



MANDOM CORPORATION  
**Annual Report 2006**  
Year Ended March 31, 2006



**Construct the Foundation  
for Next Growth**



# MANDOM CORPORATION **Annual Report 2006**

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## **Cautionary Statement With Respect to Forward-looking Statements**

This annual report contains forward-looking statements concerning Mandom's current plans, strategies, beliefs and performance. These forward-looking statements include statements other than those based on historical fact and represent the assumptions and beliefs of management based on information currently available. Mandom therefore wishes to caution readers that actual results may differ materially from expectations, and that forward-looking statements are subject to a number of foreseen and unforeseen risks and uncertainties.

All amounts have been rounded to the nearest whole unit.

## Mission Statement:

**Aiming to provide a comfortable lifestyle supported by health and beauty**

## *Philosophy*

The shared ideals set forth below, guide our actions toward realizing the Mandom Group's management philosophy, which above all aims to serve and benefit society.

### ***1. Active employee participation***

Mandom encourages all employees to take an active role in every facet of operations, blending individual responsibility with the willingness to embrace larger roles than those prescribed by job titles, the organization and the company itself. Our workplace thrives on lively intellectual exchange, and is imbued with a spirit of cooperation, creating a dynamic and progressive organization.

### ***2. Creating lifestyle value with consumers, for consumers***

At Mandom, where everything begins and ends with consumers, four key words form the basis of our philosophy: Health, Cleanliness, Beauty and Enjoyment. We begin by ascertaining the needs of consumers and end by creating consumer value. Our goal is to consistently deliver value to people throughout the world.

### ***3. Enhancement of 3 areas: Lifestyle focus, Business Partner focus, and Brands focus***

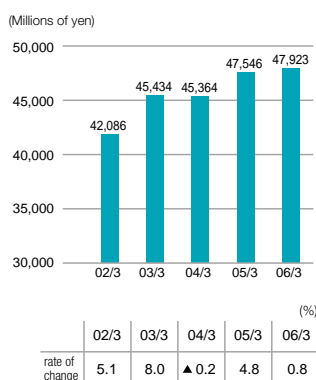
Our fundamental goal is to serve and enhance society through the products and services we supply. To achieve this objective, we constantly strive to deepen our understanding of the changing lifestyles of consumers and the needs of our corporate clients. We also carefully monitor product and service trends, the latest information, technology and consumer preferences.

# Financial Highlights

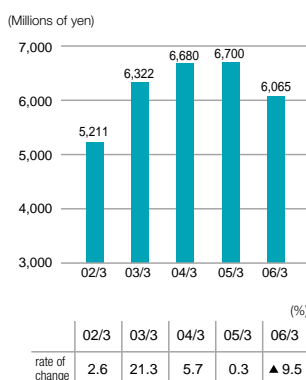
MANDOM Corporation and Consolidated Subsidiaries  
Years ended March 31

	(Millions of yen)				
	06/3	05/3	04/3	03/3	02/3
Net Sales	47,923	47,546	45,364	45,434	42,086
Operating Income	6,065	6,700	6,680	6,322	5,211
Net Income	3,099	3,211	3,253	2,988	2,176
Total Assets	51,320	47,397	45,474	43,868	38,613
Total Shareholders' Equity	40,568	38,168	36,687	34,714	29,376
—Return on Equity (ROE) (%)	7.9	8.6	9.1	9.3	7.1
—Earnings per Share (EPS) (¥)	124.36	128.73	130.83	128.32	92.96
—Payout Ratio	48.2	42.7	38.2	39.0	43.0
—Dividend on Equity	3.6	3.5	3.3	3.5	3.1
—Cash Dividends per Share (¥)	60.00	55.00	50.00	50.00	40.00

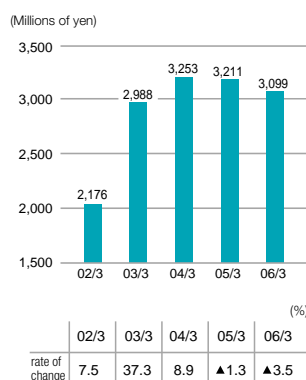
## Net Sales



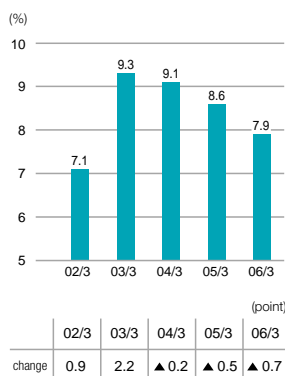
## Operating Income



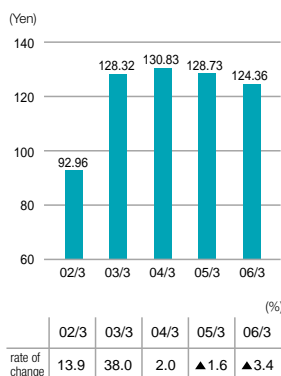
## Net Income



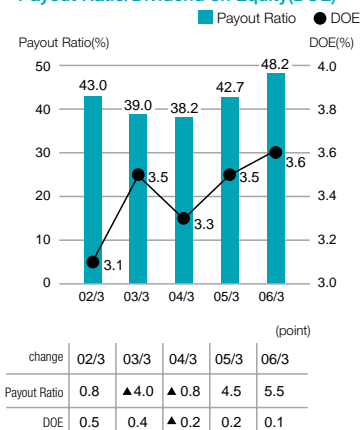
## Return on Equity (ROE)



## Earnings per Share (EPS)



## Payout Ratio/Dividend on Equity(DOE)



A photograph of two middle-aged men standing side-by-side in a bright, modern office environment. The man on the left is wearing glasses, a white blazer over a dark patterned scarf, and light-colored trousers. The man on the right is wearing a dark blazer over a light blue shirt and white trousers. Both are smiling warmly at the camera. A semi-transparent teal banner is overlaid across the middle of the image, containing the title and a message.

## A Message to Our Stakeholders

Although overseas businesses performed favorably in the fiscal year ended March 2006, leading to higher revenues, profits declined as domestic businesses struggled. We believe that the fiscal year ending March 2007 will be a year of “challenge” and “upfront investment” aimed at a recovery in earnings and future expansion in the scale of business operations.

## Results for the fiscal year ended March 2006

In the fiscal year under review, the Japanese economy continued to recover moderately. This recovery was underpinned by strong corporate earnings and a broadening base of capital investment, as well as a recovery in consumer spending stemming from an improvement in the employment environment and personal income. In the cosmetics industry as well, overall shipment volumes and values improved, average unit sales prices stopped declining, and signs of an emergence from deflation began to appear. In Asian countries outside Japan, where the Mandom Group operates its overseas businesses, economic conditions remained favorable, led by export demand, and consumer spending was also generally robust. However, in some parts of the region, there was a striking slowdown in consumption caused by surging crude oil prices.

The fiscal year ended March 2006 marked the first year of Mandom's eighth Middle-range Planning (MP-8), and in the environment described above, we focused on strengthening and fostering brand power on an integrated basis in Japan and the rest of Asia. At the same time, we promoted the development of products that were able to fulfill the diversifying "wants" of consumers. As a result of these efforts, consolidated net sales for the year under review grew 0.8% year on year to ¥47,923 million. Overseas businesses, the growth engine of the Mandom Group, recorded an 8.5% increase in net sales despite the adverse impact of weaker Southeast Asian currencies. However, domestic net sales posted a 1.8% decline, as a 1.7% rise in net sales at the parent company was offset by a drop in sales resulting from the divestiture of a subsidiary in the previous fiscal year. Consequently, the overseas sales ratio on a consolidated basis was 27.0%, an increase of 2 percentage points from 25.0% in fiscal 2005. This represents generally steady progress toward the target of an overseas sales ratio of at least one-third of total Group sales established under MP-8, and the Company has been implementing various measures to expand the scale of overseas businesses.

Sales by Strategic Product Unit (Group-wide sales) were as follows.

### 1. *Gatsby*

Sales increased ¥1,241 million, or 5.3%, year on year. Summer-season products, such as deodorants and sheet cosmetics, performed strongly both in Japan and overseas: domestic sales rose 4.3% year on year while overseas sales were up 8.5%. Sales volume in Japan and overseas also grew 19.0% to 361 million units, and *Gatsby* cemented its position as a leading men's cosmetics brand in the Asian region.

### 2. *Lúcido L*

Sales declined ¥32 million, or 0.7%. In Japan, although the hair wax series, which underwent a renewal in autumn, registered a robust performance, this was insufficient to offset lower sales associated with sluggish demand in the women's hair color market itself. Consequently, domestic sales fell 3.9%. Overseas, however, we expanded the network of stores handling Mandom products, especially hair styling products in ASIA NIES and China, which led to a 37.9% increase in overseas sales.

### 3. *Face and Body Products*

Sales rose ¥1,462 million, or 13.1%. Domestic sales grew 11.6% mainly due to favorable results from *Gatsby* facial paper and deodorants. Overseas sales climbed 16.9%, thanks to a strong performance by *Gatsby* face and body products as well as robust sales of *Pucelle* brand products mainly in the ASEAN region. This segment has steadily solidified its base as it heads toward establishing itself as a mainstay category that will lead to stable earnings in the Group.

### 4. *Hair Color Products*

Sales increased ¥45 million, or 0.8%. Domestic sales rose 1.1%. Women's hair color products experienced sluggish demand associated with contraction of the hair color market overall. However, *Lúcido* hair coloring products for gray hair and hair salon products at subsidiaries achieved brisk sales. Overseas, although hair coloring products for black hair performed well in the



**Motonobu Nishimura**  
Representative Director  
President Executive Officer

ASEAN region, sales ended up declining due to lackluster demand in the hair coloring product market overall in ASIA NIES. Consequently, overseas sales slipped 1.8%.

### 5. Women's Cosmetics

Sales declined ¥1,050 million, or 17.9%. Domestic sales fell sharply. Mainstay make-up brands at the parent company and products handled by subsidiaries suffered weak demand. Product unit sales were also pushed down strongly by lower sales resulting from the divestment of a sales company that mainly handled women's cosmetics in the previous fiscal year. Overseas, the *Pixy* brand, which is mainly marketed in the ASEAN region, has performed well since a product line renewal in October 2004, and it drove growth in sales of women's cosmetics overseas.

At present, we are in the process of reviewing our research and production systems and our product strategies for women's cosmetics. At the same time, we are successively launching proprietary products in the Japanese market. Through these measures, we will develop a business base to foster this product unit into a core earnings source in the future.

Owing to the factors mentioned above, consolidated net sales ended up 0.6% below our forecast, which was still roughly in line with our expectation. However, as we had revised down our earnings forecasts in the first half of the fiscal year, consolidated net sales were actually 2.2% below our initial forecast. Accordingly, Mandom's sales performance is lagging behind the initial target for the first fiscal year of MP-8 (ending March 2006), and if we also take into account our earnings forecasts for the second year of the plan (ending March 2007), we believe at present that it will be difficult to achieve the sales target we have established for the final year of the plan.

Turning to profitability, consolidated operating income declined 9.5% year on year to ¥6,065 million. In Japan, consolidated operating income fell 12.1% for two main reasons. First, the cost of sales ratio rose due to an increase in losses on the disposal of returned goods related to a subsidiary that the parent company absorbed in the previous fiscal year. Second, the Company actively appropriated selling expenses to maintain its market competitiveness. Overseas, consolidated operating income dropped 3.0%.

## Eighth Middle-range Planning: performance indicators and status

### Consolidated sales

Result for the fiscal year  
ended March 2006  
¥47,923 million

Plan for the year  
ending March 31, 2007  
¥50,600 million

**Boost growth**

- Strengthening the cosmetics business
- Building up the foundations of the women's cosmetics business
- Continuing to reinforce overseas businesses

**Increase  
profitability**

**Raise capital  
efficiency**

### Consolidated net income

Result for the fiscal year  
ended March 2006  
¥3,099 million

Plan for the year  
ending March 31, 2007  
¥2,500 million

### Return profits to shareholders

Result for the fiscal year  
ended March 2006

Payout ratio 48.2%  
DOE 3.6%

Target for the final year of MP-8

Payout ratio 40% or higher  
DOE 3% or higher

### ROE・EPS

Result for the fiscal year  
ended March 2006

ROE 7.9%  
EPS ¥124.36

Target for the final year of MP-8

ROE 10% or higher  
EPS ¥160 or higher

**Hiroshi Kamei**  
Representative Director  
Vice President Executive Officer



Although the Company curbed selling, general and administrative (SG&A) expenses, a rise in raw material costs caused by surging crude oil prices in Indonesia, a major overseas production base, led to deterioration in the cost of sales ratio.

Consolidated ordinary income fell 2.6% to ¥6,120 million. In Japan and overseas, inventory disposal losses declined significantly and other expenses were reduced by half. In addition, as dividend income and insurance benefit-related income at the parent company increased, other income (expenses) turned positive for the first time on a consolidated basis. Nevertheless, as this was insufficient to cancel out the decrease in operating income, consolidated ordinary income for the year ended up declining 2.6%.

Consolidated net income decreased 3.5% to ¥3,099 million. The Company incurred an extraordinary loss associated with the abolition of the directors' retirement allowance system at the parent company as well as losses on the disposal, sale, and impairment of property, plant and equipment in Japan and overseas. Extraordinary losses related to the reorganization of domestic subsidiaries were posted in the fiscal year ended March 2005. However, these decreased significantly due to a pause in restructuring, resulting in extraordinary losses halved compared to the previous fiscal year.

In addition, income taxes rose 6.4% year on year, as the tax rate returned to a normal level. This was due to the absence in the fiscal year under review of the lower domestic tax burden resulting from the merger of the parent company with Japanese subsidiaries holding losses carried forward in the previous fiscal year.

Net income did not diverge from the Company's consolidated earnings forecast. However, as we revised down our earnings forecast in the first half of fiscal 2006, net income ended up 6.9% below our initial forecast. Accordingly, together with consolidated net sales, consolidated net income has lagged behind the initial target for the first year of MP-8 (ended March 2006), and if we also take into account our earnings forecasts for the second year of the plan (ended March 2007), we believe at present that it will be difficult to achieve the net income target we have established for the final year of the plan. Owing to this divergence, return on equity (ROE) and earnings per share (EPS), management indicators that have a high correlation with net income, were 7.9% and ¥124.36, respectively, both lower than in the previous fiscal year. Mandom included ROE and EPS as management indicator targets in the management plan, but we anticipate that it will be difficult to achieve other targets for these profitability indicators.

Mandom has declared a year-end dividend of ¥30 per share, thereby boosting the annual dividend per share by ¥5.0 from the previous fiscal year, to ¥60. As a result, the payout ratio was 48.2% and the dividend on equity (DOE) ratio was 3.6%, both on a consolidated basis. I can therefore report that Mandom achieved both a payout ratio of 40% or higher and a DOE of 3% or higher, as advocated in the dividend policy.

## Plans and forecasts for the year ending March 31, 2007

In the fiscal year ending March 2007, a number of factors that will cause substantial changes in the economy and the business environment have become apparent. For example, although domestic economic conditions are indeed on a recovery footing, oil prices are surging, interest rates are rising and the outlook for capital markets is unclear. As several companies, including major competitors, have successively entered product sectors where Mandom has strengths, we recognize that market competition will increasingly intensify in the business environment in which we operate.

In this environment, our objectives for the fiscal year ending March 2007, which will mark the second year of MP-8, remain unchanged. We will continue to strive to enhance our growth potential, improve profitability and capital efficiency centered on that growth, and return substantial profits to shareholders. We intend to achieve this by strengthening the cosmetics business, building up the foundations of the women's cosmetics business, and continuing to reinforce overseas businesses.

Nevertheless, the current business environment and market competition have become even more severe than we initially estimated. Therefore, if we take into account such factors as the state of progress with MP-8, we believe that the year to come will be a year of "challenge" and "upfront investment" aimed at the achievement of an earnings recovery and further expansion in the scale of our business.

We are projecting an increase in consolidated net sales centered on the flagship *Gatsby* brand, women's cosmetics, and overseas businesses.

In Japan, we expect to boost sales by dramatically reforming *Gatsby* products and communication with the aim of enhancing brand freshness and our ability to counter market competition.

Mandom's domestic businesses have lagged behind targets for the first and second fiscal years of the management plan. However, we aim to achieve an earnings recovery and further expansion in the scale of business by overhauling *Gatsby*, our flagship brand, rapidly establishing a business base for women's cosmetics, entering the market segment of hair coloring products for women with gray hair, and bolstering our lineup of skin care products for men.

Overseas, we foresee an increase in sales based on two main measures. First, we will expand the recognition of *Gatsby* in



the Asian region by stepping up parallel brand development. Second, we will strengthen development of the women's cosmetic brand *Pixy* primarily in the ASEAN region. Our overseas businesses are progressing in line with MP-8. By striving for steady business expansion, we will continue to raise the earnings weighting of overseas businesses.

