



Economic Climate

Business confidence in Japan is improving overall against a backdrop of economic and financial measures taken by the national government, generating signs of a gradual recovery. Still, the higher consumption tax rate that took effect in April will color the path ahead, contributing to future uncertainty.

Cosmetics Market Environment

The scale of the cosmetics market environment in Japan is approximately ¥1.4 trillion according to METI's current production statistics for the cosmetics industry. The recent pickup in business confidence seems to have put an end to a period of long-declining sales attributable to recession and deflation. Still, in light of Japan's low birthrate and aging population the cosmetics market is considered mature and no significant growth is expected.

Mandom's Strengths in the Market

The Mandom Group's main channel is self-service sales, which includes drugstores, convenience stores, and other mass-market retailers. We also continue to develop new market categories and reinvigorate the market as the industry's top men's cosmetics manufacturer.

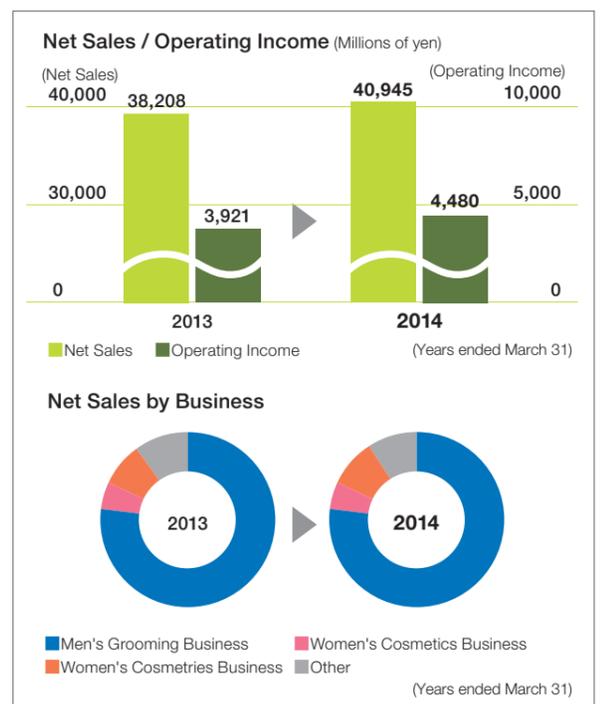
Mandom has also been taking measures to strengthen women's cosmetics in recent years. We have done this by leveraging existing marketing channels, by expanding our lines of high-performance, low-priced skin care products sold via self-service retailers, and by developing new body

care products for women that utilize the know-how gained from the men's cosmetics market. We aim to tap into this new market by developing unique products.

Performance for Fiscal 2013

Net sales in Japan amounted to ¥40,945 million, a 7.2% increase year on year. Sales of summer season products in our core Gatsby brand were strong, including women's body sheets. Other sales increases came from the successful launch of new Gatsby products aimed at male teens, a segment that had a low rate of hair styling product use, and the Lúcido brand launch of a new series of products aimed at combating the body odor unique to middle-aged men.

Operating income totaled ¥4,480 million, a 14.3% increase over the previous fiscal year, despite a big investment in marketing, primarily for new products.



Men's Grooming Business

Market Environment

The domestic men's cosmetics market is worth approximately ¥120 billion, according to Mandom's calculations, and the market is continuing to expand gradually.

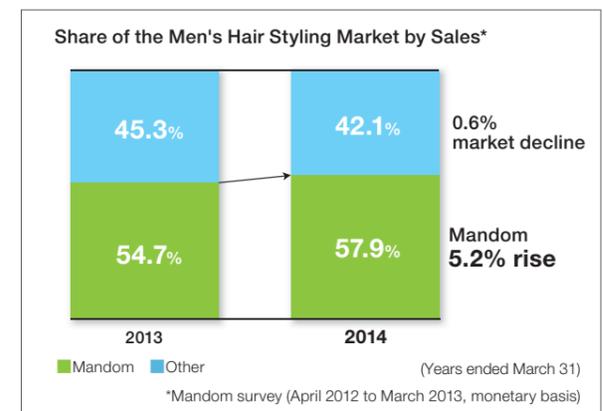
The hair styling market has been shrinking yearly as entry users decrease in line with falling birthrates. In

contrast, the face and body care market is expanding steadily. A shift in men's awareness has also been taking place. At one time hair styling products were the first thing that came to mind for men's cosmetics, but recently more consumers think of face care products. The last several years have also seen remarkable growth in body care. With this awakened consumer interest in face and body care, the

market holds high potential for growth. The scalp care market is also growing significantly due to the energizing effect of surging competition; various manufacturers have been releasing a range of new scalp shampoos and scalp care products.

