

A portrait of Motonobu Nishimura, an older man with grey hair and glasses, wearing a dark blue blazer over a white shirt. He is sitting on a black stool with his hands clasped. The background is a light blue gradient.

We will fulfill the significant responsibilities we have as a global corporation and seek to be of benefit to people.

M Nishimura

Motonobu Nishimura
Representative Director
President Executive Officer

President's Message

Fiscal 2015, ended March 31, 2016, was a trying year for the Mandom Group. On July 10, 2015, a fire broke out in the aerosol production area of PT Mandom Indonesia Tbk, a consolidated subsidiary. Many valued employees lost their lives in this tragedy, and many others were injured and hospitalized. We are very sorry for the terrible losses suffered by all concerned parties, and we deeply apologize.

After the accident, executive officers of the subsidiary were posted at the hospital around the clock to deal with the needs of the deceased and their families, to handle paperwork and other procedures for the 30 injured employees, and to care for relatives and other visitors. We did what we could to the best of our ability. We wholeheartedly thank our Indonesian staff for their efforts.

As the parent company, Mandom Corp. subsequently made a donation to the affected community and established a scholarship fund for the children of deceased employees. In addition, private donations were sent from Mandom Group companies, employees, and suppliers. When I visited Indonesia as Mandom's representative to express my condolences and apologies to the injured employees, I was uneasy at first about what words I should use to apologize. However, nearly everyone greeted me with kindness and warmth, filling me with inexpressible gratitude. Although their hospital stays must have been difficult, all 30 injured employees eventually left the hospital, and 28 are regularly reporting to our Indonesian subsidiary's plant as part of their rehabilitation. The fact that all 30 injured employees have said they want to work at Mandom again makes me gladder than anything else. We will continue to give them the active support they need, including psychological support, to return to jobs with Mandom. The community where the accident occurred has also reacted very favorably to the Mandom Group's response. I am grateful to our predecessors for building up such a trusting relationship with the local people over the years, and I am convinced that we are blessed with great human resources.

The Mandom Group aims to be an "Only One" company in Asia with global management expertise. We will continue to provide a variety of products and services that set the standard of grooming a consciousness for our changing times.

To discover the cause of this accident and formulate measures to prevent a recurrence, we established the Accident Investigation Measures Committee composed of five specialists and a third-party academic. The committee analyzed the causes of the accident, and in its final report, released on May 11, 2016, it offers measures to prevent a recurrence. Based on these results, we will implement thorough safety management.

We have designated July 10 as Safety & Security Day throughout the Mandom Group to raise everyday consciousness of the need for safety management, and to ensure that the lessons of the Indonesian fire accident are not forgotten. We have also built a mosque and square on the grounds of the Indonesian plant, which people can visit at any time.

The Mandom Group is a manufacturer of cosmetics, but also a member of the chemical industry, and as such, we must keep in mind that the possibility of an accident like this one is not limited to aerosol production facilities. The risk is always present. We will reflect deeply on this event, and we promise to fulfill our responsibilities and make use of the lessons we have learned in future business activities.

We recorded our highest-ever net sales figure for the sixth consecutive year as a result of solid performance in women's products in Japan and overseas.



Looking Back on the Fiscal 2015: Mandom Group Business Results

In terms of the business environment during fiscal 2015, ended March 31, 2016, Japan's economy demonstrated a gradual recovery against a backdrop of improvements in corporate profits and the employment situation. Meanwhile, Asia, our main sphere of international operations, showed modest expansion despite signs of an overall slowdown. In China, which has been a growth driver for global and Asian economies, investment was restrained in the manufacturing industry and development-related investment was limited in the real estate market. A tightening of regulations for credit dealings in shares in the region also had an impact.

Under these conditions, the Mandom Group pursued initiatives aimed at driving sustainable growth, namely, sustainable growth in our core men's grooming business, accelerated expansion of our women's cosmetics business, and continued expansion of our global business as an engine of growth.