As regards consolidated profits, we have factored in higher operating expenses resulting from a rise in raw material expenses and petroleum-related costs due to persistently high oil prices and the allocation of strategic marketing expenses chiefly in the domestic market. We are therefore forecasting a decline in both ordinary income and net income, originating from a decline in operating income.

In Japan and Indonesia, Mandom's major production bases, we are projecting a reduction in costs stemming from the adoption of in-house production and an improvement in production efficiency. However, we estimate that the cost of sales ratio will rise slightly due to an increase in the cost of sales resulting mainly from a steep rise in raw material costs. Furthermore, with regard to SG&A expenses, we have taken into account an increase in selling expenses and R&D expenses, as we aim to enhance brand freshness by substantially reforming products and communication in the *Gatsby* brand, mainly in Japan.

We estimate that ordinary income and net income will decline at a greater rate than operating income, as we are projecting a decline in income and an increase in losses in the other income (expenses) account compared to the previous fiscal year.

As a result, for the year ending March 2007 we are projecting an increase in net sales but, unfortunately, a decline in profits. The main factor behind this decline in profits is upfront investment aimed at overhauling *Gatsby*, our flagship brand. Taking account of the intensification of competition in the market and brand freshness at this point of time, we will make an upfront investment in the fiscal year ending March 2007 and endeavor to overhaul the brand. Through these initiatives, we believe we will be able to establish a more solid brand earnings base over the medium to long term, based on our acquisition of the expanding part of the overall market and the enhancement of freshness.

As a result of this upfront investment the level of profits will decline temporarily, but at the same time, we will endeavor to restore selling expenses to a normal percentage of sales and reduce fixed administrative expenses in about two years. Therefore, through this upfront investment, we aim to change to a stable earnings structure accompanied by business growth.

Our fundamental policy regarding the return of profits to shareholders is to ensure a payout ratio of 40% or higher and a DOE ratio of 3% or higher, as outlined in our policy on profit distribution. With regard to the temporary decline in profits, as we will concentrate on dividends on equity, our basic policy is to maintain the dividend amount in the fiscal year ended March at the very least.

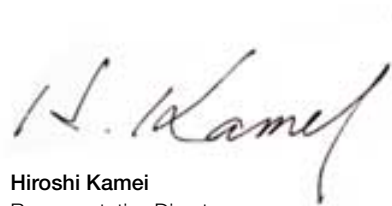
## In closing

We certainly do not believe that our stakeholders will be satisfied with the results of the first fiscal year of MP-8 or our earnings forecasts for the second year. Nevertheless, this gap between our performance and our targets has become a good opportunity for us to refocus on our mission statement of "Aiming to provide a comfortable lifestyle supported by health and beauty" and consider the best way to develop business that is focused on a time a little further in the future. While squarely facing up to the issues that we need to reflect on and constantly aiming to practice consumer-oriented management, we will take up the challenge of achieving our goals once again. In doing so we will draw on the active participation in management of all employees, which is one of our fundamental management concepts. We look forward to your continued support in these endeavors.

July 2006



**Motonobu Nishimura**  
Representative Director  
President Executive Officer



**Hiroshi Kamei**  
Representative Director  
Vice President Executive Officer

## The Mandom Way

Mandom Group's Mission Statement calls for the group to be  
**“aiming to provide a comfortable lifestyle supported by health and beauty”.**

Our Mission Statement underpins all Mandom Group companies worldwide to constantly focus on how we can satisfy customers through our business activities.





# Harness Group resources

Mandom Group Mission Statement and strategy underpin our management promotion. Mandom divides the Asian region into four strategic areas: JAPAN, ASIA NIES, ASEAN 4, and CHINA, and the Mandom Group conducts business activities in a way that is in tune with the characteristics of markets and local societies, respectively. We believe that Mandom's strengths can be harnessed by allowing Group companies to develop business with a spirit of self-reliance, while working flexibly with one another, based on the Mission Statement and the strategy.

## CHINA



Zhongshan Factory  
(Guangdong Province, China)

### **ZHONGSHAN CITY RIDA FINE CHEMICAL CO., LTD.** (non-consolidated subsidiary)

Established in 1996  
Manufactures and sells cosmetic products  
Manufactures and supplies products to markets in China, Japan, and overseas Group companies  
Annual production volume(year ended December 31, 2005): 11,501 thousand units  
Owns sales bases in the coastal area: Beijing, Shanghai and Guangzhou  
Core products: cosmetries  
Distribution channels: distributors and direct sales

## ASIA NIES



### **SUNWA MARKETING CO., LTD.** (equity-method affiliate)

Started a joint venture in 1993  
Sells cosmetic products  
Core products: cosmetries and toiletries  
Distribution channel: direct sales

### **MANDOM CORPORATION (SINGAPORE) PTE LTD** (consolidated subsidiary)

Started a joint venture in 1988 Sells cosmetic products  
Core products: cosmetries, toiletries, and skin care products  
Distribution channels: distributors and direct sales



### **MANDOM KOREA CORPORATION** (consolidated subsidiary)

Started a joint venture in 1999  
Sells cosmetic products  
Core products: cosmetries and toiletries  
Distribution channels: distributors and direct sales

### **MANDOM TAIWAN CORPORATION** (consolidated subsidiary)

Started a joint venture in 1989  
Sells cosmetic products  
Core products: cosmetries  
Distribution channels: distributors and direct sales



Korea

Taiwan  
China  
Hong Kong

The Philippines

Thailand

Malaysia

Singapore

Indonesia

## Mandom Group Mission Statement:

“Aiming to provide a comfortable lifestyle supported by health and beauty.”

## Strategy:

## Middle-range Planning



### MANDOM PHILIPPINES CORPORATION (consolidated subsidiary)

Started a joint venture in 1992  
Sells cosmetic products  
Core products: cosmetries  
Distribution channel: distributors



### MANDOM CORPORATION (THAILAND) LTD. (non-equity-method affiliate)

Started a joint venture in 1990  
Sells cosmetic products  
Core products: cosmetries, toiletries, and skin care products  
Distribution channels: distributors and direct sales



### MANDOM (MALAYSIA) SDN. BHD. (consolidated subsidiary)

Started a joint venture in 1997  
Sells cosmetic products  
Core products: cosmetries, toiletries, and skin care products  
Distribution channels: distributors and direct sales



# JAPAN

### MANDOM CORPORATION (parent company)

Established in 1927  
Manufactures and sells cosmetic products  
Owns the Fukusaki Factory, the core factory of the three Group production sites  
Annual production volume(year ended March 31, 2006): 118,731 thousand units  
Core products: cosmetries  
Distribution channel: distributors



Head Office Building

### PIACELABO CORPORATION (consolidated subsidiary)

Established in 1972  
Sells cosmetic products  
Core products: cosmetics for hair and esthetic salons  
Distribution channel: distributors



Fukusaki Factory (Hyogo Prefecture)

### GUINOT JAPAN CORPORATION (consolidated subsidiary)

Established in 1993  
Sells cosmetic products  
Core products: GUINOT cosmetics for esthetic salons  
Distribution channel: direct sales

### BEAUCOS CORPORATION (consolidated subsidiary)

Established in 1996  
Quality management of products handled by domestic Group companies

### MANDOM BUSINESS SERVICE CORPORATION (non-consolidated subsidiary)

Established in 1997  
Provides life and non-life insurance, staffing, and general services (e.g., building maintenance and operation, back-office services, and environmental maintenance)

# ASEAN 4

### PT MANDOM INDONESIA Tbk (consolidated subsidiary)

Established in 1969 Manufactures and sells cosmetic products  
Listed on the Jakarta Stock Exchange in 1993  
Manufactures and supplies products to markets in Indonesia and the Middle East, and overseas Group companies. Owns integrated production facilities that perform throughout production procedures from the production of plastic containers to the production of contents, filling and packaging products.  
Annual production volume(year ended December 31, 2006): 550,272 thousand units  
Core products: cosmetries, make-up and skin care products  
Distribution channel: distributors



Cibitung Factory (Bekasi, Indonesia)



Sunter Factory (Jakarta, Indonesia)



# Explore Mandom's uniqueness

Years ago Mandom suffered a crisis in its business due to misguided management policy. That painful experience and the frank reflection that followed underpin the ideals we now strive for in the type of company and employees we want to develop. By following the Mandom way to create a Group in which employees are inspired to think and act energetically and to participate in objective and sound business management, we are creating an organization imbued with what we term "Mandom's uniqueness."

## 1. Self monitoring in management is the basis of corporate governance

We want to be honest in our dealings with society. We want to avoid any repetition of the type of painful and trying experience that our stakeholders went through during Mandom's past business crisis. Instead we want to manage the business in a way that inspires trust and a sense of common purpose. That is why we believe that a combination of both self-monitoring aimed at dealing with issues internally, and effective supervision from an external perspective is fundamental to corporate governance at Mandom. The cornerstones of this system are business execution based on decision-making from the stakeholder's perspective.

The decision-making framework is intended to (1) provide a dedicated system to enhance and accelerate management, (2) promote mutual checks and balances on equal terms, (3) afford objective oversight, and (4) clarify responsibility. The business framework, meanwhile, is intended to (5) provide a dedicated system to ensure agile management, (6) oversee business execution, and (7) clarify responsibility.

The business unit is the basic management unit in terms of (8) compliance. We will make the final element of the business execution framework the basis of all business activities as we develop these frameworks, and strengthen corporate governance as we strive for management that deals honestly with society.

### *Mandom Group's supervisory system-Corporate Auditors*

The Company appointed external auditors for the first time in 1986, following its business crisis. Since then the Company has ensured sound and transparent management practices throughout its organization by means of objective audits that draw on the broad knowledge and experience of auditors. At present, half of our auditors are external auditors. They work with the statutory auditors to interview and hold discussions with representatives of the Company ranging from directors and managers to employees. In addition to conducting legally compliant audits, they also offer opinions to management, establishing a trusting relationship imbued with a sense of urgency.

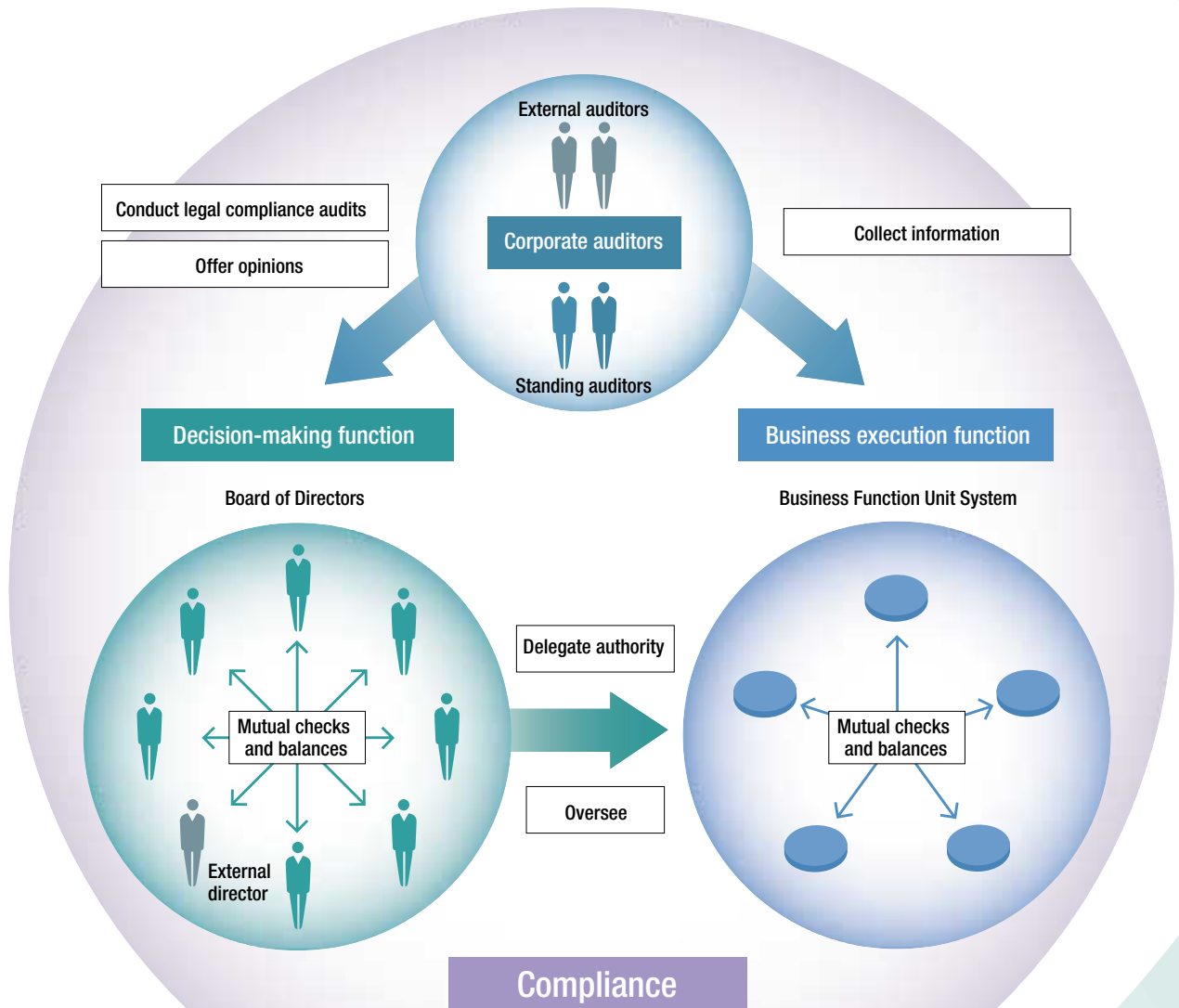
### *Function-based organization comprises Business Function Unit System and a system of mutual checks and balances*

Mandom's Business Function Unit System was introduced in the first year of the sixth Middle-range Planning (from April 1999) to establish a unique management oversight mechanism for operational execution. At present, the system consists of five units: the R&D Unit, the Production and Distribution Unit, the Marketing Unit, the Resource Management Unit, and the International Unit. Each unit defines its own functions and responsibilities to improve the precision and efficiency of business execution, and to promote mutual checks and balances between units in conducting business operations.

### *A considerate attitude is the bedrock of the Mandom Group Code of Conduct*

As part of the Group's compliance program, a Code of Conduct for Mandom Group executives and employees was announced in 1999 to put the corporate philosophy into practice. The code goes beyond the standard exhortations to obey the law and behave ethically, calling for employees to adopt an international perspective and take an actively considerate attitude towards all stakeholders, including local communities, and the global environment. Moreover, to ensure that the Code of Conduct is observed as it should be, the Helpline System (to protect the identities of whistleblowers) was established. By protecting employees who report internally on actual or potential violations of the Code of Conduct, the Helpline System involves all directors and employees in maintaining compliance, and contributes to risk management.

# Sound Management



A dedicated system to enhance and accelerate management  
 [separation from business execution / delegation of authority]  
 Promotion of mutual checks and balances on equal terms  
 [abolishment of directors' titles] [Business Function Unit System]  
 Objective oversight  
 [external directors]  
 Clarification of responsibility  
 [one year term of office for directors]

A dedicated system to ensure agile management  
 [separation from decision-making /delegation of authority]  
 Oversight of business execution  
 [executive officers]  
 Clarification of responsibility  
 [independence of units][one year term of office for executive officers]  
 Compliance

## 2. Harnessing our human resources—forums for communication, a framework for developing skills, an environment conducive to work

In accordance with its conviction that individual employee development is a prerequisite to corporate growth, the Mandom Group has worked to foster the necessary human resources as its size and corporate culture has changed over time. Most notably, when Mandom experienced its business problems, we learned the necessity of creating forums to communicate Mandom's Mission Statement and management philosophy. Over time, the form this communication takes has changed, but it still constitutes the basis of our personnel development activities. These forums for communication not only contribute to establishing a common management philosophy and goals, they are also very important in shaping an open company with a shared perception of what Mandom employees and the Mandom corporate culture should be like.

Now that Mandom's operations are becoming more global and its workforce is increasingly diverse in terms of nationality, Mandom is also redoubling its efforts to create an environment conducive to work and a framework for developing employee skills. Our overarching goal is that Mandom should continue to be a dynamic organization comprised of individuals inspired to think and act with drive, independence and personal responsibility.

### Forums for communicating management philosophy

Forums that foster closer communication between the Group, executives and employees serve not only to ensure that all employees share the same understanding of our management philosophy, but also help to resolve many issues and enhance employee solidarity and motivation. Whether imparting our management philosophy to younger employees who did not experience the Company's business crisis, to talking about achieving self-fulfillment and debating the future of the corporation, we believe that such forums for a variety of lively intellectual exchange are as important as employee training.