Initiatives in Fiscal 2013

In fiscal 2013 we strengthened the lineup of summer season products in the Gatsby brand and bolstered store promotions to prepare for the high-selling season. These initiatives, in combination with the effects of a very hot summer, helped Mandom achieve very strong sales in the face and body care market. A large number of new products brought to market by other firms intensified the competition, yet in body paper our actual market share was notably over 80%.



We released new Gatsby brand Hair Jam hair styling products that target teens, a segment of entry users whose usage rate has been contracting yearly. We aired television commercials that impressed on consumers that this was a totally new type of hair styling product; we also ran aggressive store promotions, succeeding in quickly winning product recognition. A post-release survey revealed that usage rates had turned around and were rising for high school and university students, leading to strong performance. Together with strong sales of Moving Rubber hair wax, our top product, the market share of the Gatsby brand in the hair styling category increased 2.6%.

Regarding Lúcido, we are continuing our efforts to nurture the aging care market by targeting middle-to-mature age males in their 40s, a segment with high growth potential. Regular in-store marketing, coupled with ongoing sampling and advertising aimed at promoting aging care products, began to show results, with expanded sales in the face care series with a focus on skin lotion.

Mandom also released a deodorant series for men around their 40s in February 2014 aimed at combating the body odors that develop in one's middle years. A

heightened awareness among consumers toward body odor care matched up with a trend in retail to target the middle-age segment, enabling good movement of product into stores. Publicity was conducted ahead of release, including magazine and Web tie-ins that raised the topic of "middle-age body odor." For the product release, TV commercials were aired featuring the famous couple of actor Seiichi Tanabe and actress Nene Otsuka. Mandom's efforts are drawing wide attention to middle-age body odor and to the necessity of taking action against it.



● Lúcido Deodorant series

Future Initiatives



● Gatsby Facial Paper



● Gatsby Rich Whip Facial Wash

Under the Gatsby brand we further expanded the lineup of summer season items after strong sales the previous year. We are offering a new body lotion to meet rising needs for a cool sensation, facial paper for young men with skin concerns, and have been working in other ways to attract new users. In the peak demand periods for our key

Business Review

Overview by Segment

body paper products we run TV commercials. All of these efforts are aimed at maintaining Mandom's top position in the product category.

We have also released new facial cleanser products amidst intense competition in face care, a category in which Mandom holds the second highest market share. To acquire



● Lúcido One Push Care Color series

new users we have produced an aerosol facial cleanser that creates a creamy, fine foam for young men who seek a facial cleanser that is also gentle on the skin.

For the Lúcido brand, we will continue to run TV commercials and carry out other advertising for our deodorant series, as well as host samplings to offer

consumers new opportunities to try the product, aimed at expanding the user base. We have renewed the package design and have expanded the lineup of our strong-selling skin care series.

Lastly, we have entered hair coloring with a new product for dyeing gray hair, the One Push Care Color series. The brand is for middle-aged men and offers a wide range of products.



● Lúcido Skin Care series

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Women's Cosmetics Business

Market Environment

Amid sluggish sales in recent years, the women's skin care market in Japan has seen changes in consumer purchasing behavior tending toward a bifurcation into high-priced and low-priced cosmetic items. With business confidence showing signs of picking up since last year, we have been experiencing a recovery in high-priced items and continued strength in the sale of low-priced items as before, primarily through drugstores. Players across the market have released numerous low-cost, high-performance cosmetics and the competitive climate continues to be intense.

The cleansing market, which is the core of our women's cosmetics business, remains flat, yet large in scale. By offering new concepts and value we expect to be able to increase sales in this market.



● Bifesta Water Cleansing series

Initiatives in Fiscal 2013

Despite signs of a slight recovery in the market, in fiscal 2013 competition from various companies grew more formidable.

Under these circumstances, we worked to expand recognition of our core Bifesta brand and Water Cleansing series. In addition, we continued working to raise awareness of the new value of water cleansing-type cleansers' and promote their use. We regularly ran television commercials featuring Japanese actress and model Anna Tsuchiya and held publicity campaigns such as product samplings that focused on busy women, often characterized as "overtime office women."



● Bifesta renewal

Thanks to these initiatives, sales rose steadily and the total number of bottles shipped since the initial release of the series exceeded 10 million, achieving the third highest market share in the cleansing category (as of April 2014 for self-care products, excluding system products).