On a consolidated basis, men's business still accounts for the majority of our business at 65%. Women's business makes up around 25%, and the remaining 10% or so comprises other businesses.

In our core men's grooming business, the Gatsby brand assumes the greatest weight. In Japan, results unfortunately remained flat year on year due primarily to sluggish sales of merchandise during the summer period on account of unusually cool weather. On a consolidated basis, however, the men's grooming business was up 2.8%.

In Japan, the women's cosmetics business overall increased by 29.9% due in part to the impact of inbound tourism and the women's cosmetics business overall rose by 4.8%. As a result, the year saw cosmetics categories for women as a strong growth engine for our entire business.

In quantitative terms, the discontinuation of operations following the fire accident at our Indonesian subsidiary's plant was the primary reason for the loss at PT Mandom Indonesia Tbk. December marks the end of the fiscal year for this company, and steady progress was made in the first and second quarters from January to June. The accident on July 10 and the ensuing partial discontinuation of operations occurred at the start of the third quarter, which runs from July to September, and it was this period that drew a loss in year-on-year terms. Following this, market inventory was reduced in the fourth quarter, enabling us to return to the level of 20% relative to the previous year. Although we fell short of our initial sales target of 2,580 billion rupiah, sales in 2015 amounted to 2,315 billion rupiah, marking an increase from 2,308 billion rupiah in 2014. We were thus able to secure a positive year-on-year gain, albeit a modest one. Overall consolidated results were mostly in line with expectations based on figures revised from initial targets.

Consolidated Operating Results for Fiscal 2015

Net sales	Operating income	Ordinary income	Net income attributable to owners of the parent
¥75,079 million	¥6,594 million	¥7,415 million	¥6,383 million
Up 5.9% YoY	Down 5.7% YoY	Down 2.4% YoY	Up 44.2% YoY

As a result, consolidated net sales for fiscal 2015 increased by ¥4,153 million, or 5.9%, year on year to ¥75,079 million. Despite the impact of the fire accident at our Indonesian subsidiary, we posted a solid performance in women's products in both Japan and overseas, and as a result achieved our highest-ever net sales figure for the sixth consecutive fiscal year.

On the profit front, due to the impact of the fire accident at our Indonesian subsidiary and active investment in marketing overseas (sales promotion and advertising expenses), consolidated operating income decreased by ¥401 million, or 5.7%, year on year to ¥6,594 million, and ordinary income decreased by ¥180 million, or 2.4%, to ¥7,415 million. Net income attributable to owners of the parent increased by ¥1,957 million, or 44.2%, to ¥6,383 million due to the recording of a gain on the sale of fixed assets at our Indonesian subsidiary.

Recognition of Trends in the Business Environment

The population in Asia, our core market, is steadily increasing. Economically, however, the slowdown in China, the largest trading partner for ASEAN and newly industrialized economies (NIEs), is affecting each country in the region. The impact in Malaysia has been particularly pronounced. In addition, the burden placed on lifestyles in Indonesia continues to rise, with skyrocketing electricity and other utility charges and the withdrawal of government subsidies for gasoline. Amid these conditions, Mandom's products sold in the region are seen as daily essentials, and as such, are not overly affected by the economic situation. Up until a few years ago, it was possible to gain an insight into the life circumstances in the region by looking at sales of small packet products (sachets) sold by Mandom locally. Now, however, consumers tend to demand the quality of highly reliable Japanese-made products, particularly in the middle-income demographic. Nonetheless, a large number of consumers in Indonesia and the Philippines purchase mainly conveniently sized products—the traditional trade—and as such, we believe we must respond by providing benefits to these kinds of consumers as well as developing products for middle-income earners and above in parallel through a level of differentiation.

