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Analysis of Operating Results

1. Summary

During the fiscal year just ended, Japan's economy experienced overall improvement and a gentle expansionary trend against a background of government economic and fiscal stimulus. Economic conditions in Asia, the center of gravity for the Group's overseas business, also benefitted from the influence of moderate global growth, with recovering consumption and steady overall expansion.

In this environment, consolidated net sales rose 12.9%, to 68,215 million yen. Consolidated net income increased 13.4%, to 4,091 million yen. (Hereinafter, all figures are stated in Japanese yen, consolidated as of March 31, 2014, and all percentage changes are relative to the previous consolidated fiscal year.)

2. Net Sales and Cost of Sales

Net sales totaled 68,215 million yen, up 7,788 million (12.9%). This marks the fourth consecutive year of record sales. This favorable result was driven principally by increased domestic sales, centered on our core Gatsby brand, and overall firm overseas sales. Favorable foreign exchange conditions compared to the previous term also drove overseas sales results higher in yen terms.

Cost of sales was 30,890 million yen, up 3,321 million (12.0%). The principal factor behind this increase was the increase in domestic and overseas sales. However, due to efforts to lower costs both domestically and overseas, gross margin expanded to 37,325 million yen, up 4,466 million (13.6%).

3. Selling, General and Administrative (SG&A) Expenses and Operating Income

SG&A expenses amounted to 30,471 million yen, up 3,560 million (13.2%). This increase was driven principally by aggressive investment for marketing (sales promotion and advertising expenses) both in Japan and overseas. As a result, operating income rose to 6,853 million yen, up 906 million (15.2%).

4. Non-Operating Profit, Extraordinary Profit, Ordinary Income and Income before Income Taxes and Minority Interests

Non-operating income has been increasing steadily since the previous term, while non-operating expense has been falling. As a result, non-operating profit was up 182 million yen during the term. In addition, although extraordinary income increased, extraordinary expense also increased significantly, resulting in a decline of 82 million yen in extraordinary profit.

As a result, ordinary income totaled 7,330 million yen, up 1,088 million (17.4%). Income before income taxes and minority interests also increased to 7,279 million yen, up 1,006 million (16.0%).

5. Corporate and Other Taxes, Minority Interests and Net Income

Corporate and other taxes totaled 2,608 million yen, up 433 million (19.9%), principally due to increases in corporate tax payable by the parent company. Minority interests rose to 579 million yen, up 89 million, due mainly to the increase in net income of the Group's Indonesian subsidiary.

As a result, net income amounted to 4,091 million yen, up 484 million (13.4%), a new record high.

Analysis of Financial Position and Cash Flows

1. Assets, Liabilities and Net Assets

Due to a variety of factors, including an increase in property, plant, and equipment, total assets amounted to 67,858 million yen, up 7,694 million. Total liabilities totaled 12,679 million yen, up 3,552 million, due to an increase in accounts payable among other factors. Thanks to increased retained earnings, among other factors, net assets totaled 55,179 million yen, up 4,141 million, and the shareholders' equity ratio was 75.2%.

2. Status of Cash Flows

Cash and cash equivalents (cash) totaled 10,890 million yen, up 408 million.

Principal factors influencing cash flows during the term are as follows.

(Cash Flows from Operating Activities)

Cash flows from operating activities amounted to 7,303 million yen, down 301 million. While operating income rose, other factors, including an increase in inventories as well as corporate and other taxes, exerted an opposite influence.

(Cash Flows from Investing Activities)

Cash flows from investing activities totaled 5,596 million yen, up 209 million. While income from sales and redemptions of marketable securities and from refunds of time deposits increased, the use of cash also increased, principally for the acquisition of property, plant and equipment as well as marketable securities.

(Cash Flows from Financing Activities)

Cash flows from financing activities amounted to 1,833 million yen, up 186 million. This was mainly due to an increase in the payment of shareholder dividends, including minority shareholders.

Important Factors Influencing Consolidated Operating Results

1. Factors Influencing Profitability

The Group operates in a highly competitive business environment. Particularly in Japan, we are competing in a mature market. Such competition exerts downward pressure on retail prices while placing upward pressure on sales expenses, with inevitably lower profit margins. Furthermore, since our key product lines have a relatively short lifecycle, the success or failure of new products is a principal factor influencing our results. We always carry out brand renewal before the end of the product life cycle, and develop and market new products based on underlying consumer preferences. As such, merchandise returns from retailers also impact our profitability.