Uru-Ochi Water Cleansing lotion has a dominant 70% share in lotion-type products; Uru-Ochi Water Cleansing eye make-up remover has a respectable 30% share in the point make-up remover category. Both are the top-selling items in their respective categories.

Future Initiatives

In addition to the initiatives undertaken to date to expand sales of Bifesta products, we will undertake a brand renewal in the autumn. We are aiming to expand further by proposing new value. We hope to attract new product users

Women's Cosmetics Business

Market Environment

The women's hair styling and hair care market in Japan has been contracting in recent years in almost all product categories. Products such as hair cream and hair milk, however, along with hair oil as a non-bath treatment, are enjoying strong sales as they treat dry, brittle hair often caused by the use of hair irons and hot rollers for hair styling, items that are being used by a growing number of women.

The body care market has also been contracting from year to year. Despite this, Mandom has seen a growth trend in sticks and creams in the body sheet and perspiration control category, a changing product trend bolstered by hot weather in recent years and greater attention to energy conservation.

Initiatives in Fiscal 2013



● Mandom Body Sheet

In fiscal 2013, the women's styling market remained largely in a holding pattern.

Under these market conditions, sales were strong for the Lúcido-L Hair Wax series, core items of the brand that maintained the top share in their category while the brand's sales overall were flat. The Mandom body care series featuring Disney



● Lúcido-L Hair Wax series

Future Initiatives

by implementing a package design facelift combined with a boost in content quality for the cleansing series that aims to alleviate darkening of the skin and make skin more clear. We will run new TV commercials to continue building brand recognition and developing the brand.

characters enjoyed very strong performance due to the effects of a very hot summer. The Disney Body Sheet in particular captured the fourth largest share in its category during the first fiscal year of its release, contributing significantly to double-digit growth in the domestic women's cosmetics business.

To build sales, the new "Powder in Milk" series is being released in the hair cream and hair milk category, the only strong-selling category in the women's hair styling market

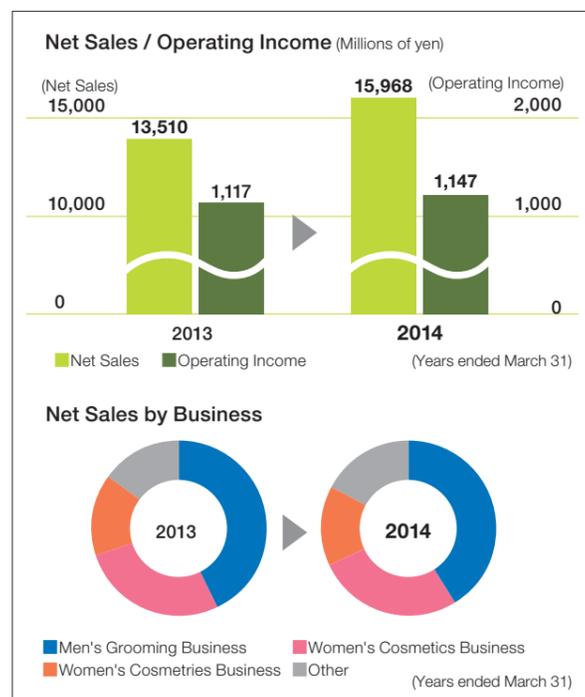


● Lúcido-L Argan Rich Oil series

for the Lúcido-L brand. In the autumn we will release the Argan Rich Oil series for effectively treating damaged hair, as part of an effort to expand our product lines to meet a growing diversity of needs for keeping hair beautiful. In the body care category, we will renew our Body Sheet and Splash Deo Water body care series products featuring various Disney characters, introduce additional deodorant sprays, and strengthen in-store promotions to expand sales. We will also release a new Body Milk product in the autumn and expand our product lines to meet autumn/winter needs for moisturizing.



● Mandom Body Milk



Economic Climate

Indonesia has been experiencing rapid economic growth in recent years. Income levels have risen and living conditions have been improving drastically. Year by year, with rising income levels, the middle class has been expanding and the number of people with low incomes has been decreasing, leading to growing domestic demand. Although the accelerating inflation over the last several years must also be watched carefully, the base of the consumer market is broadening. The population of Indonesia is the fourth largest in the world at 240 million, and this large market represents a promising market and has been attracting new market entrants from abroad.

Men's Grooming Business

Market Environment

Rising income levels and an accompanying increase in

Cosmetics Market Environment

In the cosmetics market, consumer confidence is growing along with rising incomes, and consumer behavior is changing rapidly. We are seeing interest in value-added products and indications of a rise in the unit price of purchases, which bode well for high growth in the future. Significant changes are starting to take place in distribution as well. The traditional market of privately run shops is shifting to a modern market that is dominated by major retailers from overseas. In this modern market, European cosmetics manufacturers are intensifying efforts to expand their presence in both men's and women's markets and a climate has emerged that sees both global and local firms in fierce competition.