### Framework for developing skills

At Mandom, we emphasize on-the-job-training that takes place in the course of day-to-day work between managers and employees, and between experienced employees and those less experienced. We view this type of training as a form of all-round education that teaches employees not only the skills, knowledge and know-how they need for business, but also what they need to know as members of society. In addition, we offer training tailored to the needs of the individual, correspondence school tuition assistance, Group-wide conferences, and specialist training lead by individual business units and departments. Recently, we have been increasing and upgrading training programs—some open to all applicants, some for selected personnel only.

### An environment conducive to work

No matter how skilled employees become, they will not feel motivated unless their skills are used appropriately, and are recognized and rewarded. Moreover, employees need understanding of, and support for, their individual lifestyles and plans, making it easier for them to work. Mandom has developed a system of programs that emphasize respect for the individual so that work can be enjoyable as well as challenging.

#### Examples of communication forums

##### Weekly employees' paper (since 1982)

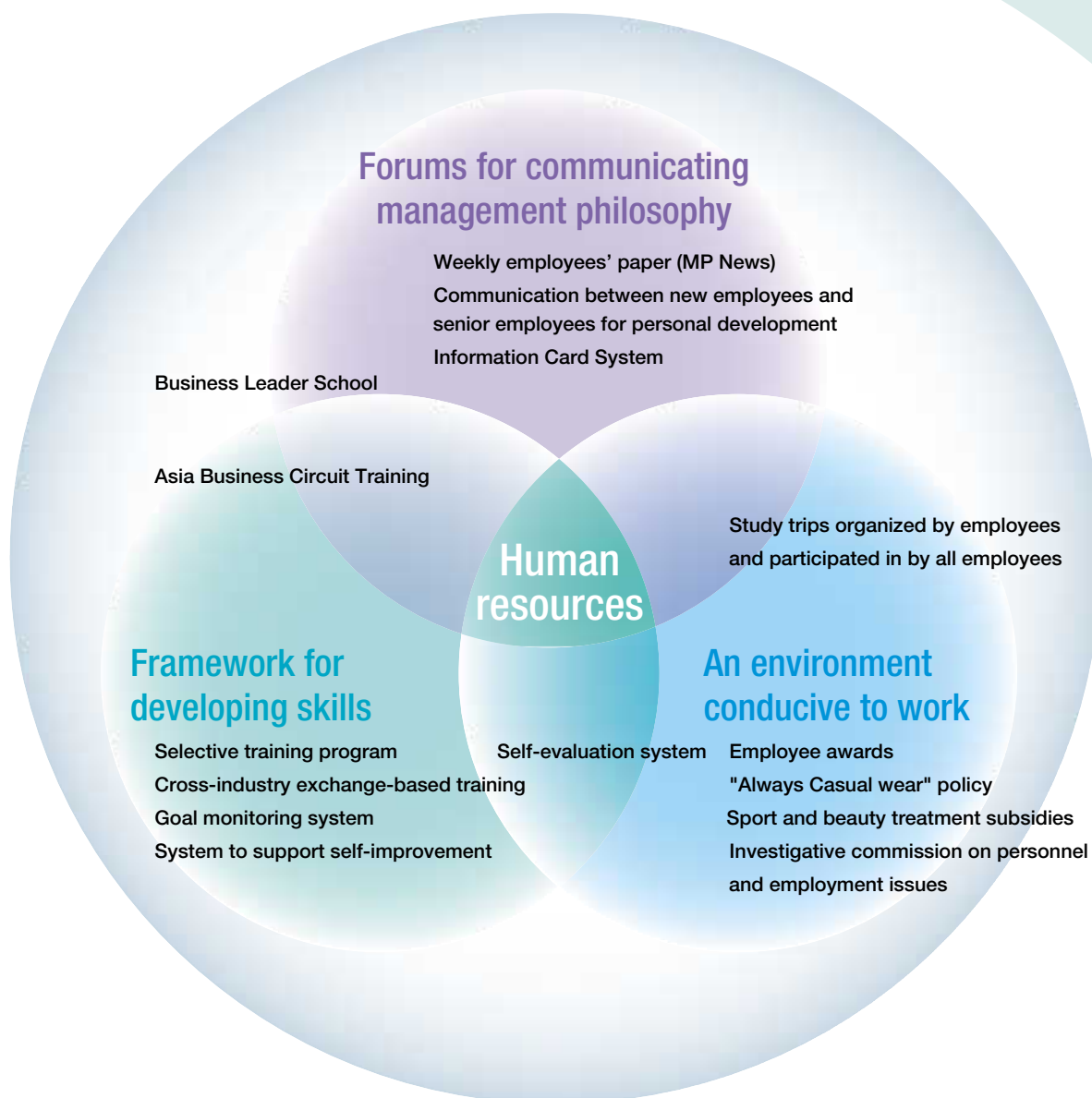
Following Mandom's management crisis, the weekly employees' paper "MP news" was launched to establish a unified philosophy and business plan for the new Mandom. As a medium that communicates Group-wide policy and the intentions of top management, the paper has become something that employees look forward to each week. The fact that it is produced by employees themselves, ensures that the information provided is up-to-date and detailed.

##### Information Card System (since 1984)

Information cards are one of the means by which all employees participate in Mandom's management. Employees use the cards to inform top management about market-related information, and also to communicate any other opinions or queries regarding the company. The handwritten cards are a personal and direct form of communication and even today they continue to contribute to resolving issues and stimulating workplace communication within departments. There are currently around 50,000 of these cards submitted annually, and employees are eligible for awards based on the quality and number of cards they have submitted.



# Nurturing Enthusiastic Employees



## Business Leader School (since 2001)

The Business Leader School, which targets the training and development of the next generation of managers, is a two-year training program which also functions as a forum for communication. Application for the training is open to all, with eventual participants selected from among the applicants. Mandom's president and vice president head the Business Leader School, where trainees learn about our corporate DNA in lectures by executives, improve their grasp of the knowledge and skills needed for management, and study the history of management decisions made at Mandom, among other subjects. At the end of the course each individual trainee devises his or her own career plan. At social gatherings after lectures, the candid discussions of issues raised sometimes go on all night, fostering a sense of involvement in management that transcends individual positions within the company's hierarchy and organization.



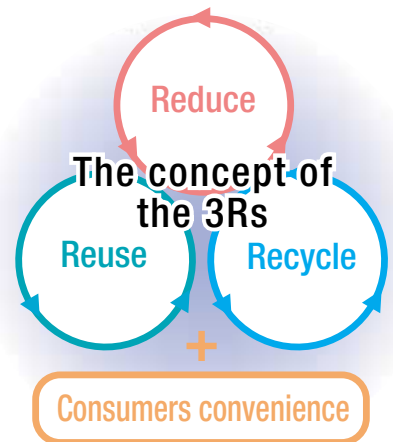
# Contribute to society

The Mandom Group is a cosmetics manufacturer and retailer and was a pioneer among Japanese companies in pursuing overseas business in the Asia region. We are constantly aware that, as a manufacturer, Mandom should ensure that its products make a useful contribution to society. At the same time, we will never forget our feelings of gratitude toward the Asian operating region, the foundation of our business development, and our duty to assist young people, who have supported our business development as the core target of Mandom products. We believe that Mandom's role is to make a useful contribution to society according to its capabilities.

## 1. Social responsibility as a manufacturer

The Mandom Group produces over 600 million units of cosmetic products annually and we recognize that consideration for the environment is our most important corporate responsibility. Therefore, we incorporate environmental considerations at every stage from product design to manufacturing, distribution and marketing, aiming to protect the environment throughout the process from the manufacture of products until after their use by customers.

Based on the Mandom Group's Environmental Philosophy and Fundamental Environmental Policy, Mandom is committed to undertaking activities to protect the earth's precious environment, as a good corporate citizen.



### Environmental considerations in product development

Ever since it became the first in its industry to completely eliminate the use of chlorofluorocarbons (CFCs) in 1990, Mandom has been a pioneer in environmentally friendly business practice. To reduce environmental impact and improve convenience for consumers, Mandom's product development is now based on the 3Rs (Reduce, Reuse, and Recycle).

#### Mechanism for Removing Residual Gas

In 2003 Mandom incorporated a proprietary gas removal mechanism into its *Gatsby* deodorant spray products. The mechanism simplifies the previously awkward process of gas removal and, since the button cover separates easily from the can, the design also assists in separating metal from plastic for garbage disposal purposes.

#### Product Display Trays

By changing the mold design for product display trays, Mandom has achieved an average 30% reduction in the amount of plastic used. Trays can also be reused simply by changing the price card attached to the front.



### Eco-friendly manufacturing

In its manufacturing activities at the Fukusaki Factory, Mandom has been treating wastewater, conserving energy, and recycling general waste. The factory acquired ISO 14001 certification in 2000 and has achieved zero emission status since October 2003 by recycling over 99% of waste.

### Eco-friendly logistics

In October 2004, Mandom addressed environmental concerns by adopting a third-party logistics (3PL) outsourcing contract. As well as shifting to a more efficient logistics system, we are working to preserve the environment through enhanced transportation efficiency. We are doing this through a modal shift that involves changing from freight transportation by truck to freight transportation by ship and rail (Green Distribution). In this way, we aim to further reduce environmental load and save energy.

#### Green Distribution

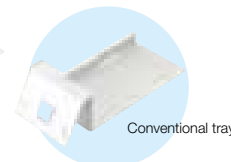
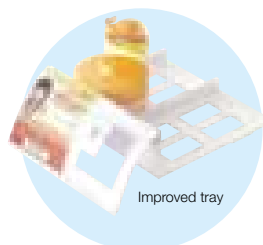
As part of its Fiscal 2006 Green Logistics Partnership Dissemination Project, Mandom has been working from May 2006 toward a 30% reduction in its carbon dioxide emissions by improving load efficiency in transportation between bases, bringing about a modal shift, and reducing inventory levels at bases.

### Eco-friendly sales promotion

Many personal items are used to strengthen store-based customer communications. Product display trays in particular are used in large numbers, so in order to reduce environmental load in any way it can, Mandom strives to reduce the volume of plastic used in manufacturing and reuse the trays.

#### Refills

Mandom offers refill cartons of products that are used up quickly, such as hairwater for straightening hair in the mornings. By enabling reuse of pumps and bottles, we intend to reduce the number of containers that are discarded.



## 2. Contribution to the Asia region

### Scholarships for the youth of Asia

In 1958, Mandom became the first Japanese company in the industry to expand overseas business in Asia. We believe that while deepening exchange with various people and industries in each country and region in Asia, we have been able to overcome differences in language, social values, culture, and daily customs, allowing us to deepen mutual understanding and foster collaboration on a wide range of levels. Based on the conviction that the Mandom Group's expansion in Asia owes a great deal to these developments, the Nishimura International Scholarship Foundation was established in 1999 as a token of appreciation to the region.

Launched with an endowment from Ikuo Nishimura, the first president of P.T. Tancho Indonesia (now PT Mandom Indonesia Tbk), the Nishimura International Scholarship Foundation provides scholarships to students to help fund their studies in Japan.

We hope that the relationship Mandom has with students such as these will help them contribute to the development of their home countries and foster friendly relations with Japan.



**Ikuo Nishimura**  
Founder, Nishimura International  
Scholarship Foundation

#### Comment by the late Ikuo Nishimura (excerpt)

Around 40 years ago, touched by Asian people, traditions, culture, and history, I spent much of my career in Asian countries, where I had some of the most fulfilling times of my life. Because I am deeply attached to this part of the world, I have always thought of ways to give back to its people.

These are the reasons why I established a foundation to encourage young people in Southeast and East Asia to become more familiar with Japanese people, traditions, culture, and history. By giving them opportunities to study about Japan, my desire was to help in some way to develop future leaders who, with knowledge of Japanese culture, could contribute to the development of their countries.

## 3. Supporting diligent young people

### Support for Mr. Jun Hiromichi, a wheelchair athlete

Mandom has received enormous support from young people, the core target of Mandom products, and believes that this has greatly encouraged the Company's business development. To express our appreciation we aim to support young people that are working hard to fulfill their dreams and desires.

Mr. Jun Hiromichi is currently active as the top wheelchair athlete. He won the silver medal in the 800 meters at the 2000 Sydney Paralympics and the bronze medal in the 800 meters at the Athens Paralympics in 2004. We hope he will win his third medal at the Beijing Paralympics in 2008. Mandom is providing financial support to Mr. Hiromichi because we appreciate not only his achievements as an athlete, but also his strong, cheerful character and positive, forward-looking lifestyle.



Mr. Jun Hiromichi

# Product development that creates lifestyle value with consumers, for consumers

Mandom's fundamental philosophy of being a company that "creates lifestyle value with consumers, for consumers," provides the foundation for our business, especially for our product development and marketing activities. We believe that we can achieve customer satisfaction by not only responding to what consumers say they want, but by working out what their latent wants are and offering products and related communications that add value.

## 1. Fundamental structure of Mandom's development and marketing process

### *Development process with consumers, for consumers*

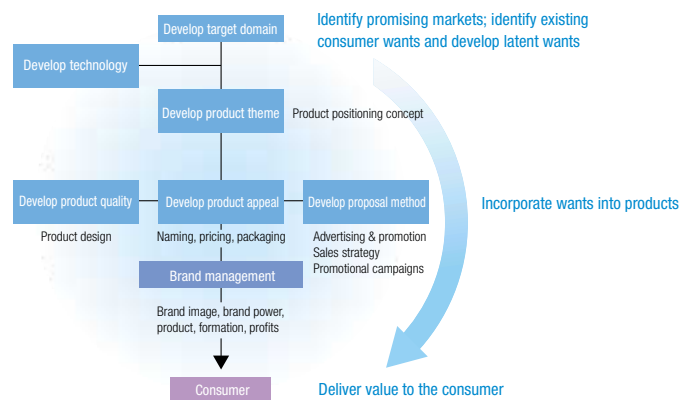
During the process of bringing a product to market, Mandom develops both the product itself—the point of contact with customers—and proposal methods—such as TV commercials and other corporate communications.

First, development begins "with consumers," by analyzing markets and consumers to determine promising categories and consumer groups to be targeted. Then, after formulating preliminary proposals for the concepts and basic technology to be used, the process moves on to put the ideas into more concrete form.

The next stages are when we develop the product itself and the related communications, and this is when we ensure that we are offering guarantees "for consumers." We guarantee quality through the ingredients of the product; we guarantee product appeal through the design and pricing; and we guarantee choice through the advertising and sales strategy. Numerous ideas are proposed and considered in the course of bringing this process of development to a conclusion.

### *Brand creation, development and maintenance—the final targets of marketing*

As we strive to perfect every single product we make, it is essential to increase brand power. Only a brand name—being able to say "I use *Gatsby*"—builds a product's share of consumer awareness. However, rather than simply increasing the number of brands, the objective of Mandom-style marketing is to put effort and energy into fostering one brand at a time. If one does nothing, a brand will age and weaken over the years. It could therefore be argued that brand management is actually as important as product development to ensure that our brands continually keep pace as times and customers change, and continue to practice the philosophy "creating lifestyle value with consumers, for consumers".

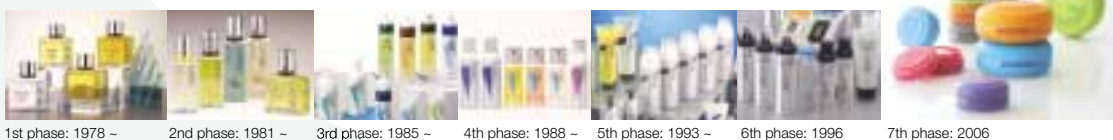


### *Gatsby's targets—unchanged for 28 years*

The *Gatsby* series was launched in 1978, the age when hair fluid was the most popular hairdressing product.

Since then, social and consumer trends have changed many times and on each occasion the *Gatsby* brand has been recreated: up to the present time, *Gatsby* has been through six phases in its development. It has been supported by young people for an impressive 28 years, and has grown as the top men's cosmetic brand. This year, *Gatsby* enters its seventh phase.

#### *The changing Gatsby brand*



1st phase: 1978 ~    2nd phase: 1981 ~    3rd phase: 1985 ~    4th phase: 1988 ~    5th phase: 1993 ~    6th phase: 1996    7th phase: 2006

## 2. Development philosophy and principles

### *Development philosophy*

#### **“Turning wants into products—Something New, Something Different”**

Our development philosophy is to propose innovation that is significantly different from what has gone before. To realize this philosophy, we have created the eight development principles listed below. When a product meets all of these conditions, it qualifies as an original product worthy of the Mandom name.