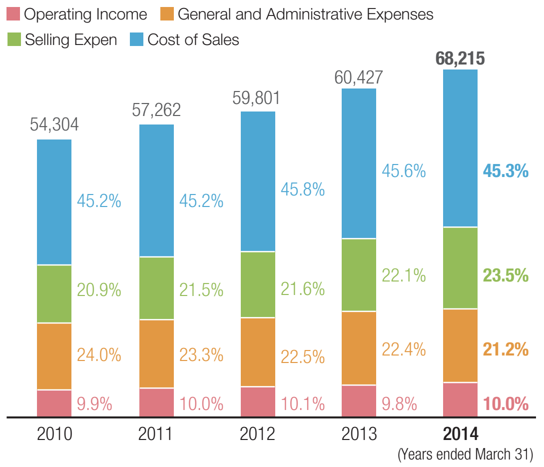
In addition, since the inventory on which the Group's continued operations depend is produced mainly on the basis of projected future demand and market trends, this strategy may, depending on actual demand or unanticipated trends, require inventory disposal. This disposal is recorded as a loss under cost of sales and adversely affects the Group's performance. It is the Group's policy to dispose of inventory immediately after market value impairment is confirmed, rather than postponing such disposal.

In Japan and Indonesia, our dependence on specific partners is high, formally exposing us to credit risk. However, we believe that for both countries, the increasingly dominant market presence of a few players actually tends to reduce this risk, and as such it effectively has no influence on our current business results.

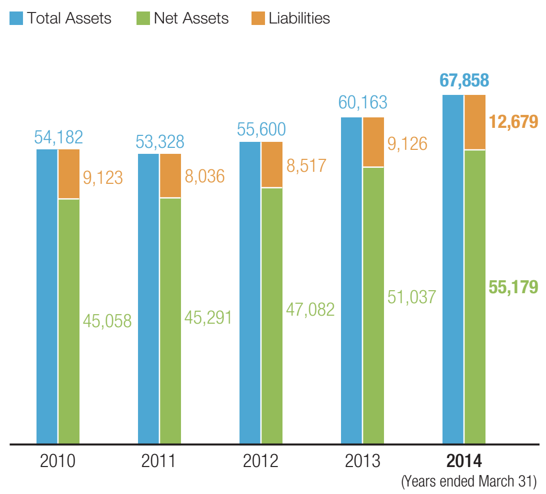
2. Foreign Exchange and Resource Price Fluctuations

In overseas operations, foreign exchange fluctuations or increased petroleum prices may affect Group competitiveness by increasing the costs of raw materials required at production sites in Indonesia and China. The Group's overseas manufacturing is carried out in Asia, and some regions are subject to event risk from possible legal or economic changes that may accompany sudden political

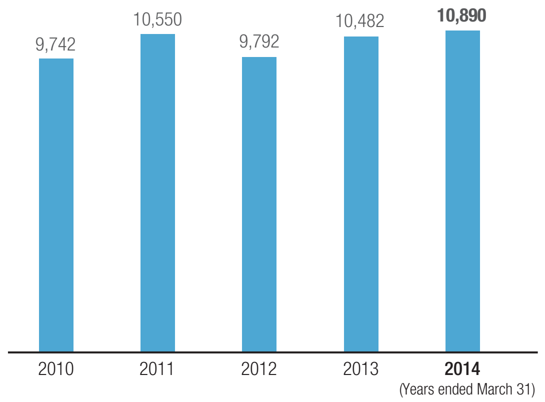
Breakdown of Ratio of Operating Expenses/ Operating Income to Net Sales (Millions of yen)



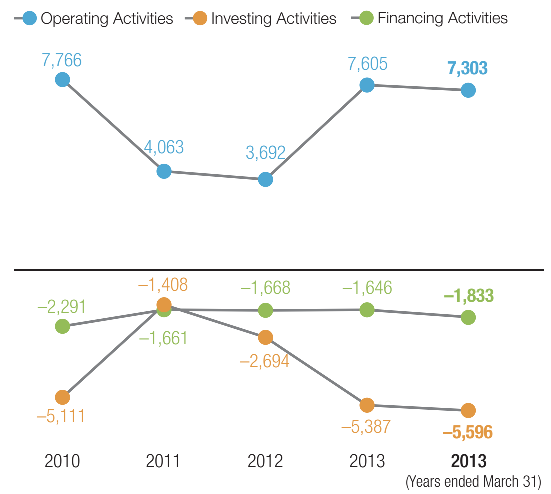
Total Assets, Liabilities and Net Assets (Millions of yen)



Balance of Cash and Cash Equivalents at End of Period (Millions of yen)



Cash Flows (Millions of yen)



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events. Such developments could impact the Group's management and financial performance.