Mandom's Strength in the Market

Mandom has been doing business in Indonesia since 1969. In an age when the concept of men's cosmetics had yet to be established in consumers' minds, we developed products that reflected the desires of local consumers and expanded the business while opening up and cultivating the men's cosmetics market ourselves. We built a distribution network that now supplies products to nearly all of the over 18,000 islands in the archipelago, working in cooperation with local distributors. Mandom has a share of over 70% in the hair styling products market and is the country's top manufacturer of men's cosmetics. We also continue to see growth in women's cosmetics, primarily make-up and fragrances, with sales in Indonesia split roughly evenly between men's and women's products. Mandom has become the cosmetics maker most familiar to consumers in Indonesia today.

Performance for Fiscal 2013

Sales for the last fiscal year in Indonesia were strong in women's cosmetics, focused on the Pixy brand. Foreign trade, primarily selling products to Dubai, expanded steadily. In combination with the lower value of the yen, a yen equivalent increase in net sales was recorded: 18.2% year-on-year to 159.68 million yen.

Resources were aggressively funneled into marketing for a high-growth modern market, and even though there was a rise in labor costs, operating income rose 2.6% year-on-year to 11.47 million yen.

consumer confidence, together with a growing fashion consciousness, have led to steady continued growth in the

men's cosmetics market, which is expected to remain strong. Notably, the rise of major chain retailers is leading to healthy conditions in a modern market. In particular, rising consumer awareness toward face and body care, plus the fact that the face and body category is a specialty area for Western cosmetics companies, makes the market highly prominent and the competitive climate is expected to intensify.

Initiatives in Fiscal 2013

In the last fiscal year, Mandom focused on reinforcing efforts in men's grooming, especially the face and body category with the Gatsby brand.

Mandom began selling facial cleansing paper as a new genre in the facial products category. Efforts were redoubled in in-store promotions to show consumers how to use products and to capture the market early. In body care products, to meet needs from rising fashion consciousness among consumers,



● Gatsby Eau de Parfum

the new fragrance series Urban Cologne was released and has been selling extremely well. This was followed by Gatsby Eau de Parfum. We aim to expand our lines and



● Gatsby Styling Wax

increase sales commensurately.

In hair styling products, our flagship Water Gloss series has been selling well, and we continue to market hair wax products. In-store promotions and wider store distribution efforts are being made to expand recognition and cultivate the market.

Future Initiatives

In the flagship hair styling category for Gatsby products, we introduced the new Styling Mist series. TV commercials were aired to quickly expand consumer recognition and capture the market. We produced numerous variations, helping to maintain a high share of the hair styling market in an environment of strong competition. In the growing face and body market, to increase our share we are responding flexibly and speedily to a rapidly changing market environment and consumer wishes.

Women's Cosmetics Business

Market Environment

As with men's cosmetics, the rise in disposable income and increasing awareness of cosmetics among women continue to spur growth in the women's cosmetics market. Under these circumstances, Western cosmetics brands are entering a modern market while sales of Halal-certified brands are also selling well. The latter are important in Indonesia, a country where the population is predominantly Muslim. The market is expected to continue growing, in combination with increased competition due to further market entries and more products being developed to meet diversifying consumer needs.

Initiatives in Fiscal 2013

In the last fiscal year, even though competition grew more intense, the market scale grew steadily.

In this environment, we completely renewed the series for the previous year's flagship product, Two Way Cake foundation, under our Pixy make-up brand, and in the first half of this fiscal year put energy into continuing to introduce products into stores. We then did a thorough renewal of our high-end series Ultimate line and other make-up lines. Together with these efforts we aired TV commercials, and held promotional events

to keep the brand fresh and stimulate consumer demand. All of these efforts are showing good results.

In our skin care series we released White-Aqua Gel Cream, a new whitener to meet local consumer needs for skin whitening, improving our lineup. Existing items also performed well, leading to strong growth.



● Pixy White-Aqua Gel Cream

Future Initiatives

In the future we will continue to strengthen the Pixy brand with its core products in the make-up category and develop make-up products aside from Two Way Cake, and also venture further into the skin care category, which has a large-scale market.

