and thereby provide comfort, excitement and joy to people in Japan, Asia and worldwide is a great source of Company pride. In fiscal 2007, we directed efforts at advancing CSR initiatives and further market penetration represented by the theme, "Group & Global," in China, Taiwan, Thailand and Indonesia. Looking ahead, Unicharm will continue to work toward providing unfaltering value to stakeholders while maintaining a sound management structure as a globally evolving enterprise.

In closing, I wish to thank all of our shareholders for their steadfast support and understanding.

September 2007
Takahisa Takahara
President and CEO

SAPS Plan Initiatives Promote Sound Corporate Management to Provide Stakeholders with Superior Value

Business Overview

Lifestyle Products Division

Baby and Child Care

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

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Feminine Care

- Feminine napkin
- Tampons
- Panty liners
- Sanitary shorts

Health Care

- Adult pants-type disposable diapers
- Care products
- Incontinence care products
- Superdimensional Masks

Clean & Fresh

- Sheet cleaners
- Moist towelettes
- Cosmetic puffs
- 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 commercial use

Unicharm entered the baby and child care market in 1981 with the release of *Moony* disposable diapers for infants, and today it commands a dominant share 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* bedtime 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, along with the release of the *Moony and Moonyman Sarara Magic* lineups in 2006, which utilize Unicharm's quick-absorption sheets to keep skin continually soft and dry, have served to expand and invigorate the market. Overseas, Unicharm is aggressively developing its business in East Asia, ASEAN nations, the Middle East and North Africa. The Company's *Mamy Poko* brand boasts the top share in Thailand, Indonesia and Singapore.

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, tampons, sanitary shorts 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 11 years. Furthermore, in 2006, Unicharm acquired the *Center-In* feminine care product business from Shiseido Co, Ltd., which it hopes will help strengthen its own feminine care business. In 2007, Unicharm will offer customers a new choice in value with the release of *Sofy Hada Omoi*, a pioneer in the napkin market that features an entirely new and innovative top sheet material, Unicharm's own *FCL Sheet* technology. Unicharm is actively promoting its *Sofy* and *Charm* brands overseas, with particular focus on East Asian markets, where it enjoys the leading market share in Taiwan and Thailand. In addition, manufacturing operations that began in Vietnam and Saudi Arabia in 2007 marked the Company's full-scale entry into each of these regions.

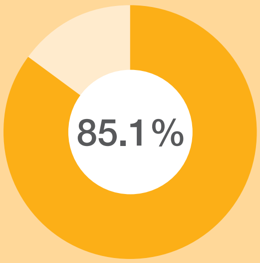
Since launching adult pants-type *Lifree* disposable diapers in 1987, Unicharm has generated new value through the sale of advanced functional products and taken the lead in cultivating the adult disposable diaper market in Japan. In 1995, the Company entered the field of continence rehabilitation with the release of *Lifree Rehabilitation Pants* and took significant strides in alleviating the physical, economic, and psychological burdens of both patients and caregivers. In April 2007, we launched *Lifree Absorbent Slim Wear*™ incontinence protection in support of helping the baby-boomer generation fully enjoy their later years in life. Additionally, utilizing its technological expertise in nonwoven fabrics, Unicharm developed the Unicharm *Superdimensional Mask*, a disposable 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, including *Wave* sheet cleaners, *the Silcot Wet Tissues* series of moist towelettes for skin care, *Silcot* cosmetic puffs, and *Cook-up* paper towels for food preparation and preservation, all to help preserve the cleanliness of home environments.

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 a healthy, clean and comfortable life, Unicharm provides dry, wet, and soft pet food through *Aiken Genki*, *Neko Genki*, *Ginno-Spoon* and *Gaines* brand products. 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 living environments shared by pets and people.

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 *Fresh Master* 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 Division



Sales in fiscal 2007 rose by ¥28.0 billion, or 12.2% compared to the previous fiscal year, to ¥256.9 billion. Operating income increased ¥0.8 billion, or 3.4%, to ¥24.7 billion.

Moonyman Ase Sukkiri

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Baby and Child Care Business

Fiscal 2007 Business Overview

Japan's business environment remained harsh, mainly due to the impact of soaring raw material prices and weakened demand on the back of the nation's declining birthrate. As an industry leader, however, Unicharm continued its efforts to enhance core, pants-type diaper products as well as to develop and introduce new merchandise. This was accompanied by enterprising marketing endeavors and promotional campaigns as it worked to increase brand value and recognition.

During Japan's hot and humid summer months, the Company entered the premium market category by offering limited-edition *Moonyman Ase Sukkiri* diapers to meet babies' delicate skin care needs and help prevent the outbreak of summertime heat rash. Correspondingly, based on the results of Unicharm's joint research venture with Tokushima University, heat rash was proven to be to a bacteria-related skin irritation. Unicharm further added to its lineup of premium products with the October 2006 launch of *Moony* brand super-absorbent pants-type disposable diapers, *Moony Sarara Magic* and *Moonyman Sarara Magic*. Enhanced product features typified by these new releases, in turn, helped raise unit prices. At the same time, Unicharm's *Mamy Poko Pants* economy-value, pants-type disposable diapers demonstrated growth in sales and profits owing to raised unit prices through a revaluation of the number of product pieces per package driven by improvements in design features.

Strategies for Fiscal 2008

In the coming fiscal year, the scale of the market is expected to contract in accordance with Japan's declining birthrate and population. We plan to respond to this environment by continuing to leverage our strengths by shifting our focus to premium-value, pants-type disposable diapers. Furthermore, we will develop distinct sales strategies around our two main *Moony* and *Mamy Poko* brands by separately targeting those consumers seeking high quality and consumers seeking economy-value products.

Under the *Moony* brand, Unicharm introduced the medium-sized *Moonyman Sarara Magic* diapers, which feature speed absorbers that are amazingly effective in quickly removing wetness and thus meeting skin care needs, while also providing a fit tailored to a baby's body shape and movement. With premium *Moonyman Ase Sukkiri* diapers, we will undertake efforts to raise summertime demand by extending the special sales period beyond that of previous years. Furthermore, with the addition of the *Sarara Magic* super-fast wetness lifting features to *Moonyman Ase Sukkiri*, we hope not only to increase the profitability of baby and child care products but also to rejuvenate the market.

Turning to the *Mamy Poko* brand, we will work to maintain a fresh image with consistent and continuous package design renewals. We will also target improved profitability of tape-type diapers by raising unit prices through a revaluation of the number of product pieces per package.

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Feminine Care Business

Fiscal 2007 Business Overview

With the decreasing demographic of female consumers in Japan, Unicharm faces the challenge of reinvigorating the market as the only domestic company to offer a comprehensive lineup of feminine care goods. As such, the Company focused on improving existing products and developing new high-value-added products that offer women reassurance and comfort.

In the growth area of sanitary napkins, Unicharm released extra-heavy nighttime protection, *Sofy Bodyfit Fuwapita Slim*, *Sofy Cho-Jukusui Guard 360* and *Sofy Cho-Jukusui Guard 400* with the aim of expanding its market share and further cultivating the high-value-added segment to which these products belong. Since acquiring Shiseido's *Center-In* brand in June 2006, the Company has been working to revamp the brand in order to boost its market competitiveness and earnings potential. Accordingly, Unicharm introduced "On-the-go" as the brand's new concept.

In the tampon category, Unicharm not only implemented a complete renewal of all its tampon products, but it also renewed its dedicated *Charm* tampon brand informational Website, accessible through the Unicharm home page. In addition, Unicharm began airing its first *Charm* brand tampon TV commercial in 10 years as it aimed to promote further product dissemination. Unicharm selected former Japanese Olympic gold-metal swimmer Masami Tanaka to star as its main character for the commercial. In September 2006, the Company established a new state-of-the-art tampon manufacturing facility to fulfill stringent health and quality standards appropriate for the production of tampons, now classified as medical products. Going forward, Unicharm will continue to aim for tampon market expansion by carrying out activities to enlighten consumers about the benefits of tampon usage and providing high-quality products.

Strategies for Fiscal 2008

Amid a maturing domestic market, Unicharm sees continuous strategic development as key to future growth in sales and profits. One such strategy will be to focus on cultivating its high-value-added growth segment by enhancing the features offered by its nighttime protection and slim-type napkins. Similarly, the Company plans to lure the market away from price competition toward competition based on added value and product functions.

In the coming fiscal year, Unicharm will expand its *Cho-Jukusui Guard* lineup with the release of its newly developed *Cho-Haba-Hiro Fit Absorbent* napkins specifically for nighttime use and enhanced with leakage-prevention features. The introduction of *Sofy Hada Omoi* napkins that boast Unicharm's own revolutionary absorbent top sheet layer will help reinvigorate the market, as well as bring about an improvement in revenues. Turning to the fully revamped *Center-In* brand, in fiscal 2008, Unicharm will promote new value proposals focused on its *Compact* and *Deodorant Compact* products. At the same time, we will reexamine pricing and packaging strategies for all *Center-In* items with the aim of bringing the brand back to life as a true profit generator.

Sofy Cho-Jukusui Guard

Center-in Compact Fuwa-Fuwa Napkins

Unicharm Superdimensional Mask
Super Pollen Blocker

Lifree Absorbent Slim Wear™

Health Care Business

Fiscal 2007 Business Overview

Unicharm's health care business surpassed the market growth rate and achieved an increase in sales in the fiscal year under review, even amid increasingly fierce competition in this growth market. In the particularly high-growth market of light incontinence products, the Company proved its prowess as the top incontinence care product maker with the release of two exciting new products. The first, *Lifree Sono Shunkan mo Anshin*, responds to heavy and urgent incontinence needs, while the other, *Charm-Nap Kyusui Sarafi Deodorant Panty Liners*, satisfies light incontinence needs and provides newly added deodorizing functions.

Also in the heavy incontinence market category, Unicharm augmented its lineup of popular *Lifree Hitobanju Anshin Nyotori Nighttime Pads* and *Nighttime Super Pads* by offering them in new jumbo-sized packs and undertook greater efforts to educate the public about incontinence care through the distribution of product samples, the airing of TV ads and mailings of product brochures. In this way, Unicharm aims to offer both caregivers and those who are under care a good night's sleep.

From the Company's successful series of nonwoven fabric *Unicharm Superdimensional Masks*, it released fabric *Unicharm Superdimensional Mask Virus Guard*, which makes use of silver ions, and *Unicharm Superdimensional Mask Super Pollen Blocker*, which assures a snug fit over the mouth and nose. Seeking to meet increasing needs for screening out airborne allergens that cause hay fever, influenza and SARS (Severe Acute Respiratory Syndrome), Unicharm has worked to introduce high-performance products that it hopes will also expand this market area and increase profits.

Strategies for Fiscal 2008

Within the 15-year span of 2005-2020, Japan's population of elderly, an aging baby-boomer generation, is expected to surge and cause the domestic health care market to grow at an accelerated pace.

In the health care business, Unicharm will continue to base its efforts on proprietary incontinence care concepts to build up the product power of its *Lifree* brand. Also, by further developing the range of its product lineup, it seeks to precisely respond to consumers' diverse needs. Taking these steps, along with additional efforts to educate the public about its continence care system, will hopefully realize business expansion that outpaces market growth.

In the high-growth field of light incontinence products, Unicharm anticipates still greater market growth on the back of an increasing population of healthy and active senior citizens. Targeting the healthy incontinence product market, the Company will introduce its first absorbent underwear product as *Lifree Absorbent Slim Wear*™ as well as its new *Lifree Men's Guard Slim* light incontinence pads for men and create a new market of light incontinence products.

Together, Unicharm and Hitachi, Ltd. achieved the successful development of an automatic urine collection system for use in excretory nursing care environments. This development will significantly lighten the burden on patients and caregivers alike by cutting down on the number of daily diaper changes, from five to seven, to one to two. This will also help decrease environmental burden, given the drop in the number of diapers used. Unicharm plans to continue to offer new solutions in incontinence care while building environmentally kind nursing systems such as this.

Clean & Fresh Business

Fiscal 2007 Business Overview

In the clean & fresh business, Unicharm continued to develop products based on its core technologies in nonwoven fabric and absorbent materials to provide customers with a feeling of cleanliness, freshness and peace of mind. In the fiscal year under review, the Company successfully bolstered sales of it three focus brands: *Wave*, *Silcot Wet Tissues* and *Silcot*.

Sales of *Wave* brand sheet cleaners, which provide new cleaning solutions, increased on account of consumer campaigns such as the *Wave Handy Wiper Double Pack* that came with an original dispenser case and the *Wave* Hawaii Holiday Give-Away Campaign. In September 2006, Unicharm increased product satisfaction by releasing a new and improved *Wave Handy-Wipers* with enhanced dust collection features that reach between hard-to-clean spaces and grooves.

From the *Silcot Wet Tissue* series, the company launched a new sanitizer lineup infused with green tea extracts to safely and gently provide convenient cleanliness to adults and children alike.

Strategies for Fiscal 2008

Unicharm will continue to expand its share of the market for antibacterial products, which has grown steadily every year in line with consumers' increasing awareness of and need for hygiene and cleanliness. Under its *Wave* brand sheet cleaner series, Unicharm will newly launch *Wave Super Reach Handy-Wipers* with added softness and an extendable handle, while promoting market expansion and encouraging customers to try new products.