### *Development principles*

1. Is the product concept appropriate to changing lifestyles?	Proposal power
2. Has original technology been used? Or does the product offer innovative benefits backed by technology?	Originality
3. Can product benefits and quality provide customer satisfaction?	Competitive content
4. Is the product superior to competing products? Will it achieve differentiation?	Competitive strength
5. Is the price appropriate to the benefits offered by the product?	Economic suitability
6. Has compatibility with the distribution channel been confirmed?	Distribution potential
7. Will the product enable communication with consumers?	Information capability
8. Is the product environmentally friendly?	Environmental suitability

## 3. Mandom’s approach to product development: with consumers, for consumers

### *Research is essential*

Exceptional attributes are required of the market researcher—skill (to elicit information); sensitivity (to appreciate emotions); data-handling ability (to process written information) and originality (to formulate theories). A researcher does not discover what consumers really want by taking what they say at face value. To find out what they really want, the researcher needs to tap into unexpressed wishes and causes of dissatisfaction to catch the very first signs of the next big trend.

The product concept must draw on research to combine benefits for the consumer with outstanding market advantages. The right product is the one that makes its developers think, “This one’s a winner!”



### *Incorporate different perspectives to perfect products*

There are many aspects to developing a commodity for marketing to consumers: contents, packaging, pricing, and communication, to name just a few. The process of developing an idea, surmounting hurdles along the path toward the final goal of creating an actual product, is both the toughest and most enjoyable experience for any product developer. The aim is to ensure the highest level of quality by improving the product from many perspectives—not just that of consumers, but also from the point of view of other internal departments and external specialists such as designers and hairstylists. Our products undergo repeated trials by consumer monitors and hair specialists as well as the Mandom staff involved in development to ensure that the product contents offer optimum efficacy, usability and safety under real-life circumstances.



### *Follow up after the launch*

Even when the finished product has reached the consumer, the product development process continues. After a product has been launched, we assimilate information from distributors and sales staff about initial sales trends at stores, as well as direct feedback from consumers, to check whether there have been any problems related to the product. We also have to be constantly attuned to spotting any problems with existing hit products. An essential part of brand development is improving or revamping a product in good time before the brand’s share of consumer awareness declines.





## 4. Product Development and Marketing Rationale

The Mandom Group conducts both product-focused and market-focused development and marketing.



### Product-focused Development

#### Cosmetries

Cosmetries, which include hair styling, face and body care products, are for day-to-day grooming and looking good. They constitute Mandom's core business, and utilize technology and sales expertise cultivated over many years. In Japan, they are sold through distributors to drug stores and other "self-service"-style stores. Overseas, Mandom distributes body care and fragrance products that satisfy local customers' wants through distributors and directly operated stores.

#### Women's Cosmetics

In this category, we offer beauty products to enrich women's lives, mainly skin care and make-up products. To ensure this business drives future growth, we are rebuilding its operating base in terms of planning, development, research, and production.

In Japan, we are using new technology to bolster our development of proprietary brands that are distinctively different from overseas licensed brands. We sell products in this category at selected outlets through distributors. Overseas, we promote sales of these products over the counter through beauty consultants.

#### Products for Salon Use

Mandom develops exclusive brands at domestic hair salons and esthetic salons. In 1972, we were first in Japan to launch a French brand for esthetic salon use, and in 1982 we entered the hair salon market. We offer products, guidance on treatments and application techniques, and related services.

### Market-focused Product Development

#### Parallel marketing (products marketed simultaneously in Japan and overseas)

With a view to enhancing brand value in Asia, the entire Mandom Group conducts parallel product marketing in Japan and other areas of Asia, focusing mainly on the *Gatsby* and *Lúcido L* brands.

We have positioned Japan as the source of the latest products, and by subsequently adding categories and items that fulfill consumers' wants in each country, we aim to establish a firm presence in local markets. Furthermore, through continuous promotional activities that suit local characteristics, we endeavor to increase opportunities for the use of our products and enhance brand recognition.

#### Independent marketing (separate product marketing for Japan and overseas)

Both in Japan and overseas, Mandom is developing and marketing brands and products that reflect the unique wants of local consumers, as well as the market trends and distribution methods particular to different countries and regions.

In Japan, we aim to strengthen *Lúcido* as the main brand and, overseas, we will do likewise with *Pucelle*. We are endeavoring to raise brand recognition by undertaking diverse communication activities ranging from mass advertising conducted using local TV stars and media to in-store promotions.



Cosmetries(Domestic)



Cosmetries(Overseas)



Women's cosmetics(Domestic)



Women's cosmetics(Overseas)



## 6.Brand Development

### Cosmetics

# GATSBY



Takuya Kimura will be the new "face of Gatsby" in commercials

Commercial for facial paper



A store in Taiwan



## JAPAN

A trendsetter for Mandom's business in Asia, the *Gatsby* series caters to all the grooming needs of young men, offering hair styling, skin and body care, and fragrance products. In 2006, which marks the 28<sup>th</sup> anniversary of the *Gatsby* brand's launch, we will conduct the sixth full-scale renewal of this series. In conjunction with the renewal, we aim to establish a new brand image by radically overhauling our communication activities and using a different celebrity, Takuya Kimura, in TV commercials. At the same time, we will reinforce communication based on a mix of media to create new opportunities for connecting with target consumers.

## ASIA NIES

In the NIES region, where fashion trends spread almost simultaneously with Japan, Mandom uses the same products and advertisements as domestically. In the case of body care products and fragrances, we are also developing some products made in Indonesia to suit local preferences. In 2005 and 2006, we carried out a large-scale promotion centered on hair wax in Taiwan, and *Gatsby*'s recognition rate soared from 17.6% to 89.2%.

## LÚCIDO-L JAPAN

Mandom's brand development strategy for *Lúcido L* centers on hair styling and care products that aim to create style and texture. In 2005, we renewed the hair wax series and it has maintained top market share. From 2006, Moe Oshikiri has taken over from Namie Amuro as the "face" of the television commercials for this brand, and Mandom's joint promotion of hair color and hair wax products has won acclaim.

## ASIA NIES

In a tough market where international brands compete, Mandom is developing *Lúcido L* as a trendy Japanese hair styling brand. Interest in hair care is high in the region, and styling products including wax and foam, as well as hair treatments made in China, are popular. Last year, recognition of the brand increased in line with the rising popularity of Namie Amuro, who appears in the television commercials. From 2006, we plan to show a new commercial featuring Moe Oshikiri in Taiwan.





Targeted advertising is conducted in Indonesia.



An information shop



A store in the Philippines



Large-scale display contest in Indonesia

Sachet-type hair wax



Gatsby is written as 杰士派 in China.

## ASEAN 4

In Indonesia, Mandom offers a lineup featuring product types, prices, and fragrances that are tailored to the needs of local markets and consumers' preferences. We also conduct targeted advertising and promotional activities for the region. As personal income levels vary considerably, we offer a wide range of prices by marketing the same product in different sized packaging, and hair styling products in single-use sachets are popular. In cities in the ASEAN region outside Indonesia, Mandom mainly offers a range of Indonesian-made products, as well as some hair waxes from Japan, and these have proved popular. In 2005 in the Philippines, Mandom conducted a promotion encouraging consumers to try its products, and this boosted the profile of the Company's hair waxes.



## CHINA

In China, where the men's cosmetics market is not yet mature, Mandom is first of all emphasizing the provision of information and opportunities to try out products. We are opening information shops in Shanghai, Guangzhou, and Beijing, and we are strengthening direct face-to-face communication with customers, centered on hair styling and skin care products.

## CHINA

In China also we are developing *Lúcido L* as a trendy brand from Japan. With wavy hairstyles increasingly in vogue, awareness of hair care is rising, and hair treatments made in China are popular. In tandem with *Gatsby*, we are developing this brand through information shops where we are strengthening direct face-to-face communication with customers.



*Lúcido L* is written as 伦士度 L in China.

# LÚCIDO



Mandom is developing this brand primarily in Japan. As the industry's first fragrance-free personal care product line for men, it comprises hair styling, hair color (dyes to conceal gray hair), and skin care products. *Lúcido* is a brand for adults focused on people aged in their thirties and above.

Going forward, we will reinforce the development and marketing of this brand on a wide front. Efforts will focus on the middle-aged as the main target, and take advantage of expanding demand not only at stores, but also at golf courses, business hotels and elsewhere. As part of this strategy, we provided sponsorship for the Mandom Lucido Yomiuri Open Golf Tournament from 2003.



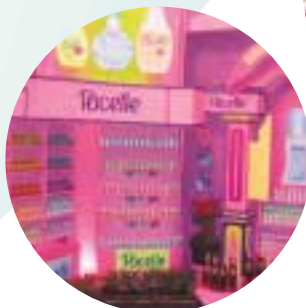
*Pucelle* is written as 保思蕾 in China.

# Pucelle

Mandom is developing and marketing the *Pucelle* brand in Asia, mainly in Indonesia. Fragrances have become a part of daily life in the ASEAN region, and the Mandom lineup comprises colorful, decorative items centered on fragrances and body care products that target teenage girls. Underpinned by vigorous marketing activities, including television commercials and magazine advertisements, *Pucelle* has grown into a highly popular brand in Asia. In the NIES region, we are marketing styling products, and in China, we are marketing hand creams and lip creams. Strong-selling items differ from region to region.



Large-scale display contest in Indonesia



## Women's Cosmetics

### Domestic Development

Mandom is bolstering the business foundations of this segment to support the Group's future growth. In addition to marketing licensed brands such as *courrèges*, since 2005 we have successively launched our own brands based on the concept of "Biraku Creation," meaning "Creation of Beauty and Enjoyment." In this market segment, which is crowded with competitors, it is crucial to make products stand out and ensure dominance in the market. Mandom is therefore promoting brand development and marketing based on individual products with future potential. In doing so, Mandom draws on its proprietary technology-based product development capabilities, as well as expertise in "self-service" store sales that has been cultivated over many years.



*Perfect Assist 24*, an ultra-moisturizing skin care product  
*Shuhaku* anti-UV skincare cream  
*Cleansing Express* instantly removes make-up just by wiping  
*Cheerist* face powder imparts a healthy glow

"Creation of Beauty and Enjoyment"  
 brand concept booklet

### Overseas Development

Mandom is marketing the Indonesian-made *Pixy* line of products primarily within Indonesia itself as a total cosmetics brand that includes make-up, foundation, and skin care products. At the end of 2004, we conducted a full-scale renewal, and we market the brand through over-the-counter sales by well-trained beauty advisors. In 2006, we also renewed the UV & White series.

*RoC* is a series of skin care products for sensitive skin that originated at a pharmacy in France. Mandom holds exclusive rights to sell these products in Singapore, Indonesia, Malaysia, and Thailand.

## RoC

## PIXY



## Products for Salon Use

**Dr RENAUD**  
 PARIS

*Dr Renaud* is a traditional French esthetic salon brand which will mark its 60<sup>th</sup> anniversary in 2006. In Japan it has been a pioneering brand in facial treatments, and it has become familiar through approximately 1,000 outlet salons. The salons offer make-up incorporating natural plant extracts, a selection of treatments based on advanced product application techniques, and products for use at home.



**GUINOT**  
 INSTITUT • PARIS

*GUINOT* boasts the top market share in the French beauty industry. Exclusive to esthetic salons, *GUINOT* products are designed to offer optimal facial and body treatments using proprietary esthetic equipment in combination with cosmetics. Salons offer beauty consultations and a diverse selection of advanced beauty treatments as well as products for use at home.



### Hair care products

Mandom offers all the products, techniques, and services that hair salons need for hair perming, coloring, treatments and styling. Drawing on many years of research into hair science and techniques, we offer hair care products that meet the high quality hair salons demand, and cater to the latest trends at salons. Our professional-use brands include *Formulate*, for hair coloring in a wide range of colors and textures, and *ARISTIA*, for straight or wavy perms that do not damage hair. We also market various home care products.



# Research activities that deliver **comfort** in product quality

As a result of many years' research into men's cosmetics, the Mandom Group has established—and continues to develop—its own unique realm of technical expertise in hair products, antiperspirants and others. Meanwhile, looking to the future, we are creating our own technological foundation in women's skincare and engaging in advanced research. However, the focus of these efforts is not only to extend the practical benefits afforded by products. Instead we are asking why certain products attract and satisfy consumers. We always take the consumer's point of view to pursue "comfort" in product quality.

Designing products to  
**attract and satisfy**  
consumers

Safety

Reliability

Comfort  
in use

Effectiveness

## 1. Upgrading existing technologies

The Mandom Group has researched men's cosmetics for many years. The application of this research has created many outstanding core technologies. These include polymers used in wax and other hair styling and coloring products, as well as microorganism control technologies for use in deodorants, skin care and other products. Such outstanding technologies have established a reputation for superior quality in the marketplace. In 2005, we conducted the industry's first research survey on men's skin, and made new discoveries, most notably regarding the difference in the aging process between men's and women's skin. We take pride in the fact that these discoveries will contribute greatly to the future of men's skin care technology. In addition, in microorganism control (antiseptic) research, we have developed an antiseptic-free formula using a moisturizing agent called "alkanediol". The formula has been attracting attention both in Japan and abroad for its wide-ranging cosmetic applications, which will enable it to benefit a larger number of customers.

### *Development of antiseptic-free formula*

As part of research into microorganism control, a core technology for the Mandom Group, we verified the antiseptic effect of alkanediol, an agent widely used as a moisturizer, and developed a formula incorporating it. As a result, we are now able to offer consumers an antiseptic cosmetic product that avoids the use of conventional antiseptics such as paraben. This is good news for the people who suffer from rare skin sensitivities or allergies to antiseptics. Mandom will use this patented technology in skin care, make-up, hair care, and body care products. The results of our research were announced at the fall 2005 joint symposium of the Society for Antibacterial and Antifungal Agents, Japan, and at the 57th Research Symposium for the Society of Cosmetic Chemists in Japan (SCCJ), to general acclaim.

### *The skin care industry's first survey on men's skin*

Previously, women have always been at the center of research into facial skin physiology. Mandom therefore conducted a survey on men's skin care awareness, and on men's facial skin itself, topics that have rarely been researched before. As a result, we established for the first time that, while skin structure and basic physiological functions may be the same for men and women, the way the skin ages, and attitudes to the aging process, are different. The research involved analyzing the changes in levels of oils and moisture in the skin as people age, and also addressed how the aging process is affected by lifestyle choices such as use of razors or cumulative exposure to ultraviolet rays. Our research was made public at the 57<sup>th</sup> and 58<sup>th</sup> meetings of the Society of Cosmetic Chemists of Japan, held in November 2005 and June 2006, respectively. The research was well received. It promises to be of significant use in the future development of men's skin care technologies.





## 2. Sectors to be strengthened in the future

Another major theme for future growth is reinforcing basic technology for developing women's skin care products. We are engaged in joint research both in Japan and overseas with universities and other public institutions, as well as with corporations. The research aims to reinforce and promote research into skin physiology analysis, technology for developing materials, evaluating quality, performing sensory analysis, and many other new and leading technologies.

In 2005, we established the effects of peony extract in inhibiting skin damage due to ultraviolet rays, and applied the research results to a skin care product.



### *Proving peony extract's ability to protect against ultraviolet rays*

We established the ability of peony extract to inhibit skin damage due to ultraviolet rays, and analyzed how it activates the skin's DNA damage repair function. Ultraviolet rays cause many skin conditions that are undesirable from a cosmetic viewpoint, including redness, dark patches, rough skin caused by irregular cell turnover, uneven skin texture and dryness. This was what prompted us to test well over 100 different varieties of plant-related substances, leading to the discovery that peony extract has the ability to inhibit skin damage (sunburnt skin cells) due to ultraviolet rays. In addition, when we analyzed the effect of peony extract at the gene level, we established that it promotes gene expression related to the DNA damage repair function.

## Reinforcing the research environment

With Mandom Group businesses expanding, the number of research themes and product development projects has increased proportionately. With all research concentrated in Japan, efforts to enhance our research performance will require us to reinforce the research environment, including augmenting our resources. Firstly, we are focusing on new fields—such as reinforcing the foundations of research in our women's cosmetics business—to enhance our physical resources. This includes expanding and upgrading research facilities that will boast outstanding personnel and state-of-the-art technologies, and ensuring a safe research environment. In a related move, aimed at further reinforcing cooperation in our research activities, we are building a new R&D wing adjoining the head office, due to be completed in the fall of 2006. The new research facility will include a simulation room for reproducing scenarios in which consumers use products, as well as an advanced safety testing room. It will therefore provide all the facilities necessary to pursue further research into comfort in product quality.

In addition to enhancing physical resources, we are also striving to improve our communication. Research staff and product development staff will be brought together in the new R&D wing to ensure that everybody is fully focused on creating products that attract and satisfy customers. These actions will serve to enhance both our research performance and our capabilities as a Group, based on stronger collaboration between Mandom's research and product development functions.