Further, Mandom is also currently focusing on the area of mainland Southeast Asia (Indochina). We established a site in Vietnam in 2015 and are expanding sales steadily in Cambodia as well. In contrast, conditions are somewhat dormant in India, which is developing at a remarkable rate. Although wax, deodorant and shaving-related products have penetrated the market well and sales are expanding gradually, numerous barriers exist to establishing business locations and manufacturing sites in India. Consequently, we will monitor the sales situation and other factors carefully for the foreseeable future through local agents.

Progress in MP-11 (Middle-Range Planning)

The second year of Mandom's 11th three-year management plan (MP-11) that runs from April 2014 to March 2017 has just come to a close. Rather than alternate between hope and despair in terms of concrete figures, I am emphasizing the fact that we can see we are growing toward the ideal state that we aim for. Although I believe that it is the hard work of all employees that has brought us to the results we find today as we seek to achieve this ideal state in definitive terms, unfortunately we have still not reached a sufficiently satisfactory condition.

It is true that the fire accident at our Indonesian subsidiary has widened the gap with our vision, but I am confident that we will achieve a more solid grasp of where we are heading in many ways as we put into action our strategies for the future ahead of our 90th and 100th anniversaries, and that is what we must hold on to.

In terms of strategic topics for achieving the targets of MP-11, our women's cosmetics business has grown to a scale of ¥10 billion. Although this figure is still small in terms of the



Overview of MP-11 ▶ Middle-Range Planning to Accelerate Growth in Asia and Promote the Development of New Businesses

(Final Year: Fiscal 2016)

Growth Potential

We aim to further bolster business in major markets to bring a competitive advantage, and open new markets and business areas to expand sales.

Target: Consolidated Net Sales

Final year of MP-11:

¥83,000 million

We continue to address topics covered in MP-10, aiming for even higher growth.

Sustained Growth in the Men's Grooming Business

We aim for sustained growth as our core business area while maintaining or expanding category share in the men's cosmetics market.



Men's Grooming Business

Average growth rate target:

5.2% or higher

Greater Speed in Development of the Women's Cosmetics Business

We aim to achieve greater speed in developing business in Asia, primarily in skin care and base make-up categories, with product lines tailored to each country.



Women's Cosmetics Business

Average growth rate target:

15.0% or higher

Continued Strengthening of Overseas Business: The Company's Growth Engine

We aim to expand sales by doubling efforts in the main market of Indonesia, and build a foundation in emerging markets such as China and mainland southeast Asia by building distribution networks and other initiatives.



Overseas Business

Average growth rate target:

11.4% or higher

Profitability

We aim to improve profitability as well as perform marketing investment for growth.

Target: Consolidated Operating Income

Final Year of MP-11:

¥8,600 million

Shareholder Returns

We aim to maintain high and stable levels of shareholder returns.

Target: Consolidated Payout Ratio

Consolidated basis, excluding extraordinary items:

40% or higher



overall market, it can be seen as a significant turning point for us, while Mandom's women's cosmetics business in Indonesia is now positioned differently from that in Japan and the Pixy brand in particular is performing well.

In the men's grooming business, the hair-styling market in Japan grew for the first time in years, by around 1.7% according to market data. Mandom posted growth of more than 5% from the previous fiscal year, and I believe we were able to lift the entire market. Amid a continued shrinking of the market owing to an aging society and dwindling birthrate, we are doing everything we can to find a way to win over first-time cosmetics users, particularly the younger generation. As far as we can see, the needs of this group are now completely focused on skin care rather than hair styling. It is critical that we secure the patronage of these entry-level users despite a number of challenges that exist in the skin care-related domain.

In fiscal 2015, we noted the positive effects of inbound tourism. Looking at our products, our Barrier Repair brand sheet masks proved to be the most popular for women, followed by cleansing products. For men, Lúcido hair dye was a hit. However, when I went to Hong Kong and China recently to observe the situation, I found that consumer and market conditions are changing. It seems that parallel imports have become mainstream for people there. Of course, this is not limited to Mandom's products, and when I went to the border area of Hong Kong and Shenzhen, I discovered caseloads of many Japanese products. Going forward, although we expect the number of tourists from overseas to continue increasing, the purposes for visiting are gradually changing, and it is likely that fewer people will prioritize shopping sprees as before.