Wave Handy-Wipers

Wave Super Reach Handy-Wipers

Overseas Business

Targeting a 10% Global Share through Aggressive Overseas Business Advances

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—providing comfort, excitement and the joys of life—to the two billion people who live in Asia.

With particular focus on expansion throughout Asia, Unicharm's overseas sales network now also includes the Middle East, North Africa, and the Netherlands. With growth efforts focused on the *Sofy* and *Charm* feminine care brands, as well as its *Mamy Poko* baby and child care brand, Unicharm is rapidly expanding its business foundation to become the category leader in all of its operating regions.

Fiscal 2007 Business Overview

In the fiscal year under review, all of Unicharm's overseas operations achieved growth in revenues that resulted in a year-on year increase in overseas sales of ¥26.3 billion, to ¥95.0 billion. Operating income grew by ¥2.2 billion, amounting to ¥6.0 billion. Consequently, sales to outside customers by overseas subsidiaries comprised 31.5% of consolidated net sales.

In major Asian countries, sales of feminine care products and pants-type disposable diapers for infants climbed steadily and totaled ¥56.6 billion, a ¥13.4 billion, or 31.1% increase compared to fiscal 2006. In other overseas markets, steady expansion of sales of adult incontinence products and pants-type disposable diapers for infants in Europe and pants-type disposable diapers for infants in the Middle East lead to a ¥12.8 billion, or 50.2% leap in sales, amounting to ¥38.3 billion.

Baby and Child Care Business

In major Asian countries, Unicharm's baby and child care business revenues and earnings steadily expanded thanks to proactive sales and marketing activities. In the exceptionally accelerated growth market of China, the Company augmented its premium *Mamy Poko* lineup with its new high-premium product, *Mamy Poko Seiketsu Care*, helping sales jump by over 170% compared to the previous fiscal year. Sales in ASEAN nations, namely Thailand and Indonesia, where Unicharm already possesses the No. 1 share, continued to grow steadily. Our market share in Malaysia and in Singapore, where we secured the leading market share at the end of fiscal 2006, likewise, steadily increased. In May 2006, Unicharm initiated a full-scale entry into the South Korean diaper market with the release of *Mamy Poko Pants*. In the Middle Eastern and North African operating regions, Unicharm subsidiary, Unicharm GHI, Ltd., located in Saudi Arabia, also made steady progress in sales expansion.

Feminine Care Business

In order to further accelerate its development in South Asia and ASEAN countries, Unicharm carried out aggressive sales and marketing activities centered on high-value-added nighttime napkins as it worked to expand the scale of the market and popularize the *Sofy* and *Charm* brands. The Company's development efforts in South Korea were especially enterprising, with the introduction of high-

value-added nighttime napkins and complementary TV ads. At the same time, the Company's partnership with South Korea's own health and lifestyle powerhouse, LG Household & Health Care Ltd., helped boost sales significantly and quickly expand Unicharm's share. In the Middle East, Unicharm successfully commenced local manufacturing of napkins.

Health Care Business

As a result of *Lifree* brand-strengthening strategies, Unicharm was able to secure the third largest share in the Taiwanese market, while acquiring the second largest share in Thailand. In Europe, pants-type disposable diapers also experienced steady growth.

Clean & Fresh Business

In the fiscal year under review, Unicharm released *Wave* sheet cleaners in Taiwan, as it focused on generating new business in the region. The Company licenses its *Wave* sheet technology to Proctor & Gamble for sales in North America and Europe under the brand name *Swiffer Dusters*. Accordingly, royalty income from this business continues to make a solid contribution to segment earnings.

Strategies for Fiscal 2008

In major Asian markets, Unicharm will work to surpass market growth and promote further dissemination of premium brand *Mamy Poko*, *Sofy* and *Charm* products. Simultaneously, we will take a more aggressive sales approach in order to bring about increases in both earnings and revenues. We will also move forward with plans to enhance our manufacturing and supply structures in order to accommodate the expansion of a rapidly-growing Asian market. In Taiwan and Thailand, specifically, the Company plans to execute enterprising development efforts targeting its *Lifree* adult pants-type disposable diaper brand, aiming to cultivate a third pillar in the Asian region.

Unicharm will make full-scale entry in the Vietnamese market by establishing a new subsidiary there and carrying out manufacturing in the domestic market.

The Company also plans to begin product development in earnest in markets for the pants-type disposable diapers for infants and sanitary napkins, mainly in Saudi Arabia, in the Middle East, and North Africa, regions where future growth is expected. Furthermore, by bringing the sales power of Unicharm GHI together with the product development and marketing prowess of Unicharm, the Company will establish a series of overseas business bases in Asia that in will in turn contribute to increased profits in overseas business.

Priority Issues for Fiscal 2008 in Major Asian Markets

China

Unicharm is targeting high growth, exceeding the rate of sales expansion in fiscal 2007. In the baby and child care business, Unicharm will strive to acquire the No. 1 share in major Chinese cities by concentrating its efforts on the premium and middle-value markets, while continuing to seek high growth based on its *Mamy Poko* brand. In the feminine care business, the Company will focus on the growing market of feminine napkins made of nonwoven type-fabric, such as *Sofy Body Fit*, with the aim of expanding into urban markets throughout China.

Thailand

To continue outpacing market expansion in Thailand, Unicharm will work to improve profit in the feminine care business by enhancing the product mix amid a stable growth trend. The Company will promote the development of slimmer *Sofy Body Fit* napkins, while also working to raise unit prices and expand its share. It will also introduce side-gather-type nighttime napkins made of nonwoven fabric, aiming to acquire new users. In the baby and child care business, Unicharm will strengthen market penetration efforts for M-sized pants-type diapers and diapers for newborns with the aim of growing its market share.

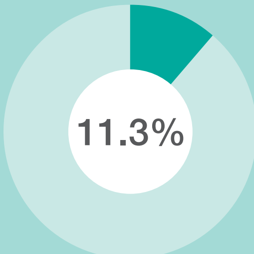
Indonesia

In the feminine care business, Unicharm will implement a renewal of *Sofy Body Fit* Slim to obtain new customers, while working to raise profitability through an increase in unit prices. Similarly, we will strive for greater *Sofy Body Fit* brand recognition through advertising. With the ultimate goal of securing the leading share in this market, Unicharm plans to expand sales by encouraging consumers to try its products. In the baby care business, Unicharm will bolster market penetration of pants-type disposable diapers in order to further expand the No. 1 share it has secured in urban areas.

Taiwan

Unicharm will work to differentiate its products by building brand value and strengthening product competitiveness in each of its emerging businesses. In the baby and child care business, we will work to boost business strength by fortifying the product performance of premium pants-type disposable diapers. Unicharm will focus on boosting nighttime protection brand *Cho-Jukusui Guard* in the feminine care business. At the same time, it will strive to build a growth platform for the health care business by strengthening sales of absorbent urine pads, focusing on pharmacies as sales channels.

Pet Care Products Division



Sales in fiscal 2007 increased ¥3.7 billion, or 12.3%, year on year, to ¥34.1 billion. Operating income rose ¥0.6 billion, or 16.6%, to ¥4.0 billion.

Fiscal 2007 Business Overview

Unicharm took on its first full-scale entry into the soft cat food and dog snack categories, which make up approximately 40% of the pet food market, with the introduction of *Canned Ginno-Spoon*, *Aiken Genki Oishii Oyatsu* and *Ginno-Sara Today's Treat*. The Company also introduced a variety of new products to strengthen its focus on differentiated product categories as well as to promote sales. New releases included *Aiken Genki Fukkura Dry*, a new type of dried dog food, *Ginno-Sara for Dogs 7 Years and Older*, responding to the growing population of aging dogs, and from the dry gourmet cat food *Ginno-Spoon* series, *Ginno-Spoon Umi no Gourmet* with enriched flavors for a better taste.

In the pet toiletry category, Unicharm augmented its *Deo-Sheet* series of dog excrement cleanup sheets with *Deo-Sheet Semi-Wide*. For cats, the Company released *Deo-Toilet Green Tea Deodorant Sand that Won't Scatter* combustible cat litter as a refill product for the *Deo-Toilet system products Deodorant Sand* and *Deo-Sand Deodorant Plus*. Unicharm hopes that its efforts to strengthen products such as these, which cater to the increasing number of indoor pets, will in turn help promote sales.

Strategies for Fiscal 2008

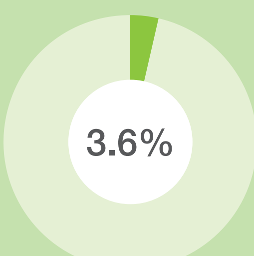
There are a growing number of people today who seek to enrich their lifestyle through pet ownership and for whom the pet-owner relationship is important. In Japan and elsewhere, this may be attributable to a declining birthrate and aging society, as well as to the tendency for people to marry later in life. Due to retiring baby boomers in particular, the increase of pet ownership is expected to accelerate.

Against this backdrop, Unicharm plans to continue creating markets and products that meet consumer needs. These efforts will take the form of sales promotions and product lineup enhancements to respond to Japan's four major pet trends, where indoor, small, elderly and overweight pets are increasing.

Also, although sales of pet toiletries are currently only a domestic business, we will commence sales in North America through cooperation with Nestle Purina PetCare Company in the United States and Canada.

Concerning the impact of high raw material, grain and crude oil prices, in March 2007, Unicharm implemented product price revisions in accordance with changes in product content and improvements to mainstay products.

Other Products Division



Sales increased 2.1% to ¥10.9 billion, while operating income remained on par with the previous fiscal year, at ¥1.2 billion.

Fiscal 2007 Business Overview

In the food packaging materials business, Unicharm focused on boosting sales of *Fresh Master* trays made with the Company's own nonwoven fabric and absorbency technologies. Similarly, the Company strived to raise the sales of *Wave* industrial sheet cleaners.

Strategies for Fiscal 2008

In the food packaging materials business, Unicharm plans to continue efforts to acquire new customers by making use of restaurants as sales channels, while also expanding use of supermarket distribution channels. Also, in regard to commercial-use *Wave* products, we will strive to grow sales in the commercial-use dust control market through retail industries.

Research and Development Activities

Practicing Customer-Satisfaction-Driven Product Development through a Joint Industry-University R&D Structure

Unicharm contributes to creating a better life for humankind by offering only the finest products and services to customers both at home and abroad. Guided by this Company ideal, Unicharm constantly strives to generate new value through technological innovation to provide richer lifestyles for people of all ages, from infants to the elderly.

In order to achieve these goals, Unicharm draws on its product development capabilities and correspondingly adept utilization of nonwoven fabric and absorbent material processing and molding techniques. Unicharm believes that the potential for future growth as a corporate entity depends on its efforts to yield profits through the creation of new value.

To complement these efforts, Unicharm promotes research activities undertaken in cooperation with universities and other research organizations. Together, Unicharm and its partners take on a variety of efforts in the development of high-performance, high-value-added products to continually provide customers with higher levels of satisfaction.

It is these products in particular—products created through joint R&D efforts—that will be introduced here.

Proven Link between Bacteria and Heat Rash Leads to New Pants-Type Disposable Diapers for Infants

In the summer, about 60% of babies in Japan develop a heat rash. Babies and parents alike suffer the burden of having to deal with the symptoms (itchiness and discomfort), as well as the remedies (frequent showers, clothes and diaper changes and application of medicated creams).

Consequently, Unicharm together with Tokushima University's School of Medicine conducted research at the Company's Lifestyle Science Research Lab to investigate the mechanisms of one such skin rash, miliaria rubra, or "heat rash" as it's more commonly known, that is developed by babies in the summer. Research results proved that the volume of a bacterium called *Staphylococcus epidermidis*, the primary cause of heat rash, quickly increases on the surface of the skin and is caused by a certain component contained in excessive sweat.

Using these findings, Unicharm took aim at relieving parents and

Conceptual illustration

babies of the burden caused by summer heat rash. The result was the development of the new *Moonyman Ase Sukkiri* sweat-absorbing pants-type disposable diapers for infants. Unicharm's new product makes use of its own *Ase Suitoru Koukin Sheet* that effectively absorbs any amount of sweat around a baby's bottom to keep the baby's skin dry. The sheet also provides an antibacterial function to keep skin clean and, in effect, lightening the burden of summer sweat care.

Since the product launch, we have received positive responses from users, 80% of whom gave *Moonyman Ase Sukkiri* either a "Very good" or a "Good" rating. Other satisfied customers commented, "The diapers really work, my baby's skin stays dry" and "My baby tends to sweat quite a lot, but when I use these diapers, my baby's bottom stays silky smooth and dry." Subsequently, in April 2007, the Company released improved *Moonyman Ase Sukkiri* diapers that more quickly absorb sweat and wetness.

Research into the Fit and Feel of Pants-Type Disposable Diapers for Adults Leads to Development of an Underwear-Like Incontinence Care Product

Incontinence is one of many common physiological phenomena that occur with age, affecting both men and women. In fact, one out of every two women over the age of 60 experience some form of incontinence, with approximately 2.5 million women in Japan who report experiencing incontinence problems at least three times a week. Meanwhile, approximately 0.6 million men over 50 have reported having at least one weekly incontinent experience that required them to change their trousers.

Yet, even with so many people reporting weekly episodes of incontinence, none of the products on the market was suitable in meeting the needs of these otherwise healthy older people.