# Pursuit of competitiveness through production and supply

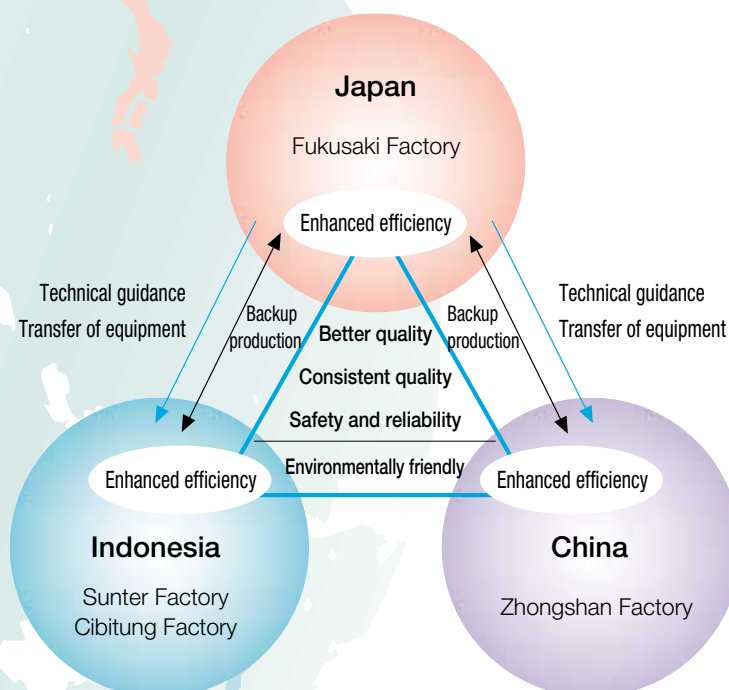
To provide safe, valued products to customers across the wider Asian region at reasonable prices, the Mandom Group's three production sites have worked to improve quality and efficiency, while paying attention to environmental considerations. To implement further improvements in quality and efficiency in the future, we believe the three production sites need to form organic links to target the wider Asian region. In production and distribution, we are constantly working—with due consideration for the environment—to ensure safety and reliability, better quality (and more value), and higher efficiency, all ultimately in pursuit of greater competitiveness.

## 1. Improved quality and efficiency in production

### *Measures to standardize production technology and quality*

At the Mandom Group's three production sites, the aim is to develop a system capable of producing safe, high-quality products in the wider Asian region. To this end, the Fukusaki Factory in Japan—serving as the “mother factory”—leads the two other sites in Indonesia and China in efforts to standardize production technology and quality. The Fukusaki Factory also takes the lead in installing new production equipment: the Company continually updates its Japanese facilities with state-of-the-art equipment, and transfers the replaced equipment to Indonesia and China, along with operational and technical guidance. These measures help to standardize production technology and quality across the entire Mandom Group.

These measures also reduce the level of Group-wide investment, supporting efforts to reduce manufacturing expenses overall. We believe that this production system will allow Mandom to supply products that customers in every region will be able to rely on, no matter which of the production sites the products came from.



### Measures to improve quality as well as safety and reliability

At each production site, Mandom earns local customers' recognition of the high level of product safety and reliability and is actively pursuing certification which also leads to quality improvements.

・OHSAS(Japan) ・ISO9001(Japan/China) ・ISO14001(Japan) ・CPKB(Indonesia) \*1

#### \*1 CPKB (Indonesia)

This acronym is formed from the capital letters of the Indonesian phrase "Cara Pembuatan Kosmetik Yang Baik," which means "excellent cosmetics production method," and is a quality certification mark. The certification is given to organizations that exceed standards set for the working environment and quality control systems established by the Indonesian government's Department of Health. Acquisition of this certification means that efforts have been made to improve quality standards, and to strengthen quality control systems. This certification also offers the benefit of simplifying the application procedure for exports to ASEAN countries, leading to improved business efficiency.



### Measures to improve production efficiency and reduce costs

The three production sites, while mainly supplying products to their respective national markets, also supply products to the Group companies, and trade products destined for other countries. Since there are differences in their production methods, as well as in their supply and demand volumes and market characteristics, the measures taken to improve production efficiency and reduce costs vary between the sites.

#### Japan

In the Japanese market, especially in areas where Mandom has captured large market shares, we are taking action to improve quality alongside enhancing production efficiency and reducing costs as the means to competitive superiority in the market. To this end, we are fully automating production lines, and reinforcing capital expenditure to expand in-house production. Major initiatives include:

- Complete automation of the process from placing aerosol cans for filling to packing in cases and warehouse storage
- Shift from outsourcing to in-house production for bulk products \*2

#### \*2 Shift from outsourcing to in-house production for bulk products

In Japan, facial paper is a volume business, with more than 11 million units shipped in the fiscal year under review (an increase of 31% over the previous year). The in-house production ratio has previously been about 47%, but the Company plans to invest in production facilities to boost the in-house ratio to as high as 65%. As a result of this initiative Mandom will be able to respond more rapidly to market demand and achieve cost reductions.



#### Indonesia

In line with the general expansion of Mandom's overseas business, sales volumes continue to increase on all three fronts: within Indonesia, to overseas Group companies, and exports to the Middle East.

At the Indonesian site it is now essential to focus on the future and create an efficient system for increased production. This site conducts full-line production from containers to contents and, of the three sites, it has been most affected in terms of manufacturing costs by the recent sharp rises in crude oil prices.

To reduce materials costs without a drop in quality, the Company is strengthening efforts to find substitute materials, and to reduce the amounts used.

- Reduction amount of resin used for jars, and in number of parts used
- Substitution of raw material resins
- Expansion of Cibitung Factory \*3

#### \*3 Expansion of Cibitung Factory in Indonesia

With the rapid expansion of business in the ASEAN region, production capacity at the Indonesia plant, which is the main production site for the region, is no longer sufficiently capable of responding to market demand. While the factory is at present capable of shipping about 500 million units annually, Mandom is now expanding it to secure the production capacity to immediately meet demand for as much as 1,000 million units. Construction of the new factory is due to be completed in February 2007.



## 2.Mandom Group's three production bases

### Fukusaki Factory (Hyogo Prefecture, Japan)

The Fukusaki Factory, which began operations in 1976, is the leading production and logistics base among the Group's three manufacturing sites. Its cutting-edge production technology and management system enable the manufacture of high-quality, low-cost items. The factory is also one of the few in the industry to carry out manufacturing operations completely in-house for products such as aerosols, hair color products and paper-cosmetics, as well as paper packaging for refills. Furthermore, in 2000, the factory acquired ISO 14001 certification and achieved "zero emission" status in 2003 maintaining this status since.



### Zhongshan Factory (Guangdong Province, China)

Zhongshan Factory began operations in 1997, which is strategically positioned to take advantage of the expanding Chinese market. The factory exploits its proximity to the Guangzhou area to supply Mandom products across China. In addition to hair styling products, facial care products, paper-cosmetics and fragrances geared to the Chinese market, the factory also manufactures a large number of products for export to Japan and Southeast Asian countries where the Mandom Group operates. The factory acquired ISO 9001 certification in 2002.



### Sunter Factory (Jakarta, Indonesia; top)

### Cibitung Factory (Bekasi, Indonesia; bottom)

The Sunter Factory began operations in 1971, followed by the Cibitung Factory in 2001 as business expanded. The latter manufactures plastic containers and prints labels, while the former manufactures and fills contents. This integrated production system enables Mandom to offer superior quality products and compete on price. Both factories are fully equipped to manufacture a variety of products, including hair styling and hair care products, fragrances, skin care products, make-up and body care products. In May 2005, PT Mandom Indonesia Tbk acquired Cara Pembuatan Kosmetik yang Baik (CPKB) certification, a cosmetics production and quality management standard in Indonesia.





## **FINANCIAL SECTION**

# MANAGEMENT'S DISCUSSION & ANALYSIS

MANDOM CORPORATION AND CONSOLIDATED SUBSIDIARIES  
YEARS ENDED MARCH 31

( Millions of yen )

	2006	2005	2004	2003	2002	2001
<b>For the Year:</b>						
Net Sales	<b>47,923</b>	47,546	45,364	45,434	42,086	40,056
Japan	<b>35,003</b>	35,635	35,711	36,652	34,789	33,270
Asia	<b>12,920</b>	11,910	9,652	8,782	7,296	6,786
Selling, General and Administrative Expenses	<b>21,742</b>	21,397	19,958	20,267	18,040	17,232
Operating Income	<b>6,065</b>	6,700	6,680	6,322	5,211	5,079
Japan	<b>4,399</b>	4,935	5,256	5,037	4,328	3,999
Asia	<b>1,663</b>	1,762	1,422	1,282	860	1,075
Net Income	<b>3,099</b>	3,211	3,253	2,988	2,176	2,024
Research and Development	<b>1,668</b>	1,888	1,574	1,482	1,513	1,524
<b>At Year-end</b>						
Total Assets	<b>51,320</b>	47,397	45,474	43,868	38,613	39,975
Total Shareholders' Equity	<b>40,568</b>	38,168	36,687	34,714	29,376	32,133
<b>Per Share Data (Yen):</b>						
Total Shareholders' Equity	<b>1,677.82</b>	1,577.94	1,516.70	1,434.94	1,306.61	1,294.95
Earnings per Share (EPS) *	<b>124.36</b>	128.73	130.83	128.32	92.96	81.59
Cash Dividends	<b>60.00</b>	55.00	50.00	50.00	40.00	34.00
<b>Ratio (%):</b>						
Shareholders' Equity Ratio	<b>79.1</b>	80.5	80.7	79.1	76.1	80.4
Return on Equity (ROE)	<b>7.9</b>	8.6	9.1	9.3	7.1	6.2
Dividends Ratio **	<b>56.9</b>	50.0	42.1	45.7	46.1	42.8

\* Note: Earnings per Share is calculated based on Accounting Standards Board of Japan Statement No. 2, "Accounting Standard for Earnings per Share," which was adopted on April 1, 2002.

\*\* The dividends ratio is stated on a non-consolidated basis. The dividends ratio for fiscal 2006 on a consolidated basis would be 48.2%.



**Yoshiaki Saito**  
Director Managing Executive Officer

## Segment Information

The Mandom Group conducts business globally, with an emphasis on Japan and the rest of Asia. Given the significant potential of Asia, which has a large population that has grown at a striking rate in recent years, the Mandom Group has strengthened its overseas network by establishing sales bases in eight countries, the most important of which are Indonesia and China. The Mandom Group comprises Mandom Corporation, 11 subsidiaries, and two affiliated companies. Of these, nine are consolidated subsidiaries, three of which operate in the domestic market and six in overseas markets.

In Japan, Mandom Corporation focuses on cosmetics for men, while three domestic Group companies—Piacelabo Corporation, Guinot Japan Corporation, and Beauocos Corporation—focus on women's cosmetics. All of these operations seek to bolster the visibility and power of the Mandom brand. In addition to manufacturing and sales companies in Indonesia and China, Mandom has sales subsidiaries in Korea, Taiwan, China (Hong Kong), the Philippines, Thailand, Malaysia, and Singapore.

## Operating Results

Mandom posted net sales of ¥47,923 million, an increase of 0.8%, or ¥377 million, from the previous fiscal year. In Japan, sales of the core *Gatsby* cosmetics brand maintained sales growth that was roughly in line with targets, supported by robust demand for summer season products. However, women's cosmetics, including *Lúcido L*, were sluggish and sales declined due to the divestiture of a subsidiary in the previous fiscal year. As a result, sales in Japan were 1.8% lower than the previous fiscal year. Overseas, the brand power of *Gatsby* achieved greater penetration, and with the exception of some regions, sales centered on hair styling products grew steadily while sales of women's cosmetics were also substantially above target. As a result, overseas sales rose 8.5%.

The cost of sales rose 3.4%, or ¥667 million, to ¥20,114 million. Owing to an increase in losses on disposal of returned goods (cost of sales) in Japan and a rise in raw material prices related to surging oil prices in Indonesia, where Mandom overseas manufacturing base is located, the cost of sales ratio rose 1.1 percentage point to 42.0%. As the increase in costs exceeded the amount of increase in sales as outlined above, gross profit declined 1.0%, or ¥289 million, to ¥27,808 million.

Selling, general, and administrative (SG&A) expenses rose ¥345 million to ¥21,742 million, mainly reflecting the fact that Mandom boosted aggressive marketing expenses (i.e. sales promotion and advertising expenses) to ensure competitive dominance.

As a result, operating income fell 9.5%, or ¥635 million, from the previous fiscal year to ¥6,065 million. Other income (expenses) turned profitable for the first time on a consolidated basis, as other expenses were reduced by half in response to a striking decline in inventory disposal losses in Japan and overseas.

The extraordinary net loss was roughly only half the level of that in the previous fiscal year. Although Mandom booked losses in the form of directors' retirement benefits arising from the abolition of the directors' retirement benefit system, as well as the disposal, sale, and impairment of fixed assets, this was partially offset by a break in the disposal of losses associated with business restructuring, including subsidiaries.

As a result of the above, ordinary income declined 2.6%, or ¥161 million, from the previous fiscal year to ¥6,120 million, and income before income taxes and minority interests edged up 0.9%, or ¥51 million, to ¥5,919 million.

Income taxes grew 6.4%, or ¥143 million, to ¥2,377 million. This was because the tax burden returned to a normal level due to the absence of a decline in the tax burden in Japan stemming from Mandom's merger with Japanese subsidiaries holding losses carried forward in the previous fiscal year.

Minority interests in net income of subsidiaries rose ¥19 million to ¥442 million, reflecting mainly an increase in earnings at a subsidiary in Indonesia (PT Mandam Indonesia Tbk).

Net income dropped 3.5% from ¥3,211 million to ¥3,099 million.

Mandom regards the return of profits to shareholders as an important management policy, and while giving consideration to internal reserves for the purpose of medium to long-term business expansion and the development of new businesses, its basic policy is to put priority on returning profits to shareholders through dividends. Specifically, Mandom aims to continuously achieve a payout ratio of 40% or higher and a dividend-on-equity (DOE) ratio of 3% or higher on a consolidated basis. Mandom will use internal reserves for capital investment aimed at the expansion of existing businesses and to enhance corporate value through strategic investment such as overseas investment and investment in R&D.

During the year under review, Mandom paid an interim dividend of ¥30.0 per share and also decided to pay a year-end dividend of ¥30.0 per share, resulting in an annual dividend of ¥60.0 per share.

## Operating Results by Region

In Japan, although the overall cosmetics market is tending to recover, this has been spurred by a fierce competitive environment, and despite the aggressive launch of new products, Mandom's sales did not reach initial targets. *Gatsby*, our flagship brand, posted an increase in sales to ¥18,300 million, supported by continued strong sales of paper products (face care and body care) throughout the year. However, in the women's cosmetics segment, where the market for hair color products continued to shrink,

*Lúcido L* sales were sluggish and imported brand products recorded a slump in sales. As a result, sales in Japan declined 1.8% to ¥35,003 million.

In terms of profits, product disposal associated with an increase in returned products pushed up the cost of sales while it was also impossible to absorb increased expenses related to aggressive sales promotion and advertising as well as logistic costs. Consequently, operating income in Japan fell 10.9% to ¥4,399 million.

In Asia, however, amid a stable performance by the cosmetics market overall, the *Gatsby* brand established a firm position in the market and maintained growth centered on hair styling products. At our consolidated subsidiary in Indonesia (PT Mandom Indonesia Tbk), in particular, sales of the women's cosmetics brands *Pucelle* and *Pixy* rose sharply and maintained double-digit growth (on a local currency basis), which drove growth in overseas operations. As a result, total sales in Asia rose 8.5% to ¥12,920 million.

Manufacturing costs remained high at consolidated manufacturing subsidiaries in Indonesia in response to a rise in raw material costs stemming from surging oil prices. This factor was also combined with costs related to aggressive marketing activities, which led operating income in Asia to decline 5.6% to ¥1,663 million. In addition, owing to growth at subsidiaries in Southeast Asia and a striking increase in exports from Indonesia to the Middle East, overseas sales rose 8.5% to ¥13,551 million. Due in part to the sluggish performance of the domestic business, the consolidated overseas sales ratio was 28.3%.

## Factors Exerting an Important Impact on Management Performance

The business environment in which the Mandom Group operates was subject to fierce competition. In Japan especially, although there have been signs that the economy is emerging from deflation, factors that depress profit margins are inherent. This is because of a decline in selling prices induced by competition in a mature market and upward pressure on selling costs. Furthermore, as Mandom's major product lines have short life cycles, the success or failure of new products is the factor that causes the largest fluctuation in earnings. Accordingly, Mandom constantly renews products before the end of their life cycle and develops and launches new products based on consumers' latent wants. The cost of returned old products associated with these activities also has an impact on earnings that cannot be ignored.