Business and Others Risks

1. Consumer Alignment Risk

Competition in the cosmetics market in Asia, including Japan, is becoming increasingly intense due to the activities of peer companies as well as new competitor entry. In addition, the market is experiencing ongoing changes in consumer needs and wants, and consumer contact is taking place through increasingly diverse distribution channels. In this competitive environment, the Group is working to sustain and enhance its brand value and to develop, introduce, promote, and reinforce new products; withdraw from, reposition, or revamp existing products; and achieve innovation in its marketing activities, including its sales methods. Notwithstanding these efforts, various uncertainties may cause the Group to experience delays in responding to factors in its environment. Particularly in Japan, these factors include the impact of retailers reducing inventories of standard products by rebalancing inventories, and the return of surplus inventory from sales agents, the value of which may impact the Group's performance.

2. Partner Dependence Risk

※ Insert chart, annual securities report, P12

As shown in the chart above, during the 2013 and 2014 terms ended March 31, the Group was dependent on certain wholesalers for more than 10.0% of its consolidated sales. The Corporation and PT Mandom Indonesia Tbk have long-term, stable, ongoing business relationships with these wholesalers. In the future distribution of cosmetics and other products, there will be an increasing tendency toward market dominance by a limited number of large-scale wholesalers. This may lead to further dependence on specific distributors who account for a significant percentage of Group sales.

3. Regulatory Risk

The Group manufactures (and in some cases imports) and sells quasi-drugs and cosmetics in accordance with various regulatory statutes, including the Pharmaceutical Affairs Law, as well as in compliance with quality and environmental statutes. In the event, however, of a major breach of statutory or regulatory requirements, production activities may be affected, with a resulting impact on the continuing viability of the business involved. Moreover, restrictions may be placed on the Group's business due to revisions to existing legislation or the enactment of new laws. In the event that the Group incurs higher costs in its efforts to comply with statutory and regulatory requirements, its operating performance may be affected.

4. Foreign Exchange Risk

The Group's overseas business focuses on Asia, where solid market growth is expected. Overseas net sales accounted for 37.8% and 41.0% of consolidated net sales in the fiscal years ended March 31, 2013 and 2014, respectively, and the weight of overseas business is expected to increase. Accordingly, short-term, as well as medium-to-long-term fluctuations in foreign exchange rates have the potential to impact the Group's performance and prevent the operating results of overseas Group companies from being accurately represented our business performance when translated into yen.

5. Overseas Business Development Risk

The Group continues to focus on expanding its business in the Asia region, which is positioned as a growth engine under its business strategy. In the event of a natural disaster or significant breach of applicable laws, trading policies, or customs and taxation regulations in the area, or a drop in consumer demand, the Group's business activities may be constrained, impacting its overall business performance.

Challenges to be Addressed

1. Maintaining and Expanding the Men's Grooming Business, Reinforcing Female-Oriented Business

Grooming products for men represent the Group's core business. In this and other categories in which we operate, we are experiencing increasing competition by established as well as new market participants, both in Japan and overseas, and we believe that the business environment will become even more challenging. Within this environment, the Group places utmost importance on its men's grooming products business, which accounts for more than half of consolidated sales and more than sixty percent of sales in Japan. Since this business is a mainstay of our profitability, we will continue striving to uncover new needs and wants through research from the consumer's point of view. We will also hone our capability to introduce new products, and undertake to maintain business expansion.

At the same time, we will reinforce our women's products business, including the skin care and base makeup categories, and strive to expand into new business areas.

2. Bolstering Personnel Development as the Foundation of Group Business

The Group seeks continuing global growth with a focus on Asia. Management considers global personnel development to be one of the foundations supporting its business, and believes that equipping personnel for success in any country will become increasingly important. Consequently, we will bolster personnel development to enhance the capacity of our employees to communicate and acquire a deep understanding of the customs and values of each culture where we market our products, to strengthen the Group's overseas foundation.