Based on this observation, Unicharm initiated the development of a new type of incontinence care product to meet this need precisely. Research into the fit and feel of adult pants-type diapers when worn was undertaken jointly with Kobe University at Unicharm's Lifestyle Science Research Lab.

As a result of this research, we were able to enhance the fit and feel of the pants-type diaper, establishing a level of comfort similar to real underwear. This fit was created not just for the purpose of improved fit around the waist and legs or for absorbency, but rather with enhancements to the fit around the rear called the "triangle zone."

The fruit born of these R&D efforts was the *Lifree Absorbent Slim Wear*™, a product for healthy elderly people who need incontinence protection. Applying our own newly developed *Super-Slim Stretch*

Souzai, a nonwoven stretch fabric, is what helped us realize the true underwear-like fit and feel. Furthermore, not only was it important to get the fit right, but it was just as important to get the look right, both out of the package and when worn. The new *Lifree Absorbent Slim Wear*™ pants-type disposable diapers for adults look and feel like underwear so that they are completely unnoticeable under clothes, without the bulkiness of typical diaper products.

With this product, the number of healthily aging baby boomers who will be able to confidently handle incontinence issues while still freely enjoying a new stage in life is expected to increase.

Pollen Exposure Experiments Lead to New, More Secure Mask of Defense against Pollen

One type of hay fever can be defined as an allergic disorder that presents itself through symptoms such as sneezing and runny or clogged sinuses due to constant exposure to higher-than-normal levels of pollen taken in and accumulated by the body. One in five people in Japan suffer from hay fever, and as a result, the disorder has been labeled a national affliction. Correspondingly, the use of masks, which block out pollen, has been named as one of the most common defenses against hay fever.

There are a variety of masks available, such as the gauze-type mask, the three-dimensional-type mask and the pleated-type mask, which have all been evaluated solely based on the pollen permeability of the fabric used to make the mask. Yet, regardless of the fabric used, when actually worn, gaps between the mask and the user's face often allow pollen to get through. In order to evaluate the fit of a mask on a user's face, it would be necessary to conduct trials in which people actually tried on the masks.

Unicharm did just this. In collaboration with Kansai Medical University, the Company and the university together created controlled pollen environment test rooms in which they asked volunteers to enter wearing one of a variety of masks. Volunteers were chosen from areas of Japan where cedar pollen was abundant. They were also required to be healthy individuals without hay fever.

As a result of the test comparisons, the Company discovered that masks made of the same nonwoven fabric as the *Unicharm Superdimensional Mask* and which also had a fixed, three-dimensional structure around the nose provided the best coverage with the least amount of gapping. In addition, these masks let in the least amount of pollen during the simulated pollen tests.

These findings eventually led to the development and sale of the *Unicharm Superdimensional Mask Super Pollen Blocker* with a wider fit and the *Nose Fit* sheet that can be freely molded to any nose size.

Product Development to Help Pets Live Long, Healthy Lives

The R&D activities of the Company's pet care business are undertaken by Unicharm subsidiary, Unicharm PetCare Corporation. Unicharm PetCare conducts basic research and product development activities in line with its corporate philosophy of "Providing a clean and healthy environment for the well-being and comfort of pets."

Pet food product R&D aims to provide pets with long, healthy lives and involves efforts to achieve a proper nutritional balance in order to meet the individual characteristics of each pet. Key characteristics are a pet's age, body type and physical condition. As a result of such R&D efforts, Unicharm PetCare has developed several great products. *Canned Ginno-Spoon* is a wet food for cats that has been infused with real fish flavors and boasts an outstanding taste that cats love. *Aiken Genki Fukkura Dry* is a new type of dry dog food that is soft yet crunchy and has added flavors. *Ginno-Sara Today's Treat* is a pet snack made with fresh domestic poultry and which has been made more flavorful thanks to and the addition of taste-enhancing amino acids.

In the pet toiletry category, R&D involves efforts to meet pet hygiene needs and the need for hygienic indoor environments where people and pets live together.

As a result of these efforts, we have developed two new products based on our cat toilet system *Deo-Toilet*. The first is *Green Tea Deodorizing Sand that Won't Scatter*, which was launched as a refill product for the *Deo-Toilet* system. It comes in combustible paper packaging and contains green tea extracts. The second is *Deodorizing Antibacterial Sand that Won't Scatter*, which, as a result of its combined silica and zeolite components, becomes a highly effective deodorant.

We also developed *Nioi Ippatsu Deodorizing* spray that contains unique odor-eliminating particles to help remove pet odors from living environments. It uses a natural deodorant that is strong and effective in keeping pets and living spaces smelling fresh.

Internal Control

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

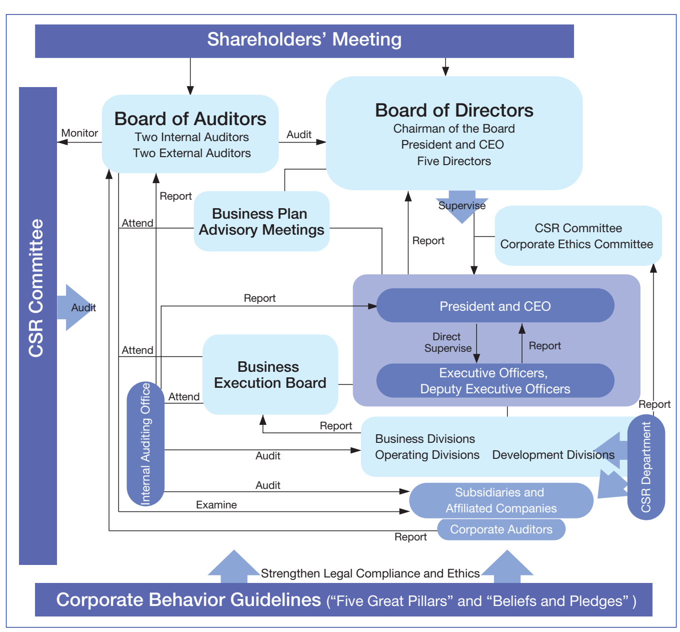
The Unicharm Group strives to pursue correct corporate management principles, which bring together corporate growth, well-being among associates and the fulfillment of its social responsibilities. Guided by these established ideals, management and operating divisions work in unison to create new value 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. Additionally, as stakeholders look to corporate governance and CSR with ever-more discerning eyes, the Group increasingly endeavors to ensure sound corporate management consistently guided by its corporate ideals. With a strong awareness of the importance of constantly increasing corporate value and fulfilling its corporate responsibilities, Unicharm's management and operating divisions work together through the conduct of business to achieve these goals. Directors and corporate auditors, alike, endeavor to further strengthen the Company's executive officer structure, while striving to enrich overall corporate governance.

In concrete terms, Unicharm maintains a management structure that comprises directors and corporate auditors. Within this framework, in June 1999, we introduced an executive officer system, and we are endeavoring to bolster the decision-making and supervisory functions of the Board of Directors, as well as the administrative 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. Furthermore, in an effort to enhance management's focus on the front line and accelerate strategy implementation, both recognized as Group strengths, Unicharm conducts Business Plan Advisory Meetings every six months, and these meetings are attended by all directors, corporate auditors and executive officers in order 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 maintains a specific compliance structure to ensure that all directors and employees adhere to its corporate philosophy and corporate ethics, along with domestic and overseas laws and regulations. In the natural evolution and development of the Group, we have established, and we continue 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 Unicharm Way booklet that all employees are required to carry, the president and CEO's weekly message, "The President's Room," addressed to all employees, i-Navi, which is an intranet Website, and the in-house publication, *HIROBA*, as Groupwide promotional tools. The president and CEO also chairs the 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, the Environmental Committee and the 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 promotional activities.

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. In regard to internal audits, 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 and the accounting auditor meet periodically and on an as needed 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 Takao Goto and Yoshiaki Kitamura of the Deloitte Touche Tohmatsu auditing firm.

● Internal Control Structure



CSR Promotion and Activities

Unicharm promotes the fulfillment of its corporate ideal to create a better life for humankind, and in its determination to act as a socially responsible corporation it takes its employees' ideas into consideration. The embodiment of these ideals defines Unicharm's basic approach to CSR promotion.

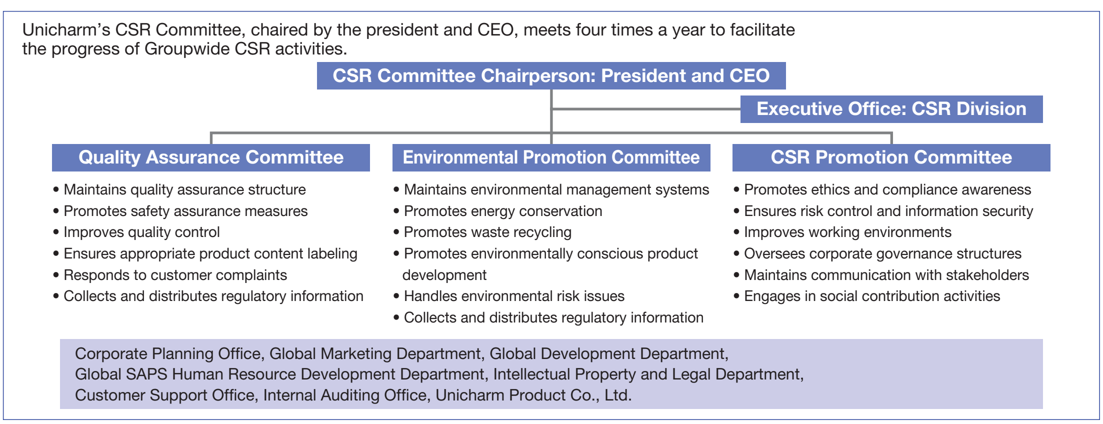
In fiscal 2007, the Company undertook CSR activities developed for overseas Group companies under the CSR theme, "Group & Global." In May of same year, Unicharm clarified its stance on human rights, labor and environmental issues by announcing its participation in the United Nations' Global Compact. This was followed by the establishment of a CSR Office in China and redoubled efforts to assure the provision of safe, reliable products and the appropriate handling of information in and among its local subsidiaries. Along with this, the Company resourcefully raised awareness of the importance of maintaining close contact with society at large by holding its fifth annual in-house CSR Report Colloquium. In addition, it shared video recordings of stakeholder meetings held in Japan with local employees as an example of efforts to engage in dialogue with consumers and other stakeholders. .

Unicharm makes sure the Company remains aware of CSR procurement benchmarks being set by industry-leading companies. Based on the high standards set by its peers, Unicharm aims to undertake like-minded CSR measures and internally deliberates the implementation of such action.

In fiscal 2007, the Company strived to expand its range of CSR activities by focusing on disaster relief efforts. Through cooperation with a new disaster aid group, Unicharm provided support to Jakarta in the wake of recent earthquakes and a long harsh rainy season.

Looking ahead to fiscal 2008, Unicharm has chosen the word "interaction" as representation of its commitment to further globalize its core business scope, while seeking greater communication with its stakeholders. In response to environmental and social issues, we will continue to promote CSR activities that meet stakeholder expectations, and we will work to grow as an increasingly trusted corporation.

● **Groupwide CSR Promotion and Support Structure**



Ethics and Compliance

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 and is implementing thorough ethics and compliance training.

Corporate ethics and compliance training courses include both group training sessions and e-learning. Training course content comprises sexual and power harassment issues with, so far, two sessions held specifically for division managers. During these sessions, managers were again made aware of the importance of maintaining regular communication with their division's employees. They were also trained in how to respond to employees' requests for advice in relation to harassment issues and were presented with examples of outside harassment cases for consideration and discussion. Training for new employees includes CSR and corporate ethics courses and lectures with group discussions where employees are provided with the opportunity to learn about appropriate corporate conduct and workplace behavior.

E-learning in the fiscal year under review was made available to all Group employees and carried out three times throughout the year. Courses covered a variety of issues related to workplace behavior, including sexual harassment, power harassment, personal information management and accounting processes. As a result of these efforts, requests from employees for continued implementation of these training courses are growing, as shown by comments such as, "I feel more aware of compliance issues thanks to examples presented during the training course."

Furthermore, in order to educate employees about laws related to the Company's operations, we've provided easy-to-understand explanations of relevant ordinances through comics and true/false quizzes that are accessible via Unicharm's intranet. The materials not only give explanations of the laws, but also present examples of why and how they are implemented.