Women's Cosmetics Business

Market Environment

Reflecting Indonesians' preference for scents, there has been growing usage of fragrances among teens as a first personal fashion item. Consequently, light colognes and light fragrances for teens are taking root as a market. This age segment is also highly sensitive to trends, so trends change in a fast cycle and new products are constantly being brought to market. The scale of the market is also growing as income levels rise.

Initiatives in Fiscal 2013

In the last fiscal year, again the market environment moved in a favorable direction. Under the Pucelle brand we released new lines targeting adult women in their 20s, from the Glazelle series to our Eau de Parfum fragrance lines; we also came out with hair fragrances as a new product category, all to attract new users.

In the hair care category, we ran TV commercials for the Lúcido-L Hair Vitamin series, which sold well upon reaching the market, and made other efforts to expand brand recognition.



● Lúcido-L Hair Vitamin series

Future Initiatives

We will further develop the new Glazelle series under the Pucelle brand to extend the target from the original teen segment to women in their 20s, aimed at expanding the customer base.

With regard to the Lúcido-L brand, which we began developing in the previous year, we aim to expand our share in the growing market of hair care products and will work to increase brand recognition, expanding the scale of the women's cosmetics business.

Other Overseas

Areas with high growth potential representing markets to cultivate for future overseas business



Market Environment

Cosmetics markets are growing in tandem with economic growth in the Asian nations that form the markets for Mandom products. Despite this, the newly industrializing economies (NIES area) with comparatively high GDP levels—Singapore, Hong Kong, Taiwan, and Korea—have matured as markets and many Japanese and international cosmetics brands are already available; the environment is highly competitive in this area. Conversely, in mainland southeast Asia, with a focus on Thailand, Malaysia, the Philippines, and other countries, the cosmetics market itself is not very large, nor are there many competitors in the marketplace. Yet in the last few years the

pace of economic growth has picked up and, because of the high growth potential, more cosmetics brands, particularly American and European brands, are accelerating their entry into the market and we anticipate the environment to become highly competitive.

Performance for Fiscal 2013

In the last fiscal year, with the core brand of Gatsby selling well in the Other Overseas category and the Pixy brand spreading horizontally, combined with the lower value of the yen, a yen equivalent increase in net sales was recorded: 29.8% year-on-year to 11,301 million yen.

We invested aggressively in marketing to accelerate growth in various countries, and even though expenditures rose, these efforts brought increased revenue, with operating income increasing 34.9% year-on-year to 1,225 million yen.

China

China's growth rate has been on a slight decline, but the economy continues to grow. Entering 2013 there were concerns over a drop in personal consumption, but the latter part of the year saw a recovery and the size of the women's cosmetics market continued to expand. In the men's cosmetics market, however, although there is high potential, there are still no well-established grooming habits, so grooming behaviors need to be encouraged and the market cultivated.

In fiscal 2013, Mandom ran TV commercials for hairspray under the core Gatsby brand featuring the Japanese actor Shota Matsuda and held numerous promotional events, along with other efforts to quickly expand recognition. Furthermore, efforts were made to extend the area of product reach and expand sales channels. We will continue to foster the men's cosmetics market in the future to secure an advantage and grow the scale of the business in China.



● Gatsby Hairspray

Mainland Southeast Asia

GDP levels are still relatively low in mainland southeast Asia, but rapid economic growth is anticipated. Furthermore, the combined population of the five countries targeted in this area is roughly equal to that of Indonesia, with over 240 million people. The area therefore holds tremendous growth potential as a consumer market. At present there is relatively little competition from other manufacturers in the cosmetics market, but the competitive environment is likely to also intensify as the market grows.



● Gatsby Styling Wax

Mandom sells products through its group company in Thailand, now covering also Myanmar, Vietnam, and Cambodia. In cooperation with local distributors we are working to expand the market and build out the distribution network.

We ran TV commercials for Styling Wax hair gel, a bolstered item under the Gatsby brand to increase recognition. We also released products in the body care category, aiming to boost recognition as an overall men's grooming brand.

In Thailand, sales are strong for the women's cosmetics brand Bifesta, which holds the top share of the cleansing products market. We are also expanding our distribution network and the scale of the business is growing well.

India

Indian consumers have a preference for scents and a high awareness of personal grooming. The cosmetics market is expected to expand along with the growth of the economy, making India a promising market.

Mandom established a subsidiary in March 2012 to carry out local marketing, but due to the lack of a production system in India and the growing exchange risk from a decline in the Indian rupee, the business of Mandom India has been temporarily suspended.

Sales of cosmetics remain strong, so we have positioned the country once again as a recipient of product exports from Indonesia while we build a distribution network and continue to take action to expand recognition of the Gatsby brand.