3. Bolstering Corporate Social Responsibility Activities

Social responsibility and sustainability is a Group value, and management regards corporate social responsibility activities as a key objective. In addition to ongoing reinforcement of quality assurance and environmental measures, the Group as a whole strives to promote corporate social responsibility activities as a good corporate citizen.

Management's View of Challenges and Policy Going Forward

Management strives to formulate optimal policies in light of the current business environment and available data and information. Management's key concern is to sustain business expansion. Recognizing that the engine for this expansion lies in overseas markets, management will strive to achieve further growth by developing the Southeast Asian market—where there is likely to be increasing demand for our products—as well as new markets in other Asian regions. We will also position our women's cosmetics business for further growth.

Management prioritizes efficient use of capital and regards the return of profits to shareholders in the form of dividends as a key capital policy. Consequently, management will undertake to return more profit to shareholders and rein in increases in equity (retained earnings).

1. Current Management Strategies and Outlook

Sustained growth is the core element of the Group's medium- to long-term business strategy. To achieve phased expansion of Group business, we will deploy a carefully planned input of business resources to achieve sustainable growth in income and profits. In the current three-year Medium-Term Plan (fiscal year 2015 through fiscal year 2017), we will continue to focus on three strategic themes: 1) promoting continued growth for our core men's grooming business; 2) accelerating the start of our women's cosmetics business through global marketing in Asia ; and 3) promoting the continued expansion of our overseas business.

Furthermore, when implementing our strategic objectives, we will be expeditious in making use of external capital through M&A activities and business alliances.

1) Sustained growth of our core men's grooming business

We will work to reinforce our core Gatsby brand as a global brand in Asia to better serve male consumers in all our markets. In Japan, we will work to expand sales centering on the styling as well as the face and body categories, targeting younger consumers. We will also place the styling category at the center of our overseas business while undertaking to reinforce and expand the face and body categories.

Under our Lúcido brand, we will continue to offer aging-care concept products for middle-aged consumers, including body odor care.

2) Accelerating our women's cosmetries and cosmetics businesses through global marketing in Asia

The Group will expand our women's cosmetries and cosmetics businesses centering on the skin care and base makeup products. In Japan, we will work to grow this business with a focus on expanding our share in the cleansing products market. Overseas, we will seek to expand sales in existing markets through greater lateral deployment of products developed for Japan, and grow our cosmetics business through expansion and reinforcement of the sales area for base makeup products.

3) Continued expansion of overseas business

Our overseas business maintains its positioning as our engine of growth, with Indonesia as our principal international market and China, India, and Southeast Asia as our developing markets. We will reinforce our investment in targeted marketing and undertake to develop an even deeper understanding of the consumer point of view in markets where we operate, to further expand the scale of our overseas business.

2. Financial Policies

The Group's financial policies include maintaining a sound balance sheet and the liquidity necessary to pursue its objectives. Capital is used primarily to fund operations and for capital investments, and is derived from internal reserves. If a domestic subsidiary lacks necessary funds, the shortfall is covered by a loan from the parent company, while demand for short-term funds by overseas subsidiaries is met by local-currency-based short-term loans taken out by the Group's main representative office in the region. The Group regards any additional funds in hand as cash reserves for business investment, and places the utmost priority on ensuring their liquidity and security. Management further believes that even if the need should arise for investment funds exceeding current liquidity, it can procure the funds necessary to ensure dramatic growth based on sound finances and the capacity to generate cash flows through operating activities.

3. Earnings Distribution Policy

Returning profit to shareholders through dividends is a

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core management policy, subject to internal reserve requirements for medium- to long-term operational development and new business development, and for addressing corporate risks. Under this strong commitment to dividend policy, the Group will endeavor to deliver shareholder return through dividend payouts. The numerical target for the year ended March 31, 2014 and ending March 31, 2015 is a payout ratio of not less than 40.0% of net income on a consolidated basis.

The Group's fundamental policy is to distribute surplus funds via two annual dividends, a mid-term and a year-end dividend.

The entity for approving the distribution of these funds is the Board of Directors for the mid-term dividend, and the General Meeting of Shareholders for the year-end dividend.