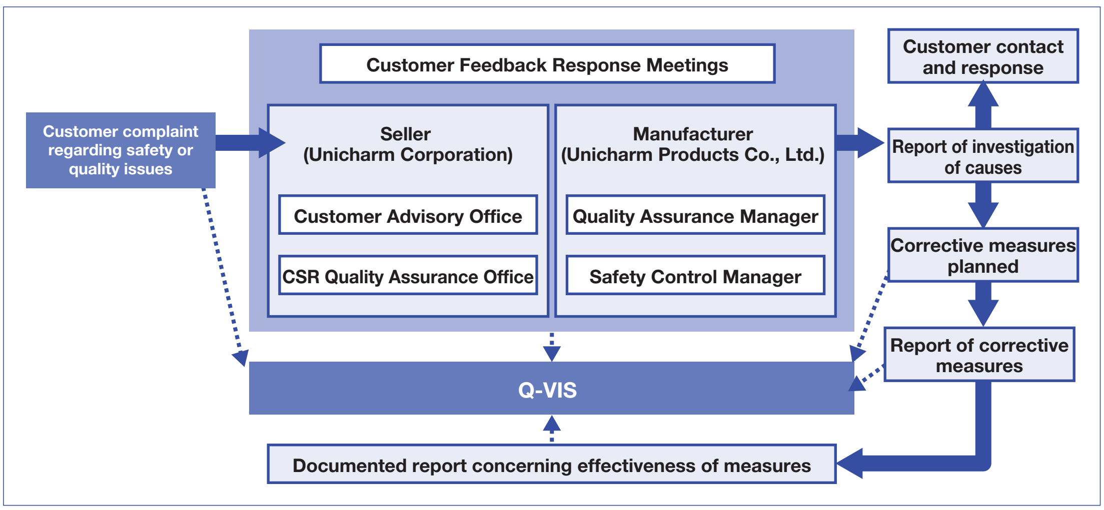
Quality Assurance System and Philosophy

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

Under this system, customer complaints, opinions, and other feedback are dealt with through the Plan-Do-Check-Act (PDCA) cycle, which corrects, revises and implements preventative measures to address these issues.

In line with Pharmaceutical Law revisions in 2005, Unicharm has switched from its traditional paper-based data management system to a new electronic system capable of giving the entire Group easy access to records of customer complaints and government-issued reports. This system, which was developed under the Quality Visual Improvement Standard (Q-VIS), allows for more efficient information sharing and medium- to long-term information analysis. In essence, information cataloged through the system becomes shared knowledge between factory personnel, Quality Control Office, the Customer Consultation Office, the Quality Assurance Office and all other divisions.

● Product Quality Correction and Upgrade Flow Chart

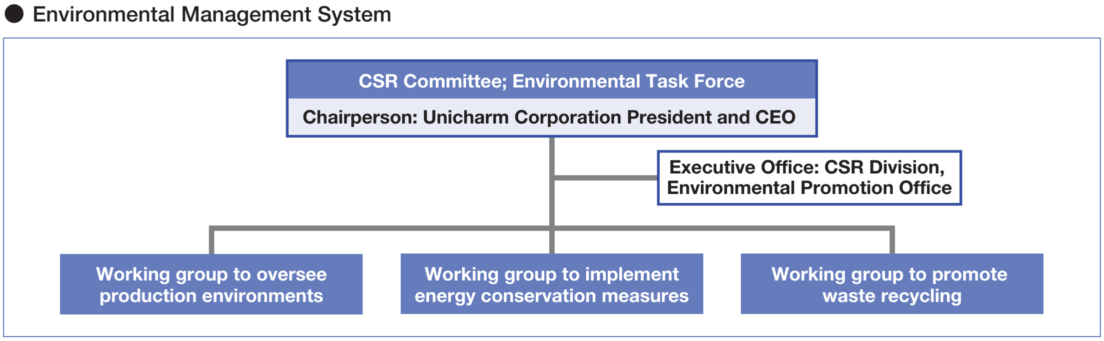


Environmental Activities

The Company works hard to promote environmental activities and positions these activities as a priority CSR issue. The Company has also established an Environmental Committee under the CSR Committee that promotes environmental activities.

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.

● Environmental Management System



Board of Directors, Corporate Auditors and Executive Officers

Board of Directors and Corporate Auditors As of September 1, 2007

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

Director
Masakatsu Takai

Internal Corporate Auditors

Shigeki Maruyama

Tsuyoshi Miyauchi

Corporate Auditor

Masahiko Hirata*

Haruhiko Takenaka*

* 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 September 1, 2007

President and Chief Executive Officer

Takahisa Takahara

Senior Executive Officers

Takaaki Okabe

Kennosuke Nakano

Shinji Mori

Eiji Ishikawa

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

Financial Section

Six-Year Summary

Unicharm Corporation and Subsidiaries

	2002	2003	2004	2005	2006	2007
	Millions of yen, except per share amounts					
FOR THE FISCAL PERIOD:						
Net sales	¥206,707	¥223,169	¥240,110	¥246,051	¥270,380	**¥301,880**
Cost of sales	113,546	123,883	132,074	137,341	153,264	**173,239**
Net income	8,852	12,879	16,240	16,382	15,288	**15,059**
As percentage of sales	4.3%	5.8%	6.8%	6.7%	5.7%	**5.0%**
Net income per share (yen)	¥ 126.78					
New accounting standard	125.20	185.29	240.26	244.25	229.34	**232.31**
Cash dividends per share applicable to the year (yen)	20.00	24.00	28.00	30.00	32.00	**44.0**
AT FISCAL PERIOD-END:						
Total assets	¥187,060	¥187,988	¥209,002	¥215,365	¥250,355	**¥268,763**
Property, plant and equipment	71,412	71,090	77,306	72,799	77,111	**86,725**
Long-term debt— less current maturities	2,953	1,710	1,557	345	677	**1,739**
Total equity	109,306	113,137	123,709	137,697	151,183	**177,049**
Equity ratio	58.4%	60.2%	59.2%	63.9%	60.4%	**65.9%**
RATIOS:						
Operating income ratio	9.2%	11.6%	12.8%	11.1%	10.6%	**9.9%**
Return on sales	4.3%	5.8%	6.8%	6.7%	5.7%	**5.0%**
Gross profit margin	45.1%	44.5%	45.0%	44.2%	43.3%	**42.6%**
SGA ratio	35.9%	32.9%	32.2%	33.1%	32.8%	**32.7%**
Return on equity (ROE)	8.3%	11.6%	13.7%	12.5%	10.6%	**9.6%**
Return on total assets (ROA)	4.9%	6.9%	7.8%	7.6%	6.1%	**5.6%**

Contents

Management's Discussion and Analysis

SCOPE OF CONSOLIDATION

The Unicharm Group comprises the Unicharm Corporation, 26 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 2007, ended March 31, 2007, Unicharm's consolidated net sales increased by ¥31.5 billion or 11.7% compared to ¥270.4 billion in the previous fiscal year to a record-high ¥301.9 billion. On a regional basis, sales in Japan rose by ¥5.2 billion, or 2.6% year on year to ¥206.9 billion, comprising 68.5% of net sales. Domestically, Unicharm strived to increase profitability by reinvigorating the market with the launch of new higher-added-value and demand-generating products in both the lifestyle and pet care product divisions. As a result, Company sales in growth areas, specifically the health care and pet care businesses, expanded steadily. Despite a decrease in income in the baby and child care business owing to the impact of Japan's declining birthrate and aging society, revenue in the feminine care business increased on the back of a contribution from the sales of newly acquired *Center-In* brand feminine care products.

Sales in Asia (excluding Japan) soared 31.1% over the previous fiscal year to ¥56.6 billion, marking a 2.8 percentage point increase in the net sales composition ratio to 18.8%. 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 of pants-type disposable diapers for infants made steady progress. As a result, sales by all overseas subsidiaries expanded ¥26.3 billion year on year, to ¥95.0 billion, representing 31.5% of consolidated net sales.

Geographic Segment Sales

	Millions of yen	
	2006	**2007**
Japan	¥201,651	**¥206,891**
Asia (excluding Japan)	43,202	**56,645**
Others	25,527	**38,344**
Total	¥270,380	**¥301,880**

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 ¥20.0 billion, from ¥153.3 billion in the previous fiscal year to ¥173.2 billion, while the cost of sales ratio increased 0.7 of a percentage point, from 56.7% to 57.4%. Gross profit increased 9.8% to ¥128.6 billion. Selling general and administrative expenses rose 11.4% year on year, to ¥98.7 billion, reflecting efforts to strengthen the Company's domestic competitiveness with ¥31.7 billion in sales promotion costs and ¥17.3 billion in shipping and storage expenses. As a result, the ratio of selling, general and administrative expenses to net sales slightly dropped by 0.1 of a percentage point, to 32.7%.

Research and Development Costs

Research and development costs increased ¥0.3 billion, from ¥4.0 billion to ¥4.3 billion.

Income and Expenses

Income in the fiscal year under review was impacted by the high raw material prices, increases in brand cultivation marketing and advertising costs and increased sales promotion costs aimed at boosting Company competitiveness. Despite these challenges, Unicharm took steps to reduce costs and increase income through efforts to expand sales, centered on growth businesses.

Owing to these efforts, operating income rose 4.9% year on year, from ¥28.5 billion to ¥29.9 billion. In contrast, the ratio of operating income to net sales slipped 0.7 of a percentage point from 10.6% to 9.9%.

Other income significantly declined compared to the previous fiscal year, falling from ¥0.04 billion into the red at ¥0.9 billion in operating expenses. Interest and dividend income amounted to ¥0.9 billion, an increase from ¥0.5 billion. Foreign exchange gain decreased from ¥0.5 billion to ¥0.3 billion. Impairment loss was not recognized in the year under review, compared with a ¥0.3 billion loss in the previous fiscal year.

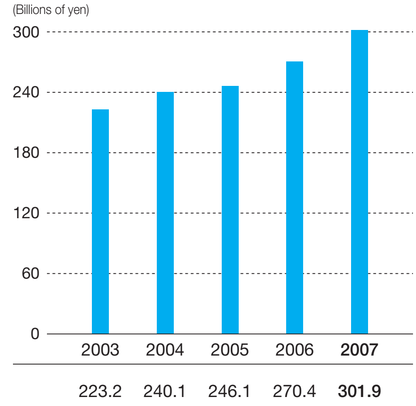
As a result, income before income taxes and minority interests increased 1.8% to ¥29.1 billion. Current income taxes declined by ¥0.9 billion, from ¥11.0 billion to ¥10.1 billion, while deferred income taxes increased from ¥0.5 billion to ¥1.9 billion. Net income decreased 1.5% year on year to ¥15.1 billion, with net income per share amounting to ¥232.31, up ¥2.97 per share.

FINANCIAL POSITION AND LIQUIDITY

Assets, Liability and Equity

Total assets as of March 31, 2007 stood at ¥268.8 billion, a ¥18.4 billion or 7.4% increase compared to the previous fiscal year. Under current assets, cash and cash equivalents decreased ¥2.2

Net Sales



billion to ¥65.4 billion. Marketable securities amounted to ¥13.1 billion, a ¥3.7 billion or 2.9% increase compared to the previous fiscal year. In notes and accounts receivable, the balance of trade receivables grew by ¥4.8 billion to ¥38.0 billion. Inventories increased in line with a rise in merchandise, finished products and raw materials, expanding ¥4.21 billion, from ¥16.2 billion to ¥20.4 billion. Other current assets increased ¥0.4 billion, year on year, to ¥3.1 billion.

Net property, plant and equipment rose by ¥9.6 billion to ¥86.7 billion. Machinery and equipment increased by ¥16.8 billion to ¥137.4 billion due to the extension of facilities for overseas business expansion and for new products in core domestic operations. Construction in progress rose from ¥3.4 billion to ¥4.3 billion. Investments in other assets increased from ¥38.3 billion in the previous fiscal year to ¥39.5 billion. Investment securities and goodwill remained on par with the previous fiscal year at ¥29.5 billion and ¥2.7 billion, respectively.

Current liabilities rose from ¥72.6 billion in the previous fiscal year by ¥2.7 billion or 3.8% to ¥75.4 billion. Short-term bank loans dropped ¥1.8 billion to ¥6.9 billion. Trade notes and accounts payable grew ¥6.4 billion to ¥56.0 billion.

Total long-term liabilities as of the fiscal year-end stood at ¥16.3 billion, an increase of ¥4.1 billion. Major components of this were a ¥0.4 billion increase in liability for retirement benefits to ¥7.5 billion and ¥4.7 billion in deferred tax liabilities caused by ¥1.6 billion in prepaid pension costs.

Within equity, retained earnings climbed ¥12.4 billion or 9.7% year on year to ¥140.5 billion. Foreign currency translation adjustments amounted to ¥2.5 billion. As a result, total equity improved ¥25.9 billion or 17.1% to ¥177.0 billion, while the equity ratio increased 5.5% compared to previous fiscal year to 65.9%.

Capital Expenditures and Depreciation

Capital expenditures amounted to ¥21.3 billion in fiscal 2007, a ¥7.7 billion increase from ¥13.6 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 ¥13.2 billion, a ¥0.1 billion increase, year on year, from ¥13.1 billion.

Cash Flow

Net cash provided by operating activities decreased ¥8.5 billion compared with the previous fiscal year to ¥28.4 billion. Income before income taxes and minority interests were ¥29.1 billion, an increase ¥0.5 billion compared with the previous fiscal year. Adjustments included a ¥2.4 billion rise in trade receivables to ¥4.9 billion, and a ¥1.0 billion increase in inventories to ¥4.0 billion.

Net cash used in investing activities was largely unchanged from the previous fiscal year and amounted to ¥20.3 billion. Primary components of this in the fiscal year under review were ¥99.4 billion in proceeds from the sales of marketable securities, ¥95.7 billion in purchases of marketable securities, ¥21.3 billion in capital expenditures, and ¥3.0 billion in payment for purchase of investment securities.