Inventories that are used in the Mandom Group's continuing operations are mainly produced in accordance with estimates based on future demand and market trends. Therefore, depending on actual demand and unexpected market trends, the disposal of stagnant inventories has an impact on earnings as inventory disposal losses in the other income (expenses) account. The Mandom Group thoroughly enforces its policy of following internal rules in disposing of inventories as soon as their market value has become impaired, and not postponing such disposal. Inventory disposal losses in the year under review amounted to ¥198 million, a decline of ¥351 million from the previous fiscal year. Our aim is to radically reduce inventory levels by establishing a supply chain management system.

In Japan and Indonesia, Mandom has a high reliance on specific suppliers and is formally exposed to the credit risks of counterparties. However, owing to the increasing dominance of a few large companies in the wholesale industries in both countries, we believe that the creditworthiness of our suppliers is actually becoming stronger, and this factor has hardly any impact on Mandom's earnings at present.

In overseas businesses, the cost of procuring imported raw materials in Indonesia and China, where Mandom's manufacturing bases are located, may have an impact on the Mandom Group's competitiveness. This is due to exchange rate fluctuations and higher costs for refined petroleum product materials due to soaring prices. Furthermore, as Mandom operates all of its overseas businesses in Asia, the occurrence of event risk (legislative and economic changes) associated with dramatic changes in political systems in some regions may have an impact on Mandom's management performance and financial position.

## Financial Position

Total assets as of March 31, 2006 were ¥51,320 million, an increase of ¥3,922 million from the previous fiscal year-end. This was mainly due to an increase of ¥3,758 million in fixed assets. This reflected an increase of ¥1,480 million in property, plant and equipment resulting from the implementation of capital investments (in Japan and Indonesia) that exceeded the level of depreciation expenses and an increase of ¥2,525 million in investment securities related to increased long-term investment of funds. Inventories grew in Japan and overseas, but the Company believes that the level of inventories should not be seen as a problem particularly, as this is a temporary issue. In addition, current and long-term deferred tax assets fell by ¥103 million to ¥609 million.

Total liabilities grew ¥860 million from the previous fiscal year-end. However, this was mainly due to an increase of ¥434 million in tax liabilities (current liabilities), an increase of ¥170 million in deferred tax liabilities (long-term liabilities), and an increase of ¥88 million in liability for employees' and directors' retirement benefits.

Total shareholders' equity rose ¥2,400 million to ¥40,568 million. This largely reflected retained earnings from net income during the fiscal year under review and a net increase in unrealized gain on available-for-sale securities.

## Cash Flows

In the fiscal year under review, net cash provided by operating activities decreased ¥1,149 million to ¥4,911 million. Income before income taxes and minority interests was ¥5,919 million, the same level as in the previous fiscal year, but inventories grew ¥821 million, which was the main factor behind the decrease in net cash provided by operating activities. Depreciation and amortization amounted to ¥1,653 million, the same level as a year earlier.

Net cash used in investing activities declined ¥4,474 million year on year to ¥2,444 million. Acquisition of property and equipment increased ¥1,133 million to ¥2,799 million, but proceeds from sales and redemptions of financial assets (marketable securities and investment securities) increased more than acquisitions of financial assets. Acquisition of property and equipment mainly comprised construction expenses for R&D facilities in Japan (temporary construction account) and the acquisition of cosmetics manufacturing facilities in Japan and Indonesia.

Net cash used in financing activities was ¥1,196 million. This reflected the use of ¥1,588 million in cash dividends, including dividends paid to minority shareholders, which was partially offset by a ¥396 million capital increase paid-in amount from minority shareholders related to a capital increase through an offering to shareholders in Indonesia.

As a result, cash and cash equivalents as of March 31, 2006 totaled ¥8,983 million, up ¥1,321 million from the end of the previous fiscal year.

## Outlook for the Year Ending March 31, 2007

Although the Japanese economy is projected to expand, driven mainly by domestic demand, there are concerns about a slowdown in consumer spending due to a heavier burden on household budgets and the competitive environment in the cosmetics industry is expected to remain fierce. Asian economies are generally in a recovery phase, but economic deterioration and the cooling of consumer spending are likely to continue in some regions (Indonesia) due to a sharp increase in petroleum product prices.

In this environment, the Mandom Group will focus on further boosting the power of the *Gatsby* brand in all regions of Southeast Asia, including Japan. At the same time, we will strengthen product development and expansion that corresponds to the characteristics of markets in each country, and we will foster the face care and body care segment in the overall Asian market. To bolster our competitiveness in the domestic market, in particular, we aim to expand sales through aggressive product development and marketing activities.

In the fiscal year ending March 31, 2007 as well, we are projecting growth centered on overseas businesses, but upward pressure on the cost of sales is likely to continue, as oil prices are projected to remain high. In Japan, we expect profit margins to decline temporarily in response to aggressive marketing activities. However, we will concentrate the use of management resources and up-front investment in those resources in fiscal 2007, including the development of infrastructure in the women's cosmetics segment, with the aim of ensuring an earnings recovery in fiscal 2008, the final year of the ongoing Middle-range Planning.

Based on the above, we are projecting net sales of ¥50,600 million, an increase of 5.6% year on year, and operating income of ¥5,430 million, down 10.5%. Ordinary income is forecast at ¥5,200 million, down 15.0%, and net income at ¥2,500 million, down 19.3%.

Although profits are projected to decline, we intend to maintain an annual dividend of ¥60.0 per share, the same level as in fiscal 2006.

The above projections are based on the currency rates of ¥111 per U.S. dollar and Rp. 8,900 per U.S. dollar.

## Cash Flow Forecasts for the Year Ending March 31, 2007

Mandom is projecting operating cash flow of about ¥4,000 million due to the impact of a large drop in income before income taxes and minority interests.

Net cash used in investing activities is expected to remain at the level of fiscal 2006. Although investment in Japan will pause, Mandom is continuing to make a high level of capital investment associated with the construction of a new factory in Indonesia.

In cash flows from financing activities, besides the payment of cash dividends, Mandom intends to repurchase treasury stock up to a limit of ¥2,000 million to enhance capital efficiency.

## Management's Awareness of Challenges and Policy Going Forward

Mandom's management team is striving to formulate optimal management policies based on the current operating environment and information that can be readily obtained. The most important theme is to sustain business growth. We believe that the source of that growth is our overseas businesses and, going forward, we intend to realize further business growth by endeavoring to cultivate new markets in other Asian regions, beginning with the Southeast Asian market, where demand is projected to expand further. We recognize the fact that our domestic business reorganization, including subsidiaries, has entered a hiatus, and from here on we will attempt to establish the foundations for growth by restructuring the women's cosmetics business.

Furthermore, we are constantly aware of the need to promote capital efficiency, and we aim to further enhance capital efficiency by using share buybacks as an option among capital measures. At the same time, we will proactively strive to reform management and improve management efficiency through the use of IT in business processes and marketing.

# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED BALANCE SHEETS

MANDOM CORPORATION AND CONSOLIDATED SUBSIDIARIES  
MARCH 31, 2006 AND 2005

	Millions of Yen	
	2006	2005
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	¥ 8,984	¥ 7,662
Short-term investments (Note 4)	2,298	4,700
Receivables:		
Trade notes and accounts	5,425	5,227
Unconsolidated subsidiaries and associated companies	119	112
Other	121	202
Allowance for doubtful accounts	(13)	(18)
Inventories (Note 5)	5,860	4,842
Deferred tax assets (Note 10)	530	475
Prepaid expenses and other current assets	552	511
Total current assets	23,876	23,713
<b>PROPERTY, Plant AND EQUIPMENT:</b>		
Land	1,855	1,889
Buildings and structures	16,083	15,940
Machinery and equipment	11,562	10,128
Construction in progress	1,252	96
Total	30,752	28,053
Accumulated depreciation	(16,682)	(15,464)
Net property, plant and equipment	14,070	12,589
<b>INVESTMENTS AND OTHER ASSETS:</b>		
Investment securities (Note 4)	10,334	7,831
Investments in and advances to unconsolidated subsidiaries and associated companies (Note 6)	705	676
Long-term loans (Note 8)	642	765
Deferred tax assets (Note 10)	79	237
Other assets	1,614	1,587
Total investments and other assets	13,374	11,096
<b>TOTAL</b>	<b>¥ 51,320</b>	<b>¥ 47,398</b>

See notes to consolidated financial statements.

	Millions of Yen	
	2006	2005
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Payables:		
Trade notes and accounts	¥ 3,747	¥ 3,617
Associated companies	55	44
Other	12	11
Accrued income taxes (Note 10)	1,149	714
Accrued expenses	862	993
Other current liabilities	554	368
Total current liabilities	6,379	5,747
<b>LONG-TERM LIABILITIES:</b>		
Liability for retirement benefits (Note 9)	542	1,096
Deferred tax liabilities (Note 10)	174	3
Other long-term liabilities (Note 11)	1,096	484
Total long-term liabilities	1,812	1,583
<b>MINORITY INTERESTS</b>	<b>2,560</b>	<b>1,899</b>
<b>SHAREHOLDERS' EQUITY (NOTES 13 AND 16):</b>		
Common stock, authorized, 81,969,700 shares; issued, 24,134,606 shares at March 31, 2006 and 2005	11,395	11,395
Capital Surplus	11,235	11,235
Retained earnings	19,997	18,451
Unrealized gain on available-for-sale securities	725	318
Foreign currency translation adjustments	(2,749)	(3,201)
Total	40,603	38,198
Cost of treasury stock- 14,558 shares at March 31, 2006 and 12,771 shares at March 31, 2005	(34)	(29)
Total shareholders' equity	40,569	38,169
<b>TOTAL</b>	<b>¥ 51,320</b>	<b>¥ 47,398</b>

## CONSOLIDATED STATEMENTS OF INCOME

MANDOM CORPORATION AND CONSOLIDATED SUBSIDIARIES  
YEARS ENDED MARCH 31, 2006 AND 2005

	Millions of Yen	
	2006	2005
<b>NET SALES</b> (Note 15)	<b>¥ 47,923</b>	¥ 47,546
<b>COST OF SALES</b> (Note 15)	<b>20,114</b>	19,448
Gross profit	<b>27,809</b>	28,098
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b>	<b>21,743</b>	21,397
Operating income	<b>6,066</b>	6,701
<b>OTHER INCOME (EXPENSES):</b>		
Interest and dividend income (Note 15)	<b>94</b>	82
Loss on disposal of property and equipment	<b>(15)</b>	(147)
Loss on disposal of inventories	<b>(199)</b>	(551)
Loss on sale of investment in subsidiary		(295)
Retirement benefits to directors	<b>(116)</b>	
Loss on impairment of long lived assets (Note 7)	<b>(45)</b>	78
Other-net	<b>135</b>	
Other expenses – net	<b>(146)</b>	(833)
<b>INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS</b>	<b>5,920</b>	5,868
<b>INCOME TAXES</b> (Note 10)		
Current	<b>2,375</b>	2,057
Deferred	<b>3</b>	177
Total income taxes	<b>2,378</b>	2,234
<b>MINORITY INTERESTS IN NET INCOME OF SUBSIDIARIES</b>	<b>442</b>	423
<b>NET INCOME</b>	<b>¥ 3,100</b>	¥ 3,211
<b>PER SHARE OF COMMON STOCK</b> (Note 2.n):	Yen	
Net income	<b>¥ 124.36</b>	¥ 128.73
Cash dividends applicable to the year	<b>60.00</b>	55.00

Diluted net income per share is not presented because no dilutive securities exist.

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

MANDOM CORPORATION AND CONSOLIDATED SUBSIDIARIES  
YEARS ENDED MARCH 31, 2006 AND 2005

	Outstanding Number of Shares of Common Stock (Thousands)	Millions of Yen					
		Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain (loss) on Available-for- -sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
<b>BALANCE, MARCH 31, 2004</b>	<b>24,125</b>	<b>¥ 11,395</b>	<b>¥11,235</b>	<b>¥16,451</b>	<b>¥ 374</b>	<b>¥ (2,746)</b>	<b>¥ (21)</b>
Net income				3,211			
Cash dividends, ¥50 per share				(1,206)			
Bonuses to directors and corporate auditors				(97)			
Adjustment of retained earnings for newly consolidated subsidiaries				22			
Adjustment of retained earnings for associated company newly accounted for by the equity method				70			
Increase in treasury stock	(3)						(8)
Gain on sales of treasury stocks			0				
Net decrease in unrealized gain on available-for-sale securities					(56)		
Net change in foreign currency translation adjustments						(455)	
<b>BALANCE, MARCH 31, 2005</b>	<b>24,122</b>	<b>11,395</b>	<b>11,235</b>	<b>18,451</b>	<b>318</b>	<b>(3,201)</b>	<b>(29)</b>
Net income				<b>3,100</b>			
Cash dividends, ¥60 per share				<b>(1,448)</b>			
Bonuses to directors and corporate auditors				<b>(106)</b>			
Increase in treasury stock	<b>(2)</b>						<b>(5)</b>
Gain on sales of treasury stocks			<b>0</b>				
Net increase in unrealized gain on available-for-sale securities					<b>407</b>		
Net change in foreign currency translation adjustments						<b>452</b>	
<b>BALANCE, MARCH 31, 2006</b>	<b>24,120</b>	<b>¥ 11,395</b>	<b>¥11,235</b>	<b>¥19,997</b>	<b>¥ 725</b>	<b>¥ (2,749)</b>	<b>¥ (34)</b>

See notes to consolidated financial statements.



## CONSOLIDATED STATEMENTS OF CASH FLOWS

MANDOM CORPORATION AND CONSOLIDATED SUBSIDIARIES  
YEARS ENDED MARCH 31, 2006 AND 2005

	Millions of Yen	
	2006	2005
<b>OPERATING ACTIVITIES:</b>		
Income before income taxes and minority interests	¥ 5,920	¥ 5,868
Adjustments for:		
Income taxes - paid	(1,909)	(2,659)
Depreciation and amortization	1,683	1,610
Loss on impairment of long lived assets	45	
Provision for retirement benefits	(570)	91
Loss on disposal of property and equipment	15	145
Gain on sales of securities		(52)
Loss on sale of investment in subsidiary		295
Changes in assets and liabilities, net of effects from consolidating previously unconsolidated subsidiary:		
(Increase) decrease in receivables	(21)	324
Increase in inventories	(822)	(203)
Decrease in prepaid expenses and other assets		(58)
Increase in payables	186	147
Increase in accrued expenses and other liabilities	439	703
Other - net	(54)	(150)
Total adjustments	(1,008)	193
Net cash provided by operating activities	4,912	6,061
<b>INVESTING ACTIVITIES:</b>		
Payments for deposits	0	(75)
Decrease in time deposits	11	62
Acquisition of property and equipment	(2,800)	(1,666)
Proceeds from sales and redemptions of investment securities	2,099	1,135
Payments for purchases of investment securities	(4,310)	(5,049)
Proceeds from sales and redemptions of short-term investment securities	7,400	6,984
Payments for purchases of short-term investment securities	(4,601)	(8,100)
Payments for acquisition of additional shares of associated company	(471)	(2)
Decrease of cash and cash equivalents resulted from the sale of investment in subsidiary		(171)
Other - net	228	(37)
Net cash used in investing activities	(2,444)	(6,919)
<b>FINANCING ACTIVITIES:</b>		
Proceeds from issuance of common stock of a subsidiary to minority shareholders	397	
Payments for purchases of treasury stock-net	(5)	(8)
Dividends paid	(1,589)	(1,338)
Net cash used in financing activities	(1,197)	(1,346)
<b>EFFECT OF FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS</b>	¥ 51	¥ 16
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	1,322	(2,188)
<b>CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARY, BEGINNING OF YEAR</b>		83
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	7,662	9,767
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	¥ 8,984	¥ 7,662
<b>NONCASH INVESTING AND FINANCING ACTIVITIES:</b>		
Assets increased by consolidation of subsidiary previously unconsolidated		¥ 46

See notes to consolidated financial statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MANDOM CORPORATION AND CONSOLIDATED SUBSIDIARIES  
YEARS ENDED MARCH 31, 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 from International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in 2005 financial statements to conform to the classifications used in 2006.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**a. Consolidation Policy** - The consolidated financial statements as of March 31, 2006 and 2005 include the accounts of MANDOM CORPORATION (the "Company") and its nine significant subsidiaries (together, the "Group"). Investments in one associated company are accounted for by the equity method. Investments in the remaining two unconsolidated subsidiaries and one associated company are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

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

The excess of cost over the net assets of subsidiaries acquired is amortized over a period of five years.

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

**b. 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 existing at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the income statement.

**c. Foreign Currency Financial Statements** - The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for shareholders' equity, which is translated at the historical rate. Differences arising from such translation were shown as "Foreign currency translation adjustments" in a separate component of shareholders' equity.

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

**d. 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 mutual funds investing in bonds representing short-term investments, all of which mature or become due within three months of the date of acquisition.