Although we have been unable to meet expectations and translate our efforts into significant growth for the Lúcido brand, there is a sense that potential in the middle-aged men's market in Japan has finally emerged. In recent years, a rising number of people have been seeking skin care in addition to odor care. In terms of marketing, we focused on strategically boosting the exposure of Lúcido in the middle-aged men's market amid the emergence of competitor products to Gatsby for the younger age group. Looking at market data for men from 2015, 40% comprised the scalp care market. Of the remaining 60%, Mandom already commands a 44-45% share. Lúcido currently only accounts for around 2.8% of the scalp care market. Although we have generated certain results in the odor-care market, numerous issues still need to be overcome and, since we have just entered this market, we are looking at expanding into other areas.

Outlook for the Upcoming Year

In fiscal 2016, the final fiscal year of the Mandom Group's 11th three-year management plan (MP-11), the Japanese economy is expected to see a moderate recovery amid continued improvement in the employment and income environments. Despite this, the future outlook remains unclear, due in particular to rising uncertainty in overseas economies and concerns over fluctuations in financial and capital markets. In contrast, Asian economies are expected to continue expanding moderately, although there is still a risk that they will be impacted by financial markets.

In these circumstances, the Mandom Group will target sustainable growth of its Group businesses, with all Group companies in Japan and overseas working together to achieve this goal.

We will continue our efforts to boost sales by maintaining three ongoing pillars of activity: sustaining growth in the men's grooming business, stepping up efforts in the women's cosmetics business, and expanding overseas operations as the engine of growth.

In terms of profits, we expect our cost-of-sales ratio to rise due to aggressive investments in marketing at overseas locations and in women's products. However, we intend to boost operating income and ordinary income through continued efforts to hold down the cost of sales and by achieving greater efficiencies in selling, general and administrative expenses. Furthermore, we expect net income attributable to owners of the parent to decrease due to the impact of a gain on sales of property, plant and equipment following the transfer of certain fixed assets to our Indonesian subsidiary in the previous fiscal year.

The principal exchange rate assumptions used in our forecasts are ¥110/US\$1.00, 13,400 rupiah/US\$1.00 and ¥0.0082/1.00 rupiah.

As a result, our consolidated forecasts for fiscal 2016 are net sales of ¥76,800 million, up 2.3% year on year; operating income of ¥7,400 million, up 12.2%; ordinary income of ¥7,900 million, up 6.5%; and net income attributable to owners of the parent of ¥5,000 million, down 21.7%.



Consolidated Forecast for Fiscal 2016

Net sales	Operating income	Ordinary income	Net income attributable to owners of the parent
¥76,800 million Up 2.3% YoY	¥7,400 million Up 12.2% YoY	¥7,900 million Up 6.5% YoY	¥5,000 million Down 21.7% YoY

In Conclusion

We believe that there is a big difference between achieving comparative targets and outstripping the competition based on ongoing awareness of rivals and seeking to accomplish absolute goals in pursuit of our ideal state without being concerned about the competition. Looking at current conditions, I feel that we are placing too much emphasis on other companies and the competition. Although it is important to pursue growth in scale as most companies do, I think it is key that we work to achieve our essential ideal state. It is important to have a good balance between human qualities and social qualities as a company, and I believe we can thrive if we conduct management that strikes a good total balance in this way. If we solely pursue profit, we will find it difficult to garner the trust of society. On top of this, we aim to be an opinion leader that provides products which stimulate the fashion-conscious mind as the standard in any era.

I ask for the ongoing support and encouragement of all our stakeholders.

August 2016

Motonobu Nishimura
Representative Director
President Executive Officer