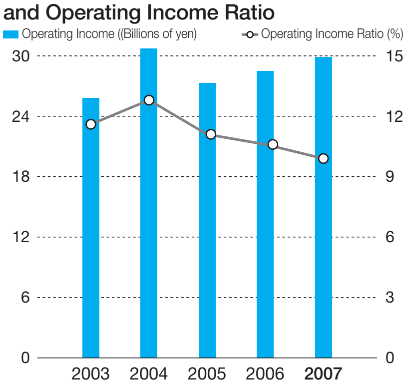
Net cash used in financing activities increased year on year by ¥4.6 billion, from ¥6.2 billion to ¥10.8 billion. Principal factors were a decrease in short-term bank loans to ¥2.5 billion, down from an increase in short-term bank loans of ¥1.7 billion in fiscal 2006, ¥6.0 billion for the repurchase of the Company's stock, and ¥2.5 billion in dividends paid. As a result of the foregoing, cash and cash equivalents at the end of the year totaled ¥65.4 billion, a ¥2.2 billion decrease from the total at the beginning of the year.

OUTLOOK FOR FISCAL 2008

Despite a positive outlook for robust consumer spending and healthy domestic corporate performances in the coming fiscal year, Unicharm's operating environment is expected to remain murky due to concerns surrounding the high costs of raw materials. In addition, with rapidly expanding markets in Asia, we anticipate competition between global brands to become increasingly tough.

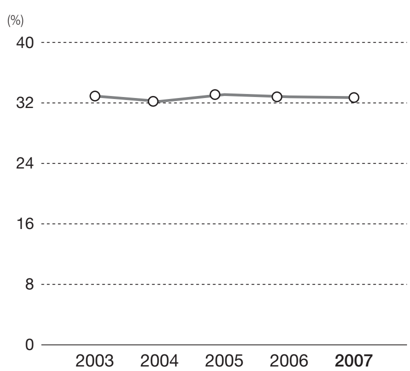
In anticipation of these conditions, Unicharm will remain committed to the basic aims of its 48-month, Sixth Medium-Term Management SAPS Plan, which are to rejuvenate mature markets and vigorously expand business in markets that exhibit growth

Operating Income and Operating Income Ratio



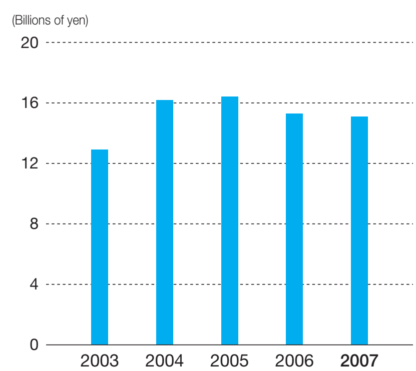
	2003	2004	2005	2006	2007
Operating Income	25.8	30.7	27.3	28.5	**29.9**
Operating Income Ratio	11.6	12.8	11.1	10.6	**9.9**

SGA Ratio



2003	2004	2005	2006	2007
32.9	32.2	33.1	32.8	**32.7**

Net Income



2003	2004	2005	2006	2007
12.9	16.2	16.4	15.3	**15.1**

potential by further developing its ability to consistently and accurately grasp customer needs, implement marketing initiatives to create new markets and high brand value, and bolster product development and technological capabilities. In addition, as Unicharm looks to improve its earnings potential further, it will work at drastically revising its cost structure by streamlining expenses and reducing total supply chain costs.

In the baby and child care business, Unicharm will continue to pursue premium product markets in Japan with the addition of medium-sized *Moonyman Sarara Magic* and *Moony Sarara Magic* products, whose extremely fast-absorbing functions fulfill the delicate skin care needs of babies and contribute to the comfort required by active babies. The Company will also offer summertime sweat-absorbent *Moonyman Ase Sukkiri* products in line with seasonal demands.

In the feminine care business, we will work to expand napkin and panty liner sales domestically by significantly improving product functions such as leak-prevention functioning, which is a key feature of the newly released *Cho-Haba-Hiroi Fit Absorbent* napkins from the *Sofy Cho Jukusui Guard 360* addition *Cho Jukusui Guard* series. With panty liners, we will focus on enhancing the “stay-in-place” performance of our *Sofy Fuwagokochi* and *Sofy Fuwagokochi Catechin Deodorant* panty liners. Turning to the completely revamped *Center-In* brand, we will continue to promote new value offerings mainly centered on the *Compact* and *Deodorant Compact* lineups.

In the health care business, we plan to further strengthen *Lifree* brand products based on our proprietary incontinence care concepts by developing a more abundant lineup to meet the diverse needs of consumers. We will likewise implement greater efforts in educating the public about incontinence issues in order to accelerate business expansion beyond the pace of market growth. Addressing the high-growth market of light incontinence products, where even further growth is expected owing to Japan’s increasing population of healthy and active senior citizens, Unicharm will continue to pursue new market generation around the launch of its first absorbent underwear product, *Lifree Slim Wear*, for the light incontinence concerns of healthy older people.

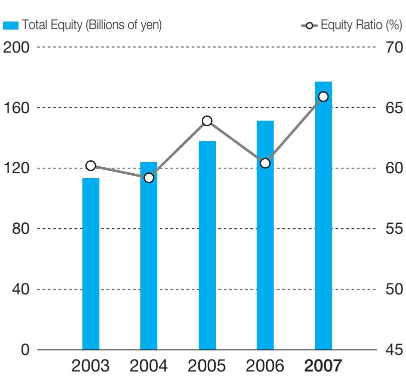
In the clean & fresh business, Unicharm will renew the product packaging of *Wave* brand sheet cleaners, *Wave Handy-Wiper* and *Aller-Care Wave*, and continue to encourage new cleaning customs, while persuading consumers to realize the special features our products offer and thereby obtain new customers.

In the pet care business, we see societal trends such as aging populations and the tendency of people to marry later in life as paving the way for an increase in pet ownership and the increasing number of people who seek the companionship of pets. Furthermore, we consider the growing population of retired baby-boomers as a main factor in the acceleration of the pet-ownership trend. Against this backdrop, we will continue to develop markets and products to meet the unique needs of pets and their owners by promoting enhanced product lineups and sales of products for Japan’s demographic wave of indoor, petite, aging and overweight pets.

Turning to overseas business, the Company plans to focus on outpacing market growth in mainstay East Asian markets. Specific efforts will include further market penetration of premium feminine care and baby care product brands *Sofy* and *Mamny Poko*. With proactive sales activities targeting these brands, we hope to realize growth in both sales and income. At the same time, we will take steps to upgrade our production and supply structure in order to keep pace with rapidly expanding Asian markets. In the health care industry, our aggressive efforts in Taiwan and Thailand aimed at developing a market for *Lifree* brand adult, pants-type disposable diapers will facilitate the cultivation these regions as a third overseas business pillar. Furthermore, we will continue to fulfill our full-scale entry into the Vietnamese market following the establishment of a napkin production facility there to better provide local markets with Unicharm products.

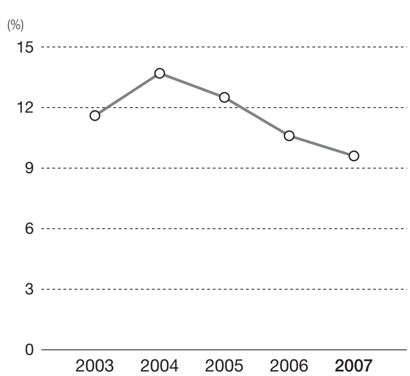
In Middle Eastern and North African markets, the Company will integrate the selling power of Unicharm Gulf Hygienic Industries Ltd. with the product development and marketing capabilities of Unicharm to begin full-scale development of feminine care and baby and child care products mainly for Saudi Arabia in the Middle East and North African regions, where growth is highly anticipated. Following Asia, we will work to fortify our business foundation in these regions with the aim of accelerating the expansion of overseas business profits.

Total Equity, Equity Ratio



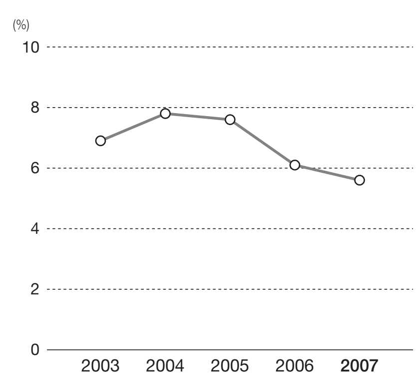
	2003	2004	2005	2006	2007
Total Equity	113.1	123.7	137.7	151.2	**177.0**
Equity Ratio	60.2	59.2	63.9	60.4	**65.9**

ROE



2003	2004	2005	2006	2007
11.6	13.7	12.5	10.6	**9.6**

ROA



2003	2004	2005	2006	2007
6.9	7.8	7.6	6.1	**5.6**

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, 2007.

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 Operations

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 costs for raw materials 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, 2007, 2006 and 2005

	Millions of yen			Thousands of U.S. dollars (Note 1)
ASSETS	**2007**	2006	2005	**2007**
CURRENT ASSETS:				
Cash and cash equivalents	**¥ 65,449**	¥ 67,649	¥ 56,359	**$ 554,653**
Marketable securities (Note 3)	**13,112**	12,744	1,904	**111,119**
Notes and accounts receivables:				
Trade	**38,012**	33,160	29,076	**322,136**
Allowance for doubtful accounts	**(71)**	(68)	(127)	**(602)**
Inventories (Note 4)	**20,376**	16,177	12,073	**172,678**
Deferred tax assets (Note 12)	**2,639**	2,642	2,048	**22,364**
Other current assets	**3,071**	2,680	3,324	**26,025**
Total current assets	**142,588**	134,984	104,657	**1,208,373**
PROPERTY, PLANT AND EQUIPMENT:				
Land (Notes 5 and 6)	**9,975**	10,143	9,930	**84,534**
Buildings and structures (Note 6)	**52,382**	49,204	47,063	**443,915**
Machinery and equipment	**137,364**	120,522	111,990	**1,164,102**
Furniture and fixtures (Note 6)	**5,951**	5,280	4,483	**50,432**
Construction in progress	**4,333**	3,425	511	**36,720**
Total	**210,005**	188,574	173,977	**1,779,703**
Accumulated depreciation	**(123,280)**	(111,463)	(101,178)	**(1,044,745)**
Net property, plant and equipment	**86,725**	77,111	72,799	**734,958**
INVESTMENTS AND OTHER ASSETS:				
Investment securities (Note 3)	**29,517**	29,519	28,349	**250,144**
Investments in affiliates	**87**	81	396	**737**
Goodwill	**2,725**	2,677		**23,093**
Software (Note 6)	**1,177**	1,322	1,845	**9,975**
Intangibles	**126**	266	492	**1,068**
Deferred tax assets (Note 12)			177	
Deferred tax assets—land revaluation (Notes 5 and 12)	**223**	227	212	**1,890**
Other assets	**5,768**	4,739	7,402	**48,881**
Allowance for doubtful accounts	**(173)**	(571)	(964)	**(1,466)**
Total investments and other assets	**39,450**	38,260	37,909	**334,322**
TOTAL	**¥ 268,763**	¥ 250,355	¥ 215,365	**$ 2,277,653**

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of yen 2007	2006	2005	Thousands of U.S. dollars (Note 1) 2007
CURRENT LIABILITIES:				
Short-term bank loans (Note 7)	**¥ 6,856**	¥ 8,614	¥ 5,636	**$ 58,102**
Current portion of long-term debt (Note 7)	**126**	63	1,267	**1,068**
Notes and accounts payable:				
Trade	**56,031**	49,665	42,952	**474,839**
Others	**519**	759	793	**4,398**
Income taxes payable (Note 12)	**3,048**	6,723	2,847	**25,831**
Accrued expenses	**8,101**	6,105	5,250	**68,653**
Other current liabilities	**690**	716	1,000	**5,847**
Total current liabilities	**75,371**	72,645	59,745	**638,737**
LONG-TERM LIABILITIES:				
Long-term debt (Note 7)	**1,739**	677	345	**14,737**
Liability for retirement benefits (Note 8)	**7,484**	6,877	6,023	**63,424**
Guarantee deposits from customers	**1,989**	1,962	1,936	**16,856**
Deferred tax liabilities (Note 12)	**4,742**	2,476		**40,186**
Other long-term liabilities	**389**	231	472	**3,297**
Total long-term liabilities	**16,343**	12,223	8,776	**138,500**
MINORITY INTERESTS		14,304	9,147	
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 14, 15 and 16)**:**				
EQUITY (Notes 9 and 18)**:**				
Common stock, authorized, 275,926,364 shares in 2007 and 2006, 196,390,411 shares in 2005; issued, 68,981,591 shares in 2007, 2006 and 2005	**15,993**	15,993	15,993	**135,534**
Capital surplus	**18,591**	18,591	18,591	**157,551**
Retained earnings	**140,547**	128,107	114,411	**1,191,076**
Land revaluation difference, net of tax (Note 5)	**(324)**	(330)	(309)	**(2,746)**
Unrealized gains on available-for sale securities, net of taxes (Note 3)	**6,960**	6,289	3,934	**58,983**
Deferred gain on derivatives under hedge accounting	**5**			**42**
Foreign currency translation adjustments	**2,514**	(362)	(2,799)	**21,305**
Treasury stock—at cost shares: 4,556,375 in 2007, 3,611,190 in 2006, 2,509,451 in 2005	**(23,120)**	(17,105)	(12,124)	**(195,932)**
Total	**161,166**	151,183	137,697	**1,365,213**
Minority interests	**15,883**			**134,602**
Total equity	**177,049**	151,183	137,697	**1,500,415**
Total	**¥268,763**	¥250,355	¥215,365	**$2,277,653**