**e. Short-term Investments and Investment Securities** - Securities included in short-term investments and investment securities are classified and accounted for, depending on management's intent, as follows:

1) trading securities, which are held for the purpose of earning capital gains in the near term are reported at fair value, with the related unrealized gains and losses are included in earnings; 2) held-to-maturity debt securities which the company has the positive intent and ability to hold to maturity are reported at amortized cost; and 3) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported as a separate component of shareholders' equity. The Group's securities (included in "short-term investments" and "investment securities") are all classified as available-for-sale.

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.

Compound financial instruments, from which an embedded derivative cannot be separated, are reported at fair value and resulting gains or losses are recognized in the income statement (See Note 4). However, those instruments, which are low credit risk, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported as a separate component of shareholders' equity.

The Company utilizes such compound financial instruments within specified limits on the amounts, which are purchased to invest

the Company's surplus funds. The Company does not enter into derivatives for trading or speculative purposes.

Compound financial instruments are exposed to credit-related losses in the event of non-performance by counterparties, but the Company does not anticipate any losses arising from credit risk, as the counterparties are limited to major international financial institutions. Such transactions have been made in accordance with internal policies which regulate the authorization and credit limit amount. The conditions and results of such transactions are regularly communicated to the Management Committee.

**f. Inventories** - Inventories are stated at average cost.

**g. Property, Plant and Equipment** - Property, plant and equipment are stated at cost. Depreciation of property and equipment of the Company and its consolidated domestic subsidiaries is computed substantially by the declining-balance method, while the straight-line method is applied to buildings acquired after April 1, 1998.

The range of useful lives is principally from 15 to 50 years for buildings and structures, from 4 to 12 years for machinery and equipment.

The straight-line method is principally applied to the property and equipment of consolidated foreign subsidiaries.

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

The Group adopted the new accounting standard for impairment of fixed assets as of April 1, 2005.

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.

The effect of adoption of the new accounting standard for impairment of fixed assets was to decrease income before income taxes and minority interests for the year ended March 31, 2006 by ¥45 million.

**i. Retirement Benefits and Pension Plans** - The Company and certain of its consolidated subsidiaries have funded defined benefit pension plans and defined contribution pension plans covering substantially all of their employees. The Group accounts for the liability for the pension plans based on the projected benefit obligations and plan assets at the balance sheet date.

Retirement benefits to directors and corporate auditors were provided at the amount which would have been required if they retired at balance sheet date. However, such plan was abolished in June 2005, and there is no provision for the year ended March 31, 2006. Due to the abolishment of the plan, directors were entitled additional payment of ¥116 million, and recognized as other expenses and other long-term liabilities for the year ended March 31, 2006. Accumulated liabilities as of March 31, 2005 was transferred to "other long-term liability."

**j. Research and Development Costs** - Research and development costs are charged to income as incurred.

**k. Leases** - All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

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

**m. Bonuses to Directors and Corporate Auditors** - Payments of bonuses to directors and corporate auditors as approved by the shareholders are accounted for as appropriations of retained earnings.

**n. 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.

Diluted net income per share is not disclosed because no dilutive securities exist.

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.

### 3. CHANGE IN ACCOUNTING POLICY

Compound financial instrument, from which an embedded derivative cannot be separated, were reported at fair value and resulting gains or losses are recognized in the income statement. However Guidance No.12, Guidance on "Accounting for Other Compound Financial Instruments (Compound Financial Instruments Other than Those with Option to Increase Paid-in Capital)" was issued by the Accounting Standards Board of Japan on March 30, 2006 which is effective for fiscal years beginning on or after April 1, 2006 with early adoption permitted for fiscal years ending on or after March 31, 2006. The Company adopted these guidelines for the current year. The adoption of new accounting standard decreased net income before taxes by ¥5 million.

### 4. SHORT-TERM INVESTMENTS AND INVESTMENT SECURITIES

Short-term investments and investment securities at March 31, 2006 and 2005 consisted of the following:

	Millions of Yen	
	2006	2005
Short-term investments:		
Time deposits other than cash equivalents	¥ 99	¥ 100
Government, corporate and other bonds	1,799	2,000
Financing bills		2,200
Trust certificates	400	400
Total	¥ 2,298	¥ 4,700
Investment securities:		
Marketable equity securities	¥ 3,180	¥ 1,428
Non-marketable equity securities	20	19
Government and corporate bonds	5,824	4,803
Trust fund investments and other	1,310	1,581
Total	¥ 10,334	¥ 7,831

Information regarding the securities classified as available-for-sale at March 31, 2006 and 2005 were as follows:

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2006				
Equity securities	¥ 1,922	¥ 1,263	¥ 5	¥ 3,180
Debt securities	7,695	0	72	7,623
Other	1,673	40	3	1,710

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2005				
Equity securities	¥ 928	¥ 521	¥ 21	¥ 1,428
Debt securities	8,991	13	1	9,003
Other	1,954	30	3	1,981

"Debt securities" in the above table includes the compound financial instruments at fair value of ¥596 million and ¥401 million for the years ended March 31, 2006 and 2005, respectively.

The loss on write-down of other securities for the year ended March 31, 2006, was ¥9 million.

The carrying amounts of available-for-sale securities, whose fair value was not readily determinable as of March 31, 2006 and 2005, were as follows:

	Carrying amount Millions of Yen	
	2006	2005
Equity securities	¥ 12	¥ 12

Proceeds from sales of available-for-sale securities for the years ended March 31, 2006 and 2005 were ¥35 million and ¥129 million, respectively. Gross realized losses on these sales, computed on the moving average cost basis, were ¥1 million for the year ended March 31, 2006 and gross realized gains and losses were ¥52 million and ¥1 million respectively, for the year ended March 31, 2005.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale at March 31, 2006 were as follows:

	Millions of Yen
Due in one year or less	¥ 1,799
Due after one year through five years	5,824
<b>Total</b>	<b>¥ 7,623</b>

## 5. INVENTORIES

	Millions of Yen	
	2006	2005
Merchandise	¥ 1,442	¥ 1,362
Finished products	2,647	1,986
Work in process	249	216
Raw materials and supplies	1,522	1,278
<b>Total</b>	<b>¥ 5,860</b>	<b>¥ 4,842</b>

## 6. INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED SUBSIDIARIES AND ASSOCIATED COMPANIES

Investments in and advances to unconsolidated subsidiaries and associated companies at March 31, 2006 and 2005 were as follows:

	Millions of Yen	
	2006	2005
Investments	¥ 671	¥ 647
Advances	34	29
<b>Total</b>	<b>¥ 705</b>	<b>¥ 676</b>

## 7. LONG-LIVED ASSETS

The Group reviewed their long-lived assets for impairment as of the year ended March 31, 2006 and, as a result, recognized an impairment loss of ¥45 million as follows:

Location	Description	Classification
Takatsuki-shi, Osaka	Unused land	Land

To determine this impairment loss, the Group identified cash generating units according to their business classification under the management account system, which continuously monitors income and expenditures, and individual unused assets. The Group determined the recoverability of the asset based on the net selling price by adjusting an assessed value of fixed assets appropriately.

## 8. LONG-TERM LOANS

The annual interest rates applicable to the long-term loans to employees represent primarily housing loans to employees ranged from 0% to 3.5 % at March 31, 2006 and 2005, respectively.

## 9. RETIREMENT BENEFITS AND PENSION PLANS

The Company and certain of its consolidated subsidiaries have funded defined benefit pension plans and defined contribution pension plans for employees.

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 and annuity payments from a trustee.

	Millions of Yen	
	2006	2005
Projected benefit obligation	¥ 2,560	¥ 2,302
Fair value of plan assets	(2,191)	(1,666)
Unrecognized actuarial loss	526	(183)
Unrecognized prior service obligation	(386)	
Prepaid pension expenses	3	
Net liability	¥ 512	¥ 453

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

	Millions of Yen	
	2006	2005
Service Cost	¥ 163	¥ 155
Interest Cost	79	70
Expected return on plan assets	(54)	(44)
Amortization of prior service cost	46	
Recognized actuarial loss	32	52
Subtotal	266	233
Contribution for the multiemployer pension plan	249	217
Contribution for the defined contribution pension plan	76	74
Net periodic benefit costs	¥ 591	¥ 524

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

	2006	2005
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	3.0%	3.0%
Amortization period of prior service cost	7years	7years
Recognition period of actuarial gain / loss	7years	7years

In addition, the Company and certain of its consolidated subsidiaries participate in a contributory multi-employer pension plan covering substantially all of their employees. The pension fund assets available for benefits under this plan at March 31, 2006 and 2005 were approximately ¥3,308 million and ¥2,788 million, respectively.

The liability balances for retirement benefits at March 31, 2005 included accruals for directors and corporate auditors in the amount of ¥643 million. Retirement benefits plan for directors and corporate auditors was abolished in June 2005 and liabilities were transferred to "other long-term liabilities."

## 10. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.64% for the years ended March 31, 2006 and 2005. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2006 and 2005 are as follows:

Effective July 1, 2005, the Company newly established the plan to make additional payments upon the retirement of the employee, who satisfied necessary conditions. Along with this new establishment of the plan, cost of sales and selling, general and administrative expenses were increased by ¥66 million for the year ended March 31, 2006.

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

	Millions of Yen	
	2006	2005
Deferred Tax Assets :		
Accrued bonuses	¥ 271	¥ 276
Enterprise tax	93	59
Allowance for doubtful accounts	46	48
Inventories	118	119
Pension and severance costs	188	423
Long-term liabilities	282	
Unrealized loss on available-for-sale securities	33	10
Devaluation of investment securities	13	11
Devaluation of land	101	101
Property and equipment	62	62
Loss on impairment of long lived assets	18	
Other	196	195
Deferred tax assets subtotal	1,421	1,304
Valuation allowance	(6)	(15)
Deferred tax assets	1,415	1,289
Deferred Tax Liabilities:		
Unrealized gain on available-for-sale securities	529	228
Special reserve for tax-purpose depreciation	21	22
Depreciation	41	39
Undistributed earnings of associated companies	385	282
Other	4	9
Deferred tax liabilities	980	580
Net deferred tax assets	¥ 435	¥ 709

## 11. OTHER LONG-TERM LIABILITIES

Other long-term liabilities at March 31, 2006 consisted of deposits received of ¥401 million and long-term liabilities of ¥695 million which had been transferred from liabilities for retirement benefits to directors and corporate auditors.

## 12. RESEARCH AND DEVELOPMENT

Research and development costs charged to income for the years ended March 31, 2006 and 2005 were ¥1,668 million and ¥1,888 million, respectively.

## 13. SHAREHOLDERS' EQUITY

Through May 1, 2006, Japanese companies are subject to the Commercial Code of Japan (the "Code").

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

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

The Code allows Japanese companies to purchase treasury stock and dispose of such treasury stock upon resolution of the Board of Directors. The aggregate purchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of common stock, additional paid-in capital or legal reserve that could be transferred to retained earnings or other capital surplus other than additional paid-in capital upon approval of such transfer at the annual general meeting of shareholders.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash outlays, the Code also imposes certain limitations on the amount of capital surplus and retained earnings available for dividends. The amount of capital surplus and retained earnings available for dividends under the Code was ¥16,082 million as of March 31, 2006, based on the amount recorded in the parent company's general books of account.

Dividends are approved by the shareholders at a meeting held subsequent to the end of the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

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

#### **(a) Dividends**

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having 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) 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. Under the Code, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends. The Corporate Law also provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

#### **(b) Increases / decreases and transfer of common stock, reserve and surplus**

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

#### **(c) Treasury stock and treasury stock acquisition rights**

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

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

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

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



## 14. LEASES

The Company leases office space, office equipment and certain other assets under operating leases and finance lease arrangements.

Total rental expenses for the years ended March 31, 2006 and 2005 were ¥959 million and ¥824 million, respectively, including ¥45 million and ¥83 million of lease payments under finance leases.

Pro forma information of leased property under finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2006 and 2005 was as follows:

	Millions of Yen	
	Machinery and equipment	Machinery and equipment
	2006	2005
Acquisition cost	¥ 190	¥ 260
Accumulated depreciation	131	178
Net leased property	¥ 59	¥ 82

Obligations under finance leases at March 31, 2006 and 2005 were as follows:

	Millions of Yen	
	2006	2005
Due within one year	¥ 29	¥ 40
Due after one year	30	42
Total	¥ 59	¥ 82

The cost of leased property and obligations under finance leases include imputed interest expense.

Depreciation expense, which is not reflected in the accompanying statements of income, computed by the straight-line method was ¥45 million and ¥83 million for the years ended March 31, 2006 and 2005, respectively.

## 15. RELATED PARTY TRANSACTIONS

Major transactions with unconsolidated subsidiaries and associated companies for the years ended March 31, 2006 and 2005 were as follows:

	Millions of Yen	
	2006	2005
Sales	¥ 809	¥ 758
Purchases	730	742
Interest and dividend income	28	30
Other expenses-net	(284)	(331)

## 16. SUBSEQUENT EVENTS

### (1) Purchase of treasury stock

AT the Board of Directors Meeting held on May 12, 2006, repurchase up to 700 thousand shares of the Company's common stock (aggregate amount of ¥2 billion) as treasury stock until August 31, 2006 was resolved.

### (2) Appropriations of Retained Earnings

The following appropriations of retained earnings of the Company for the year ended March 31, 2006 were approved at the shareholders' meeting held on June 23, 2006:

	Millions of Yen	
	2006	2005
Cash dividends, ¥30 per share	¥ 724	
Bonuses to directors and corporate auditors	100	
Total	¥ 824	

## 17. SEGMENT INFORMATION

Information about operations in different industry segments, foreign operations and sales to foreign customers of the Group for the years ended March 31, 2006 and 2005 is as follows:

### (1) Operations in Different Industries

Sales of cosmetics represent more than 90% of the Group's operations.

### (2) Geographical Segments

The Geographical Segments of the Group for the years ended March 31, 2006 and 2005 are summarized as follows:

Millions of Yen				
2006				
	Japan	Asia	Eliminations/ Corporate	Consolidated
Sales to customers	¥ 35,003	¥ 12,920		¥ 47,923
Inter-area transfer	2,198	288	(2,486)	
Total sales	37,201	13,208	(2,486)	47,923
Operating Expenses	32,801	11,544	(2,488)	41,857
Operating income	¥ 4,400	¥ 1,664	¥ 2	¥ 6,066
Assets	¥ 23,192	¥ 9,870	¥ 18,258	¥ 51,320

Corporate assets of ¥18,841 million, included in "Eliminations / Corporate," are principally marketable and investment securities.

Millions of Yen				
2005				
	Japan	Asia	Eliminations/ Corporate	Consolidated
Sales to customers	¥ 35,636	¥ 11,910		¥ 47,546
Inter-area transfer	2,639	544	(3,183)	
Total sales	38,275	12,454	(3,183)	47,546
Operating Expenses	33,339	10,692	(3,186)	40,845
Operating income	¥ 4,936	¥ 1,762	¥ 3	¥ 6,701
Assets	¥ 22,074	¥ 7,111	¥ 18,213	¥ 47,398

Corporate assets of ¥18,779 million, included in "Eliminations / Corporate," are principally foreign currency translation adjustments, and marketable and investment securities.

### (3) Sales to Foreign Customers

Sales to foreign customers for the years ended March 31, 2006 and 2005 amounted to ¥13,552 million and ¥12,494 million, respectively.

# INDEPENDENT AUDITORS' REPORT



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To the Board of Directors and Shareholders of  
MANDOM CORPORATION:

We have audited the accompanying consolidated balance sheets of MANDOM CORPORATION and consolidated subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended. 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 MANDOM CORPORATION and consolidated subsidiaries as of March 31, 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.