Total dividends for the term were set at 70 yen per share. As a result, the dividend payout ratio amounted to 40.0% on a consolidated basis.

Internal reserves will be allocated to strategic investments, including investment in facilities to expand existing business operations, and to strategic R&D and other corporate value enhancement investment. The reserves also serve as a safety net to help deal with diverse corporate risks arising out of the difficult business conditions to which we are subject. As a means of delivering shareholder return and improving capital efficiency, the purchase of treasury stock will be considered as an option.

Corporate Governance

Corporate Governance Structure

1) Summary of corporate governance structure

The activities of the Group are overseen by the Audit & Supervisory Board. With legal oversight from our auditors as the basis for corporate governance, we invite outside executive officers to sit on our board, and maintain an executive officer and a business function unit system. Through the organic integration of these structures, we promote the separation of decision-making and audit functions from execution functions, and strengthen mutual checks and oversight by the Board of Directors and the Executive Board. We also ensure that director oversight functions organically on the business front line. Furthermore, the Group has voluntarily established a Compensation Committee, more than half of whose members are outside executive officers, as well as advisory panels to the Board of Directors. Executive officer compensation and appointments are reviewed by these entities, and determined with close reference to the results of such reviews.

The Group's corporate governance structure is shown below.

※ Insert chart, annual securities report, P26

2) Reasons for adopting this governance structure

To ensure management compliance and efficiency, the Group employs an extensive range of management monitoring functions. Moreover, based on our understanding of the importance of reflecting front line management views in decision making, the Board of Directors includes not only senior management but certain executive officers with special titles who oversee business function units, as well as outside executive officers.

In addition to establishing an Audit & Supervisory Board, we have also voluntarily established advisory panels to the Board of Directors, and apply mutual checks and oversight between executive officers on the Board as well as oversight and supervision from outside executive officers. This structure is rigorously monitored by the Audit & Supervisory Board, and we believe this approach will contribute to strengthening corporate governance.

3) Internal control system

Under the governance structure outlined above, the Board of Directors has established basic policies to ensure appropriate operations, including the establishment and revision of internal regulations, their promulgation and thorough implementation, and the establishment of special advisory panels. Executive officers and employees strive to implement these regulations, with the Internal Control Division and the Audit & Supervisory Board exercising rigorous oversight and supervision.

In particular, the Group's Code of Conduct Promotion Committee helps ensure management compliance by promulgating awareness of, and adherence to, our compliance standards. Our Helpline System for whistleblowers also helps avoid and minimize risk.

In addition, our Internal Audit Division, which reports directly to the President Executive Officer, ensures the trustworthiness and accuracy of our financial reporting. The Division is responsible for establishing and monitoring the management of internal control systems relating to financial reporting and for carrying out internal audits. The Division also submits reports as appropriate to the Board of Directors and the Audit & Supervisory Board, which review the reports on an ongoing basis and work to devise structures to implement recommendations for improvement.

4) Risk management structure

The Total Risk Management Committee, chaired by the President Executive Officer,is the principal vehicle for the Group's total risk management system. The Committee's mission is to supervise and manage the operation and development of the Group's risk management systems. The Committee regards the management of risks with the potential to materially impact business continuity, and risks that hinder the reliability and appropriateness of financial reporting, as important issues. It therefore prioritizes risk management related to these important issues by promoting the creation of risk management manuals to avoid and minimize risk.

5) Limitation of liability for damages

a. The Corporation has concluded agreements with outside executive officers Satoshi Nakajima and Satoshi Nagao, based on Article 427.1 of the Companies Act and Article 24.2 of the Corporation's Articles of Incorporation, for limitation of liability for damages as defined in Article 423.1 of the Companies Act. The amount of limitation of liability for damages pursuant to these agreements is 10 million yen or the minimum amount for outside executive officers as specified in Article 425.1 of the Companies Act, whichever is higher.

b. The Corporation has concluded agreements with outside auditors Masatoshi Tsuda and Yukihiro Tsujimura based on Article 427.1 of the Companies Act and Article 32.2 of the Corporation's Articles of Incorporation, for limitation of liability for damages as defined in Article 423.1 of the Companies Act. The amount of limitation of liability for damages pursuant to these agreements is 10 million yen or the minimum amount for auditors as specified in Article 425.1 of the Companies Act, whichever is higher.