Consolidated Statements of Income

Unicharm Corporation and Subsidiaries   Years Ended March 31, 2007, 2006 and 2005

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2007	2006	2005	**2007**
NET SALES	**¥301,880**	¥270,380	¥246,051	**$2,558,305**
COST OF SALES (Note 13)	**173,239**	153,264	137,341	**1,468,127**
Gross profit	**128,641**	117,116	108,710	**1,090,178**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 11, 13 and 19)	**98,711**	88,585	81,425	**836,534**
Operating income	**29,930**	28,531	27,285	**253,644**
OTHER INCOME (EXPENSES):				
Interest and dividend income	**853**	494	506	**7,229**
Interest expense	**(413)**	(305)	(315)	**(3,500)**
Foreign exchange gain	**338**	518	201	**2,864**
Loss on write-down of investment securities	**(8)**	(3)		**(68)**
Gain on transfer of the substitutional portion of the governmental pension program (Note 8)			3,886	
Charge for transitional obligation for employees' retirement benefits (Note 8)			(951)	
Impairment loss (Note 6)		(281)	(2,248)	
Sales discount	**(1,221)**	(1,021)		**(10,347)**
Other—net (Note 19)	**(400)**	634	233	**(3,392)**
Other income (expenses)—net	**(851)**	36	1,312	**(7,212)**
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	**29,079**	28,567	28,597	**246,432**
INCOME TAXES (Note 12)**:**				
Current	**10,062**	11,014	7,985	**85,271**
Deferred	**1,890**	451	2,663	**16,017**
Total income taxes	**11,952**	11,465	10,648	**101,288**
MINORITY INTERESTS IN NET INCOME	**2,068**	1,814	1,567	**17,525**
NET INCOME	**¥ 15,059**	¥ 15,288	¥ 16,382	**$ 127,619**

	Yen			U.S. dollars
	2007	2006	2005	**2007**
PER SHARE OF COMMON STOCK (Notes 2. r. and 17)**:**				
Net income	**¥232.31**	¥ 229.34	¥ 244.25	**$1.97**
Diluted net income	**232.17**	229.00	242.69	**1.97**
Cash dividends applicable to the year	**44.0**	32.00	30.00	**0.37**

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

Unicharm Corporation and Subsidiaries Years Ended March 31, 2007, 2006 and 2005

	Thousands	Millions of yen										
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-Sale Securities	Deferred Gain on Derivatives under Hedge Accounting	Land Revaluation Difference	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, APRIL 1, 2004	66,474,997	¥15,993	¥18,591	¥101,832	¥4,109	¥	¥(2,053)	¥(2,654)	¥(12,109)	¥123,709	¥	¥123,709
Net income				16,382						16,382		16,382
Cash dividends, ¥29.00 per share				(1,928)						(1,928)		(1,928)
Bonuses to directors and corporate auditors				(131)						(131)		(131)
Land revaluation difference, net of tax (Note 5)				(1,744)			1,744					
Net decrease in unrealized gain on available-for-sale securities					(175)					(175)		(175)
Net decrease in foreign currency translation adjustments								(145)		(145)		(145)
Treasury stock acquired—net	(2,857)								(15)	(15)		(15)
BALANCE, MARCH 31, 2005	66,472,140	15,993	18,591	114,411	3,934		(309)	(2,799)	(12,124)	137,697		137,697
Net income				15,288						15,288		15,288
Cash dividends, ¥31.00 per share				(2,043)						(2,043)		(2,043)
Bonuses to directors and corporate auditors				(109)						(109)		(109)
Increase in retained earnings due to fiscal year-end change for subsidiaries (Note 2.a)				539						539		539
Land revaluation difference, net of tax (Note 5)				21			(21)					
Net increase in unrealized gain on available-for-sale securities					2,355					2,355		2,355
Net increase in foreign currency translation adjustments								2,437		2,437		2,437
Treasury stock acquired—net	(1,101,739)								(4,981)	(4,981)		(4,981)
BALANCE, MARCH 31, 2006	65,370,401	15,993	18,591	128,107	6,289		(330)	(362)	(17,105)	151,183		151,183
Reclassified balance as March 31, 2006 (Note 2.i)											14,304	14,304
Net income				15,059						15,059		15,059
Cash dividends, ¥38.00 per share				(2,463)						(2,463)		(2,463)
Bonuses to directors and corporate auditors				(150)						(150)		(150)
Land revaluation difference, net of tax (Note 5)				(6)			6					
Net increase in unrealized gain on available-for-sale securities					671					671		671
Net increase in foreign currency translation adjustments								2,876		2,876		2,876
Treasury stock acquired, net (Note 9)	(945,185)								(6,015)	(6,015)		(6,015)
Net change in the year						5				5	1,579	1,584
BALANCE, MARCH 31, 2007	**64,425,216**	**¥15,993**	**¥18,591**	**¥140,547**	**¥6,960**	**¥5**	**¥ (324)**	**¥ 2,514**	**¥(23,120)**	**¥161,166**	**¥15,883**	**¥177,049**

	Thousands of U.S. dollars (Note 1)										
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-Sale Securities	Deferred Gain on Derivatives under Hedge Accounting	Land Revaluation Difference	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, MARCH 31, 2006	$135,534	$157,551	$1,085,652	$53,297	$	$(2,797)	$ (3,068)	$(144,957)	$1,281,212	$	$1,281,212
Reclassified balance as March 31, 2006 (Note 2.i)										121,220	121,220
Net income			127,619						127,619		127,619
Cash dividends, $0.32 per share			(20,873)						(20,873)		(20,873)
Bonuses to directors and corporate auditors			(1,271)						(1,271)		(1,271)
Land revaluation difference, net of tax (Note 5)			(51)			51					
Net increase in unrealized gain on available-for-sale securities, net of tax				5,686					5,686		5,686
Net increase in foreign currency translation adjustments							24,373		24,373		24,373
Treasury stock acquired, net (Note 9)								(50,975)	(50,975)		(50,975)
Net change in the year					42				42	13,382	13,424
BALANCE, MARCH 31, 2007	**$135,534**	**$157,551**	**$1,191,076**	**$58,983**	**$42**	**$(2,746)**	**$21,305**	**$(195,932)**	**$1,365,813**	**$134,602**	**$1,500,415**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Unicharm Corporation and Subsidiaries   Years Ended March 31, 2007, 2006 and 2005

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2007	2006	2005	**2007**
OPERATING ACTIVITIES:				
Income before income taxes and minority interests	**¥ 29,079**	¥ 28,567	¥ 28,597	**$ 246,432**
Adjustments for:				
Income taxes—paid	**(13,709)**	(7,192)	(14,567)	**(116,178)**
Depreciation and amortization	**13,185**	13,063	12,330	**111,737**
Gain on transfer of the substitutional portion of the governmental pension program			(3,886)	
Net periodic retirement benefit costs	**381**	853	862	**3,229**
Loss on write-down of investment securities	**8**	3		**68**
Loss on disposals and sales of property, plant and equipment	**792**	935	1,557	**6,712**
Increase in trade receivables	**(4,851)**	(2,389)	(60)	**(41,110)**
(Increase) decrease in inventories	**(3,957)**	(1,821)	348	**(33,534)**
Increase (decrease) in trade payables	**2,577**	3,442	(2,134)	**21,839**
Increase (decrease) in other current liabilities	**5,092**	2,772	(1,045)	**43,153**
Impairment loss		281	2,248	
Other—net	**(239)**	(1,625)	(3,643)	**(2,026)**
Total adjustments	**(721)**	8,322	(7,990)	**(6,110)**
Net cash provided by operating activities	**28,358**	36,889	20,607	**240,322**
INVESTING ACTIVITIES:				
Proceeds from sales and redemption of marketable securities	**99,428**	40,299	4,103	**842,610**
Proceeds from sale of property, plant and equipment	**568**	418	4,647	**4,814**
Purchases of marketable securities	**(95,689)**	(47,559)	(1,571)	**(810,924)**
Capital expenditures	**(21,307)**	(13,609)	(13,737)	**(180,568)**
Payment for purchase of investment securities	**(3,013)**	(3,858)	(3,011)	**(25,534)**
Payment for acquisition of a subsidiary	**(575)**	(4,214)		**(4,873)**
Proceeds from sales and redemption of investment securities	**136**	4,654	1,016	**1,153**
Repayment from cancellation of insurance contracts as investments		2,930		
Decrease in other assets	**123**	688	116	**1,042**
Net cash used in investing activities	**(20,329)**	(20,251)	(8,437)	**(172,280)**
FORWARD	**¥ 8,029**	¥ 16,638	¥ 12,170	**$ 68,042**

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2007	2006	2005	**2007**
FORWARD	**¥ 8,029**	¥ 16,638	¥ 12,170	**$ 68,042**
FINANCING ACTIVITIES:				
Increase (decrease) in short-term bank loans	**(2,500)**	1,689	1,032	**(21,186)**
Proceeds from long-term debt	**1,177**	35	25	**9,975**
Repayments of long-term debt	**(65)**	(1,258)	(254)	**(551)**
Cash dividends paid	**(2,461)**	(2,049)	(1,928)	**(20,857)**
Investment from minority interests		965	1,256	
Additional acquisition of the subsidiaries' stock from minority interest		(132)		
Repurchase of the Company's stock	**(6,015)**	(4,981)	(15)	**(50,975)**
Cash dividends paid to minority interests	**(932)**	(488)	(324)	**(7,898)**
Net cash used in financing activities	**(10,796)**	(6,219)	(208)	**(91,492)**
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	**567**	499	(37)	**4,806**
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(2,200)**	10,918	11,925	**(18,644)**
CASH AND CASH EQUIVALENTS, DUE TO FISCAL YEAR-END CHANGE FOR SUBSIDIARIES (Note 2. a)		372		
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**67,649**	56,359	44,434	**573,297**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥ 65,449**	¥ 67,649	¥ 56,359	**$ 554,653**
ADDITIONAL INFORMATION:				
Payment for acquisition of Unicharm Gulf Hygienic Industries Ltd., net of cash acquired (Note 2. a)		¥ 4,214		
Assets acquired		7,275		
Goodwill		2,711		
Liabilities assumed		(3,873)		
Minority interests		(1,667)		
Cash paid for the capital		4,446		
Cash and cash equivalents in this subsidiary		(232)		
Cash and cash equivalents, due to fiscal year-end change for subsidiaries		¥ 4,214		

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Unicharm Corporation and Subsidiaries Years Ended March 31, 2007, 2006 and 2005

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 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.

On December 27, 2005, the Accounting Standards Board of Japan (ASBJ) published a new accounting standard for the statement of changes in equity, which is effective for fiscal year ending on or after May 1, 2006.

The consolidated statement of shareholders' equity, which was previously voluntarily prepared in line with the international accounting practices, is now required under generally accepted accounting principles in Japan and has been renamed "the consolidated statement of changes in equity" in the current fiscal year.

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 2006 and 2005 consolidated financial statements to conform to the classifications used in 2007.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Unicharm Corporation (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥118 to $1, the approximate rate of exchange at March 31, 2007. Such translations should not be construed as representation that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation

The consolidated financial statements include the accounts of the Company and all 26 (24 in 2006 and 2005) 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.).

During the fiscal year ended March 31, 2007, the Company established UNI-CHARM (VIETNAM) Co., Ltd. and included it in the scope of consolidation. In addition, since the Company's consolidated subsidiary, Unicharm Products Co., Ltd., acquired Mew Products Co., Ltd., Mew Products Co., Ltd. was included in Unicharm's scope of consolidation.

Investment in one affiliate (one in 2006 and two in 2005) is 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, and accounted for cash flows as cash and cash equivalents, which amounted to ¥372 million in 2006.

The accounting settlement of consolidated subsidiaries and equity-method affiliates is the same as the date of the consolidated accounting settlement, excluding nine overseas subsidiaries and one domestic subsidiary (ten in 2006 and nine in 2005) that close accounts on December 31. In the consolidated financial statements, therefore, the Company uses the financial statements as of March 31, 2007 and makes necessary adjustments for important transactions that occurred during the time difference from the date of the consolidated accounting settlement.

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 2007 and 2006, and 5 years in 2005, 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 for the effective investment life to 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 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 2 to 60 years for buildings and structures, from 2 to 20 years for machinery and equipment and from 2 to 20 years for furniture and fixtures.

g. Long-lived Assets

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

h. Retirement and Pension Plans

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

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 the 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.

i. Presentation of Equity

On December 9, 2005, the ASBJ published a new accounting standard for presentation of equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of equity. Such items include stock acquisition right, minority interests, 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. The consolidated balance sheet as of March 31,2007 is presented in line with this new accounting standard.

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. 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.

The company adopted the new accounting standard for bonuses to directors and corporate auditors in the year ended March 31, 2007. The effect of this accounting standard was to decrease income before income taxes and minority interests for the year ended March 31, 2007 by ¥192 million ($1,627 thousand).

m. 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.

n. Appropriations of Retained Earnings

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

o. Foreign Currency Transactions

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

p. 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 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 equity.