*Deloitte Touche Tohmatsu*

June 26, 2006

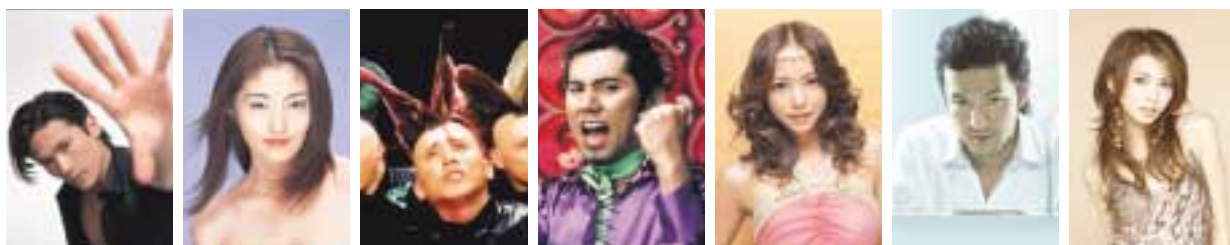
# History

- 1927** 12 Established KINTSURU PERFUME CORPORATION
- 1933** 4 Launched Tancho Tique, a hit product which laid the foundation for future success
- 1949** 4 Shinpachiro Nishimura (president) appointed to the chief post of Kinki Cosmetic Industry Association
- 1958** 4 KINTSURU PERFUME formed a technical tie-up with a local company in Manila, the Philippines, and began operations. This marked the first step in overseas expansion.
- 1959** 4 Company name was changed to TANCHO CORPORATION
- 1961** 5 Mr. Hikoji Nishimura appointed president of Tancho Corporation
- 1966** 11 Chairman Shinpachiro Nishimura passed away on November 3
- 1969** 11 Started a joint venture P.T. TANCHO INDONESIA in Jakarta, Indonesia (now consolidated subsidiary PT MANDOM INDONESIA Tbk)
- 1970** 6 Awarded "Excellence in Export Contributions" by the Ministry of Trade and Industry in Japan. The same recognition was received in 1971 and 1972
- 7 Launched the "*Mandom Series*," announcing 10 products in 9 categories  
Featured a Hollywood star (Mr. Charles Bronson) for the first time in Japanese advertisement
- 1971** 4 Company name was changed to MANDOM CORPORATION.
- 1972** 10 Established Japan Doctor Renault Cosmetics Company (now consolidated subsidiary PIACELABO CORPORATION)
- 1976** 3 Construction of Fukusaki Factory completed. Commenced operations
- 1978** 5 Switched from distributors to direct sales
- 7 Launched the new *Gatsby* and *Spalding* product lines, the first time in Japan's cosmetics industry two major lines were introduced simultaneously
- 1980** 4 Switched from direct sales to distributors
- 5 Mr. Hikoji Nishimura appointed chairman of Kinki Cosmetic Industry Association
- 8 Mr. Ikuo Nishimura appointed president
- 1982** 4 Commenced MANDOM CORPORATION's 1<sup>st</sup> 5-year Middle-range Planning (MP Project)
- 9 Commenced sale of *Pagliari* lineup through beauty salons throughout Japan
- 1983** 4 Introduced new CI system. Changed company logo
- Introduced *Pucelle My Lip*, the company's first product geared to the women's cosmetics market
- 1984** 7
- 1985** 2 Established MIC CORPORATION
- 3 Launched *Hi Funk Gatsby* series of men's hair foam and other products
- 1986** 9 Completed construction of a factory specializing in aerosol products at the Fukusaki Factory
- 1987** 4 Commenced 2<sup>nd</sup> 3-year Middle-range Planning
- 12 60<sup>th</sup> Anniversary
- 1988** 2 Started a joint venture in Singapore (now consolidated subsidiary MANDOM CORPORATION (SINGAPORE) PTE LTD)
- 11 MANDOM CORPORATION shares traded on the over-the-counter market  
Issued 500,000 shares, increasing capital
- 1989** 3 Received ECO Mark certification to foam products from the Japan Environment Association
- 9 Introduced *Lúcido*, a lineup of fragrance-free men's cosmetics products, unprecedented in the industry
- 12 Started a joint venture in Taiwan (now consolidated subsidiary MANDOM TAIWAN CORPORATION)
- 1990** 3 Started a joint venture in Thailand (MANDOM CORPORATION (THAILAND) LTD.)
- 4 Commenced 3<sup>rd</sup> 3-year Middle-range Planning
- 7 Prices revised due to abolishment of sales subsidies
- 1992** 2 Started a joint venture in the Philippines (now consolidated subsidiary MANDOM PHILIPPINES CORPORATION)
- 6 Construction completed of tube filling wing at Fukusaki Factory
- 10 Established M-ZA CORPORATION, a company with cosmetics procured through selective distribution
- 1993** 2 Construction completed on the first stage of new Head Office building. Commenced operations in the new building
- 4 Commenced 4<sup>th</sup> 3-year Middle-range Planning  
Mr. Hikoji Nishimura decorated with Japan's Fourth Class Order of the Rising Sun
- 7 Started a joint venture in Hong Kong (now an equity-method affiliate SUNWA MARKETING CO., LTD.)
- 9 Launched *Lúcido L*, a lineup of fragrance-free products for women  
P.T. Tancho Indonesia listed on the Jakarta Stock Exchange
- 10 Established GUINOT JAPAN CORPORATION (consolidated subsidiary), a sales company that distributes French cosmetics for esthetic salons
- 1994** 6 The second phase of the construction of a new head office ended, completing the construction of the building
- 1995** 6 Mr. Motonobu Nishimura appointed president of MANDOM CORPORATION
- 1996** 4 Commenced 5<sup>th</sup> 3-year Middle-range Planning  
Established BEAUCOS CORPORATION (consolidated subsidiary), that imports and processes cosmetics for group companies  
Launched "Mandom World," the Group's website on the Internet



- 11 Established ZHONGSHAN CITY RIDA FINE CHEMICAL CO., LTD., a joint venture in China
- 1997 1 Started a joint venture in Malaysia (now consolidated subsidiary MANDOM (MALAYSIA) SDN. BHD.)
- 4 Established KONAN SERVICE CORPORATION (now Mandom Business Service CORPORATION)
- 1998 3 Launched *Michiko London*, a product range sold exclusively through convenience stores
- 4 Construction completed of a new Logistics Center at Fukusaki Factory site
- 8 Repurchased 1.7 million shares of MANDOM common stock
- 12 Became the first Japanese cosmetics manufacturer to receive certification of its Head Office, research laboratories, plant and Logistics Center to ISO 9001 standards, the international standard governing quality assurance
- 1999 1 Launched *System E/O*, a line of skin treatment for women with sensitive skin through mail-order sales
- 3 Achieved ¥10 billion sales of *Gatsby* products, a first in the Japanese cosmetics industry for men's products
- 4 Commenced 6<sup>th</sup> 3-year Middle-range Planning
- 8 Started a joint venture in Korea (now consolidated subsidiary MANDOM KOREA CORPORATION)
- 2000 5 Mr. Ikuo Nishimura, Director and Corporate Advisor of MANDOM CORPORATION, passed away on May 23
- 8 MANDOM CORPORATION's share trading unit lowered from 1,000 shares to 100 shares
- 11 Fukusaki Factory and Logistics Center certified to ISO 14001, the international standard for environmental management systems
- 2001 3 Commenced operations at PT MANDOM INDONESIA Tbk's Cibitung Factory
- Launched *Gatsby Hair Color* series, developing a market for men's hair color products
- 8 Repurchased 2.33 million shares of MANDOM common stock on the open market
- A full revamp of the *Lúcido L* range
- 10 Began manufacture of hair color products at facilities in three countries—Japan (Fukusaki, Hyogo Prefecture), Indonesia (Sunter, Jakarta; Cibitung, Bekasi) and China (Zhongshan City, Guangdong)
- 2002 1 Listed on the Second Section of the Tokyo Stock Exchange
- 3 Completed construction of the MANDOM Group's Tokyo Nihonbashi Building
- Gatsby Hair Color* commercial voted best overall in a survey carried out by CM Databank in the Tokyo metropolitan area

- 4 Commenced 7<sup>th</sup> 3-year Middle-range Planning
- 5 Started marketing *Gatsby* and *Lúcido L* simultaneously overseas
- 2003 1 Honorary Advisor Hikoji Nishimura passed away on January 25
- 2 Launched *Lúcido L Prism Magic Hair Color* series, entering the market for women's hair color products
- 3 Designated for listing on the First Section of the Tokyo Stock Exchange
- Capital increase effected through public offering of 1.65 million shares
- 9 Launched men's hair color for gray hair in the *Lúcido* brand.
- 10 Achieved "zero emission" status at the Fukusaki Factory
- PT MANDOM INDONESIA Tbk won the Economic Value Added (EVA) Award in Indonesia
- 11 MANDOM partially reformed its retirement benefit plans, introducing the defined-contribution pension plan.
- 2004 1 MANDOM Shanghai Representative Office opened.
- 2 Recalled *Gatsby Ex Hi-Bleach*, a MANDOM product, due to a burn injury accident (a first recall in the Company's history)
- 3 Acquired Occupational Health and Safety Management System (OHSAS 18001) certification at the Fukusaki Factory, Logistics Center, and Production Engineering Division
- 10 Outsourced logistics operations to NIPPON EXPRESS CO., LTD.
- 12 PT MANDOM INDONESIA Tbk won the Economic Value Added (EVA) Award for the second consecutive year
- 2005 2 Acquired M-ZA CORPORATION, a wholly owned subsidiary
- 3 Transferred all the stocks of MIC CORPORATION, a wholly owned subsidiary, to BHL SA.
- 4 Commenced 8<sup>th</sup> 3-year Middle-range Planning
- 6 Terminated retirement benefits for directors and corporate auditors
- 11 Developed an antiseptic-free product incorporating "alkanediol"
- Launched *Perfect Assist 24*, Mandom's first proprietary cosmetic product for women
- 12 PT MANDOM INDONESIA Tbk won the Economic Value Added (EVA) Award for the third consecutive year
- 2006 2 PT MANDOM INDONESIA Tbk conducted capital increase through shareholder allocation (24,960,000 new shares issued)
- 3 Received authorization to use the Privacy Mark from the Japan Information Processing Development Corporation (JIPDEC)



# Outline of the Company (As of March 31, 2006)

**Company Name** MANDOM CORPORATION

**Head Office** 5-12, Juniken-cho, Chuo-ku,  
Osaka 540-8530, Japan

**Established** December 23, 1927

**Paid-in Capital** ¥11,394,817,459

**Number of Employees** 2,068 (Consolidated)  
496 (Non-consolidated)

**Fiscal Year-end** March 31

**General Meeting of Shareholders** Ordinary General Meeting of Shareholders  
Every June

**Independent Auditor** Deloitte Touche Tomatsu

## Key Domestic Business Locations

**Head Office** 5-12, Juniken-cho, Chuo-ku,  
Osaka 540-8530, Japan

**Tokyo Building** 2-6-3, Shibazono, Narashino-shi,  
Chiba 275-0023, Japan

**Mandom Group's Tokyo Nihonbashi Building** 2-16-6, Nihonbashi, Chuo-ku,  
Tokyo 103-0027, Japan

**Fukusaki Factory** 290-28, Takahashi, Fukusaki-cho, Kanzaki-gun,  
Hyogo 679-2216, Japan

**Logistics Center** 1714-14, Saiji (NIPPON EXPRESS CO., LTD.),  
Fukusaki-cho, Kanzaki-gun,  
Hyogo 679-2216, Japan

**Sales Bases** Sapporo, Sendai, North Kanto, Tokyo,  
South Kanto, Nagoya, Osaka, Hiroshima, Fukuoka

## Board of Directors & Executive Officers

Representative Director President Executive Officer	Motonobu Nishimura
Representative Director Vice President Executive Officer	Hiroshi Kamei
Director Senior Managing Executive Officer	Yoshikatsu Nishiumi
Director Managing Executive Officer	Kenji Yamada
Director Managing Executive Officer	Koji Nozaki
Director Managing Executive Officer	Masayoshi Momota
Director Managing Executive Officer	Yoshiaki Saito
External Director	Mitsuo Goto
Corporate Auditor	Toshihito Higuchi
Corporate Auditor	Kazuo Tomita
External Corporate Auditor	Kazuya Kotera
External Corporate Auditor	Susumu Takagi



## Group Companies (as of July 31, 2006)

### Japan

Company Names	Main Businesses	Voting Rights	
<b>Piacelabo Corporation</b>	Sales of cosmetic products	100%	consolidated subsidiary
<b>Guinot Japan Corporation</b>	Sales of cosmetic products	100%	consolidated subsidiary
<b>Beaucos Corporation</b>	Quality management of products handled by domestic Group companies	100%	consolidated subsidiary
<b>Mandom Business Service Corporation</b>	Provides life and non-life insurance, staffing, and general services	100%	non-consolidated subsidiary

### Overseas

Company Names	Location	Main Businesses	Voting Rights	
<b>PT Mandom Indonesia Tbk</b>	Indonesia	Manufacture and sales of cosmetic products	60.7%	consolidated subsidiary
<b>Mandom Corporation (Singapore) Pte Ltd</b>	Singapore	Sales of cosmetic products	100.0%	consolidated subsidiary
<b>Mandom Taiwan Corporation</b>	Taiwan	Sales of cosmetic products	100.0%	consolidated subsidiary
<b>Mandom Corporation (Thailand) Ltd.</b>	Thailand	Sales of cosmetic products	35.0%	non-equity-method affiliate
<b>Mandom Philippines Corporation</b>	The Philippines	Sales of cosmetic products	100.0%	consolidated subsidiary
<b>Sunwa Marketing Co., Ltd.</b>	China (Hong Kong)	Sales of cosmetic products	39.0%	equity-method affiliate
<b>Zhongshan City Rida Fine Chemical Co., Ltd.</b>	China (Zhongshan)	Manufacture and sales of cosmetic products	58.4%	non-consolidated subsidiary
<b>Mandom (Malaysia) Sdn. Bhd.</b>	Malaysia	Sales of cosmetic products	97.6%	consolidated subsidiary
<b>Mandom Korea Corporation</b>	Korea	Sales of cosmetic products	100.0%	consolidated subsidiary



# Stock Information (As of March 31, 2006)

<b>Number of shares authorized for issue</b>	81,969,700 shares	<b>Stock listing</b>	First Section, Tokyo Stock Exchange
<b>Shares of Common Stock Issued and Outstanding</b>	24,134,606 shares	<b>Securities code</b>	4917
<b>Number of Shareholders</b>	15,326	<b>Transfer agent</b>	The Sumitomo Trust and Banking Co., Ltd. 5-33, Kitahama 4-chome, Chuo-ku, Osaka 540-8639, Japan

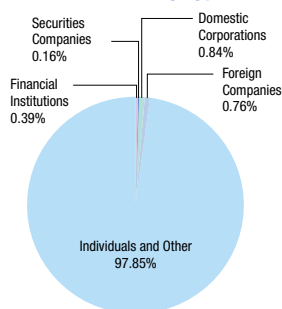
## Major Shareholders

Shareholder	No. of Shares (Thousands)	Holding (%)
State Street Bank and Trust Company	1,849	7.66
Nishimura International Scholarship Foundation	1,800	7.46
The Master Trust Bank of Japan, Ltd. (trust account)	1,162	4.82
Japan Trustee Services Bank, Ltd. (trust account)	1,048	4.34
Motonobu Nishimura	1,005	4.16
Teruhisa Nishimura	801	3.32
BNP Paribas Securities Service London/ JASDEC/UK Residents/Agency Lending	693	2.87
Mandom Employee Shareholding Association	632	2.62
Mellon Bank ABN AMRO Global Custody NV	577	2.39
State Street Bank and Trust Company 505019	446	1.85

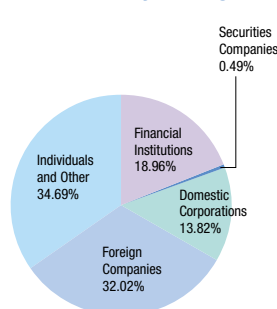
Note: Figures less than 1,000 shares have been omitted. Holding percentage is calculated based on the number of shares issued and outstanding.

## Common Stock Holdings

### Shareholders by Type

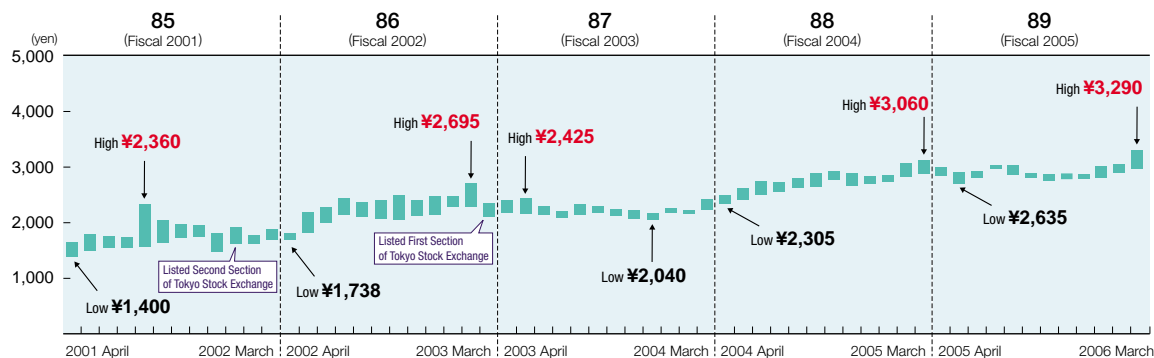


### Shareholders by Holding



## Stock Price and Transaction Volume

Years ended March 31



mandom corp.



This annual report is printed using environmentally friendly soybean oil ink.

Printed in Japan on recycled paper

Mandom Corporation has acquired ISO 14001 certification for Fukusaki Factory and ISO 9001 certification for Head Office and Fukusaki Factory.