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

q. Derivatives and Hedging Activities

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

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

r. 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 64,821,907 shares for 2007, 65,775,016 shares for 2006 and 66,473,685 shares for 2005.

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.

s. New Accounting Pronouncements

Measurement of Inventories—Under generally accepted accounting principles in Japan ("Japanese GAAP"), inventories are currently measured either by the cost method, or at the lower of cost or market. On July 5, 2006, the ASBJ issued ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories", which is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted. This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate. The standard also requires that inventories held for trading purposes be measured at the market price.

Lease Accounting—On March 30, 2007, the ASBJ issued ASBJ Statement No.13, "Accounting Standard for Lease Transactions", which revised the existing accounting standard for lease transactions issued on June 17, 1993.

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

The revised accounting standard requires that all finance lease transactions should be capitalized. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements—Under Japanese GAAP, a company currently can use the financial statements of foreign subsidiaries which are prepared in accordance with generally accepted accounting principles in their respective jurisdictions for its consolidation process unless they are clearly unreasonable. On May 17, 2006, the ASBJ issued ASBJ Practical Issues Task Force (PITF) No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements". The new task force prescribes: 1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, 2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used for the consolidation process, 3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material;

(1) Amortization of goodwill
(2) Actuarial gains and losses of defined benefit plans recognized outside profit or loss
(3) Capitalization of intangible assets arising from development phases
(4) Fair value measurement of investment properties, and the revaluation model for property, plant and equipment, and intangible assets
(5) Retrospective application when accounting policies are changed
(6) Accounting for net income attributable to a minority interest

The new task force is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities at March 31, 2007, 2006 and 2005 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	**2007**
Current:				
Government and corporate bonds		¥ 10	¥ 343	
Trust fund investments and other	**¥13,112**	12,734	1,561	**$111,119**
Total	**¥13,112**	¥12,744	¥ 1,904	**$111,119**
Non-current:				
Marketable equity securities	**¥18,309**	¥14,236	¥ 9,802	**$155,161**
Government and corporate bonds	**2,000**	2,000	15,090	**16,949**
Trust fund investments and other	**9,208**	13,283	3,457	**78,034**
Total	**¥29,517**	¥29,519	¥28,349	**$250,144**

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2007, 2006 and 2005 are as follows:

	Millions of yen			
March 31, 2007	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	**¥ 5,485**	**¥12,832**	**¥ 8**	**¥18,309**
Debt securities and other	**13,225**	**2**	**1,063**	**12,164**
Held-to-maturity	**2,000**		**88**	**1,912**
Total	**¥20,710**	**¥12,834**	**¥1,159**	**¥32,385**

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

March 31, 2005	Millions of yen 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

March 31, 2007	Thousands of U.S. dollars Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	**$ 46,483**	**$108,746**	**$ 68**	**$155,161**
Debt securities and other	**112,076**	**17**	**9,008**	**103,085**
Held-to-maturity	**16,949**		**746**	**16,203**
Total	**$175,508**	**$108,763**	**$9,822**	**$274,449**

Available-for-sale securities and held-to-maturity securities whose fair value is not readily determinable as of March 31, 2007, 2006 and 2005 were as follows:

	Carrying Amount			
	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	**2007**
Available-for-sale:				
Equity securities	**¥ 274**	¥ 379	¥ 281	**$ 2,322**
Debt securities and other	**3,084**	3,108	3,166	**26,136**
Held-to-maturity	**6,798**	11,000	2,126	**57,610**
Total	**¥10,156**	¥14,487	¥5,573	**$86,068**

Proceeds from sales of available-for-sale securities for the years ended March 31, 2007, 2006 and 2005 were ¥6,150 million ($52,119 thousand), ¥20,370 million and ¥9,643 million, respectively. Gross realized gains on these sales, computed according to the moving-average cost , was ¥89 million ($754 thousand) for the year ended March 31, 2007. Gross realized gains on and losses on these sales, computed according to the moving-average cost, were ¥880 million and ¥10 million, respectively, for the year ended March 31, 2006, and ¥24 million and ¥12 million, respectively, for the year ended March 31, 2005 respectively.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2007, 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	**¥ 6,314**	**¥6,798**	**$ 53,508**	**$57,610**
Due after one year through five years	**1,908**		**16,170**	
Due after five years through ten years				
Due after ten years	**3,942**	**2,000**	**33,407**	**16,949**
Total	**¥12,164**	**¥8,798**	**$103,085**	**$74,559**

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

4. INVENTORIES

Inventories at March 31, 2007, 2006 and 2005 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	**2007**
Merchandise and finished products	**¥11,515**	¥ 9,188	¥ 7,970	**$ 97,585**
Work in process	**323**	328	226	**2,737**
Raw materials	**7,457**	6,036	3,335	**63,195**
Supplies	**1,081**	625	542	**9,161**
Total	**¥20,376**	¥16,177	¥12,073	**$172,678**

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 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, 2007, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥441 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 continuous operating losses at 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 as other expenses for certain software 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, 2007, 2006 and 2005, 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 4.1% to 6.6%, 2.3% to 3.0% and 2.0% to 3.0% at March 31, 2007, 2006 and 2005, respectively.

Long-term debt at March 31, 2007, 2006 and 2005 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	**2007**
Unsecured 2.35% bonds, due July 2005			¥ 1,000	
Loans from banks and municipal corporations, due serially to 2012 with interest rates ranging from 2.0% to 6.9% in 2007, from 2.0% to 6.8% in 2006 and 2.0% to 2.3% in 2005	**¥1,865**	¥740	612	**$15,805**
Total	**1,865**	740	1,612	**15,805**
Less current portion	**(126)**	(63)	(1,267)	**(1,068)**
Long-term debt, less current portion	**¥1,739**	¥677	¥ 345	**$14,737**

Annual maturities of long-term debt as of March 31, 2007 for the next five years were as follows:

Year Ending March 31	Millions of yen	Thousands of U.S. dollars
2008	¥ 126	$ 1,068
2009	262	2,220
2010	325	2,754
2011	388	3,288
2012 and thereafter	764	6,475
Total	¥1,865	$15,805

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, 2007, 2006 and 2005 includes retirement benefits for directors and corporate auditors of ¥1,198 million ($10,153 thousand), ¥1,136 million and ¥1,178 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, 2007, 2006 and 2005 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	**2007**
Projected benefit obligation	**¥ 20,824**	¥ 19,287	¥ 17,854	**$ 176,475**
Fair value of plan assets	**(17,414)**	(15,242)	(11,140)	**(147,576)**
Unrecognized actuarial loss	**(642)**	(670)	(646)	**(5,441)**
Unrecognized prior service cost	**(334)**	(488)	(3,334)	**(2,831)**
Prepaid pension cost	**3,852**	2,854	2,111	**32,644**
Net liability	**¥ 6,286**	¥ 5,741	¥ 4,845	**$ 53,271**

The components of net periodic benefit costs for the years ended March 31, 2007, 2006 and 2005 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	**2007**
Service cost	**¥1,458**	¥1,439	¥ 982	**$12,356**
Interest cost	**386**	358	393	**3,271**
Expected return on plan assets	**(457)**	(334)	(443)	**(3,873)**
Amortization of transitional obligation			1,191	
Recognized actuarial loss	**240**	461	3,579	**2,034**
Amortization of prior service cost	**403**	159	(1,681)	**3,415**
Net periodic benefit costs	**¥2,030**	¥2,083	¥ 4,021	**$17,203**

Assumptions used for the years ended March 31, 2007, 2006 and 2005 are set forth as follows:

	2007	2006	2005
Discount rate	**2.0%**	2.0%	2.0%
Expected rate of return on plan assets	**3.0%**	3.0%	4.0%
Recognition period of actuarial gain/loss	**10 years**	10 years	10 years
Amortization period of transitional obligation			5 years
Amortization period of prior service cost	**5 years**	5 years	5 years
Amortization method 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. EQUITY

On and after May 1, 2006, Japanese companies are subject to a new corporate law of Japan (the "Corporate Law"), which reformed and replaced the Commercial Code of Japan (the "Code") with various revisions that are, for the most part, 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 the Board of Directors, (2) having independent auditors, (3) having the 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) at any time during the fiscal year 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 limitation 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. 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 Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. 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 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 equity or deducted directly from stock acquisition rights.

10. STOCK OPTIONS

The stock options outstanding as of March 31, 2007 are as follows:

Unicharm Corporation

Meeting date	Persons granted	Number of options granted	Date of grant	Conditions for vesting	Vesting date	Exercisable period
June 27, 2003 (2003 Stock Option)	9 company's directors and corporate auditors 6 subsidiaries' directors and corporate auditors 1,066 company's employees 737 subsidiaries' employees 77 others***	Common stock 533,600 shares	October 1, 2003	* **	From October 1, 2003 to June 30, 2006	From July 2006 to June 30, 2008
June 29, 2004 (2004 Stock Option)	10 company's directors and corporate auditors 2 subsidiaries' directors and corporate auditors 1,202 company's employees 1,232 subsidiaries' employees 86 others***	Common stock 692,100 shares	October 1, 2004	* **	From October 1, 2004 to June 30, 2007	From July 2007 to June 30, 2009

Unicharm PetCare Corporation

Meeting date	Persons granted	Number of options granted	Date of grant	Conditions for vesting	Vesting date	Exercisable period
June 24, 2002 (2002 Stock Option)	3 directors and 169 employees	Common stock 718,000 shares	October 1, 2002	****	From October 1, 2002 to June 30, 2004	From July 1, 2004 to June 30, 2008

* The market price of the Company's common stock at the time of stock option exercise must be at least ¥8,200 (In the event that it become necessary to adjust this value, the adjustment shall be conducted in a uniform and predetermined manner).

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

*** Others include retired directors and employees.

**** A stock option holder must, at the time of the stock option exercise, hold a position within the Unicharm PetCare Corporation, its subsidiaries or affiliates (hereinafter, collectively the "Group") as a director, corporate auditor, executive officer or employee, or have: (1) completed a term of office as a director or corporate auditor; (2) retired as an executive officer or employee due to involuntary reasons stipulated by the rules of employment of individual Group companies; or (3) after retirement, been specifically approved to hold and exercise the stock options by Unicharm PetCare's Board of Directors.

The stock option activity is as follows:

	2003 Stock Option	2004 Stock Option	2002 Stock Option
		(Shares)	
For the year ended March 31, 2007			
Non-vested			
March 31,2006—Outstanding	544,600	705,700	
Granted			
Canceled	(11,000)	(13,600)	
Vested			
March 31,2007—Outstanding	533,600	692,100	
Vested			
March 31,2006—Outstanding			160,000
Vested			
Exercised			122,000
Canceled			
March 31,2007—Outstanding			38,000
Exercise price	¥5,731 ($48)	¥5,702 ($48)	¥300 ($2)
Average stock price at exercise			¥4,565 ($38)
Fair value price at grant date			

11. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended March 31, 2007, 2006 and 2005 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	**2007**
Sales promotion	**¥31,735**	¥27,688	¥24,310	**$268,941**
Advertising	**10,116**	9,002	10,219	**85,729**
Shipping and storage expenses	**17,280**	15,214	13,844	**146,441**
Employees' salaries	**10,877**	9,776	8,763	**92,178**
Depreciation	**1,282**	1,444	1,754	**10,864**
Other	**27,421**	25,461	22,535	**232,381**
Total	**¥98,711**	¥88,585	¥81,425	**$836,534**

12. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes, which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.7% for the years ended March 31, 2007, 2006 and 2005. 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, 2007, 2006 and 2005, are as follows:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	**2007**
Deferred tax assets—current:				
Accrued bonuses	**¥ 1,144**	¥ 1,114	¥ 1,100	**$ 9,695**
Accrued sales promotion	**504**	543	300	**4,271**
Unrealized gains	**78**	55	52	**661**
Other	**938**	930	652	**7,949**
Less valuation allowance	**(21)**			**(178)**
Total	**2,643**	2,642	2,104	**22,398**
Deferred tax assets—non-current:				
Investment securities	**1,060**	1,035	1,030	**8,983**
Pension and severance costs	**2,755**	1,578	1,641	**23,347**
Less allowance for doubtful accounts	**66**	137	306	**559**
Impairment loss	**168**	850	832	**1,424**
Other	**964**	984	208	**8,170**
Less valuation allowance	**(187)**		(71)	**(1,585)**
Total	**4,826**	4,584	3,946	**40,898**
Deferred tax liabilities—current:				
Accrued enterprise taxes			54	
Other	**4**		2	**34**
Total			56	
Deferred tax liabilities—non-current				
Net unrealized gain on available-for-sale securities	**4,788**	4,302	2,685	**40,576**
Undistributed earnings of subsidiaries	**2,315**	1,466	844	**19,619**
Prepaid pension cost	**1,579**			**13,381**
Other	**886**	1,292	240	**7,508**
Total	**9,568**	7,060	3,769	**81,084**
Net deferred tax assets—current	**¥ 2,639**	¥ 2,642	¥ 2,048	**$ 22,364**
Net deferred tax assets (liabilities)—non-current	**¥(4,742)**	¥(2,476)	¥ 177	**$(40,186)**
Deferred tax assets—land revaluation	**¥ 223**	¥ 227	¥ 212	**$ 1,890**

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, 2007 and 2006, a reconciliation is not required to be disclosed because the difference is less than 5% of the normal effective statutory tax rate.

13. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥4,332 million ($36,712 thousand), ¥4,018 million and ¥3,747 million for the years ended March 31, 2007, 2006 and 2005, respectively.

14. LEASES

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

Total rental expenses for the years ended March 31, 2007, 2006 and 2005, were ¥350 million ($2,965 thousand), ¥359 million and ¥408 million, respectively, including ¥129 million ($1,093 thousand), ¥174 million and ¥254 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, 2007, 2006 and 2005, were as follows:

	Millions of yen			Thousands of U.S. dollars
Machinery, Furniture and Fixtures	**2007**	2006	2005	**2007**
Acquisition cost	**¥325**	¥975	¥1,129	**$2,754**
Accumulated depreciation	**81**	879	861	**686**
Net leased property	**¥244**	¥ 96	¥ 268	**$2,068**

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

Obligations under finance leases for the years ended March 31, 2007, 2006 and 2005 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	**2007**
Due within one year	**¥ 94**	¥84	¥177	**$ 797**
Due after one year	**150**	12	91	**1,271**
Total	**¥244**	¥96	¥268	**$2,068**

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 ¥129 million ($1,093 thousand), ¥174 million and ¥254 million for the years ended March 31, 2007, 2006 and 2005, respectively.

The minimum rental commitments under noncancelable operating leases at March 31, 2007 were as follows:

	Millions of yen	Thousands of U.S. dollars
Due within one year	¥2	$17
Due after one year		
Total	¥2	$17

15. DERIVATIVES

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

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

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, 2007, 2006 and 2005 are excluded from the disclosure of market value information.

The Group had the following derivatives contracts outstanding at March 31, 2007, 2006 and 2005:

	Millions of yen									Thousands of U.S. dollars		
	2007			2006			2005			**2007**		
	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	**¥4,000**	**¥ 10**	**¥10**	¥6,000	¥27	¥27	¥7,000	¥ 19	¥ 19	**$33,898**	**$ 85**	**$85**
Currency swaps:												
Thai baht payment/yen receipt							599	9	9			
Forward exchange contracts—selling U.S. dollar forward	**669**	**669**					1,633	1,523	(110)	**5,669**	**5,669**	

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.

16. CONTINGENT LIABILITIES

At March 31, 2007, the Group had the following contingent liabilities:

	Millions of yen	Thousands of U.S. dollars
Guarantees and similar items of bank loans	¥105	$890

17. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2007, 2006 and 2005 is as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars
Year Ended March 31, 2007	Net Income	Weighted-average Shares	EPS	
Basic EPS—Net income available to common shareholders	**¥15,059**	**64,821**	**¥232.31**	**$1.97**
Effect of dilutive securities—Adjustment of warrants of subsidiary	**(8)**			
Diluted EPS—Net income for computation	**¥15,051**	**64,821**	**¥232.17**	**$1.97**

	Millions of yen	Thousands of shares	Yen
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
Effect of dilutive securities—Adjustment of warrants of subsidiary	(22)		
Diluted EPS—Net income for computation	¥15,062	65,775	¥229.00

	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

18. SUBSEQUENT EVENTS

The following appropriations of retained earnings at March 31, 2007 were approved at the Board of Directors meeting held on May 28, 2007:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥22 ($0.186) per share	¥1,417	$12,008

19. RELATED PARTY TRANSACTIONS

Transactions of the Company with related parties for the years ended March 31, 2007, 2006 and 2005 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
	2007	2006	2005	**2007**
Insurance premium	**¥6**	¥11	¥159	**$51**

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
	2007	2006	2005	**2007**
Rental expenses	**¥24**	¥200	¥193	**$203**

c. Takahara Fund Ltd.

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

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	**2007**
Sale of investment securities		¥2,581		
Realized gain on sale of investment securities		834		

20. 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				
	2007				
	Industry A	Industry B	Industry C	Eliminations	Consolidated
Sales to customers	**¥256,872**	**¥34,105**	**¥10,903**	**¥**	**¥301,880**
Intersegment sales	**66**		**4**	**(70)**	
Total sales	**256,938**	**34,105**	**10,907**	**(70)**	**301,880**
Operating expenses	**232,244**	**30,130**	**9,754**	**(178)**	**271,950**
Operating income	**¥ 24,694**	**¥ 3,975**	**¥ 1,153**	**¥ 108**	**¥ 29,930**

b. Assets, Depreciation, Impairment Loss and Capital Expenditures

	Millions of yen				
	2007				
	Industry A	Industry B	Industry C	Corporate	Consolidated
Assets	**¥165,143**	**¥19,962**	**¥26,125**	**¥57,533**	**¥268,763**
Depreciation	**12,811**	**351**	**269**		**13,431**
Capital expenditures	**20,496**	**422**	**389**		**21,307**

a. Sales and Operating Income

	Thousands of U.S. dollars				
	2007				
	Industry A	Industry B	Industry C	Eliminations	Consolidated
Sales to customers	**$2,176,882**	**$289,025**	**$92,398**	**$**	**$2,558,305**
Intersegment sales	**559**		**34**	**(593)**	
Total sales	**2,177,441**	**289,025**	**92,432**	**(593)**	**2,558,305**
Operating expenses	**1,968,170**	**255,338**	**82,661**	**(1,508)**	**2,304,661**
Operating income	**$ 209,271**	**$ 33,687**	**$ 9,771**	**$ 915**	**$ 253,644**

b. Assets, Depreciation, Impairment Loss and Capital Expenditures

	Thousands of U.S. dollars				
	2007				
	Industry A	Industry B	Industry C	Corporate	Consolidated
Assets	**$1,399,517**	**$169,170**	**$221,398**	**$487,568**	**$2,277,653**
Depreciation	**108,568**	**2,975**	**2,280**		**113,823**
Capital expenditures	**173,695**	**3,576**	**3,297**		**180,568**

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

	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

(2) GEOGRAPHIC SEGMENTS

a. Sales and Operating Income

	Millions of yen				
	2007				
	Japan	Asia (Excluding Japan)	Other	Eliminations	Consolidated
Sales to customers	**¥206,891**	**¥56,645**	**¥38,344**	**¥**	**¥301,880**
Intersegment sales	**10,980**	**2,334**		**(13,314)**	
Total sales	**217,871**	**58,979**	**38,344**	**(13,314)**	**301,880**
Operating expenses	**194,070**	**53,919**	**37,378**	**(13,417)**	**271,950**
Operating income	**¥ 23,801**	**¥ 5,060**	**¥ 966**	**¥ 103**	**¥ 29,930**

b. Assets

	Millions of yen				
	2007				
	Japan	Asia (Excluding Japan)	Other	Corporate	Consolidated
Assets	**¥129,480**	**¥49,125**	**¥28,649**	**¥61,509**	**¥268,763**

a. Sales and Operating Income

	Thousands of U.S. dollars				
	2007				
	Japan	Asia (Excluding Japan)	Other	Eliminations	Consolidated
Sales to customers	**$1,753,314**	**$480,042**	**$324,949**	**$**	**$2,558,305**
Intersegment sales	**93,050**	**19,780**		**(112,830)**	
Total sales	**1,846,364**	**499,822**	**324,949**	**(112,830)**	**2,558,305**
Operating expenses	**1,644,661**	**456,940**	**316,763**	**(113,703)**	**2,304,661**
Operating income	**$ 201,703**	**$ 42,882**	**$ 8,186**	**$ 873**	**$ 253,644**

b. Assets

	Thousands of U.S. dollars				
	2007				
	Japan	Asia (Excluding Japan)	Other	Corporate	Consolidated
Assets	**$1,097,288**	**$416,315**	**$242,788**	**$521,263**	**$2,277,653**

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

	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

(3) SALES TO FOREIGN CUSTOMERS

Sales to foreign customers for the years ended March 31, 2007, 2006 and 2005 amounted to ¥98,103 million ($831,381 thousand), ¥72,250 million and ¥59,368 million, respectively.

Independent Auditors' Report

Deloitte.

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

To the Board of Directors of Unicharm Corporation:

We have audited the accompanying consolidated balance sheets of Unicharm Corporation and subsidiaries as of March 31, 2007, 2006 and 2005, and the related consolidated statements of income, changes in 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, 2007, 2006 and 2005, 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.

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 26, 2007

Member of
Deloitte Touche Tohmatsu

Subsidiaries and Affiliated Companies

As of March 31, 2007

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 Unicharm Co., Ltd.	Production and sales of baby care, feminine care and other products	75
	Unicharm Consumer Products (China) Co., LTD.	Production of baby care products	97
	Unicharm Consumer Products 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
Malaysia	Uni-Charm Corporation Sdn. Bhd.	Sales of baby care, feminine care and other products	100
Vietnam	Uni-Charm (Vietnam) Co., Ltd.	Production and sales of feminine care products	100
Philippines	Uni-Charm (Philippines) Corporation	Sales of baby care, feminine care and other products	97
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 7 others)

Affiliated Companies

		Major Operations	Percentage of Equity
Japan	The Fun Co., Ltd.	Data storage, processing and disposal services	25%
	UBS Co., Ltd.	Accounting, human resource management and administrative affairs	20

Investor Information

As of March 31, 2007

Fiscal Year-end	March 31, 2007
Annual Shareholders' Meeting	June 26, 2007
Common Stock	Authorized: 275,926,364 Issued: 68,981,591
Number of Shareholders	11,685
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

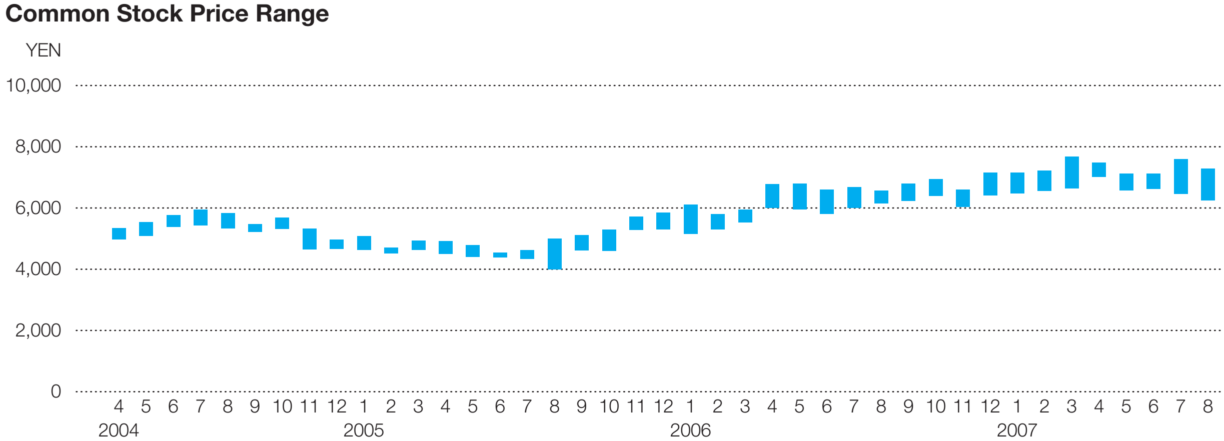
Principal Shareholders

Shareholder	Number of shares (Thousands)	Ratio of number of shares held to number of shares issued and outstanding
Unitec Corporation	12,368	17.93%
The Master Trust Bank of Japan, Ltd. (Trust Account)	3,849	5.58
Takahara Kosan K.K.	3,418	4.96
Takahara Kikin	3,120	4.52
Investors Bank	2,255	3.27
Japan Trustee Services Bank, Ltd. (Trust Account)	2,129	3.09
State Street and Trust Company	2,066	3.00
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)
July	2004	Sales of shares (2,116,600 shares) (Price: ¥5,409; Purchasers: UFJ Bank Limited, Takahara Kosan K.K., Nippon Life Insurance Company, Kajima Corporation)
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 September 1, 2007

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

1,007 (6,265 on a consolidated basis as of March 31, 2007)

Information

Executive Secretarial & Corporate Communication Office
Sumitomo Fudosan Mita Twin Bldg.
West Wing, 3-5-27, Mita, Minato-ku,
Tokyo, Japan 108-8575
Tel: +81-3-6722-1019
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

Unicharm's Product-Related Websites (In Japanese only)

Website that provides a fun way to learn about first-time menstruation. We invite parents and children to visit the site together.

Hajimete Karada Nabi

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

Provides support to meet the needs of mothers through pregnancy, childbirth and child rearing. A "mother" and baby lifestyle support site.

Baby Town

http://www.babytown.jp/

A website for first-time mothers, providing a plethora of information about pregnancy and childbirth.

Premama Town

http://www.premama.jp/

Provides solutions to worries about early incontinence issues with self-help tips and a dedicated portal site for women.

Nyomore Care Nabi

http://www.nyoucare.jp/

Informational site for families and caregivers of elderly who need living assistance. Provides information and solutions for incontinence care issues.

Haisetsu Care Nabi

http://www.carenavi.jp/

Online adult incontinence-care product shopping site provides direct home delivery. Convenient for at-home nursing care recipients and providers, too.

Unicharm Tsushin Hanbai "Iki Iki Seikastu"

http://www.rakuten.ne.jp/gold/unicharm/

unicharm

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