# Consolidated Business Results (April 1, 2005 – March 31, 2006)

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Corporate Name: Mandom Corporation
Stock Listing: Tokyo Stock Exchange, First Section
Code Number: 4917
Head Office: Osaka Prefecture
(URL: http://www.mandom.co.jp)

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Board of Directors meeting: May 12, 2006
U.S. GAAP: None

## 1. Results for Fiscal 2006 (April 1, 2005 – March 31, 2006)

(Note: Rounded off to millions)

(1) Sales and Income

| | Net Sales | | Operating Income | | Ordinary Income | |
|---|---|---|---|---|---|---|
| | (¥ million) | Change % YoY | (¥ million) | Change % YoY | (¥ million) | Change % YoY |
| **FY2006** | **47,923** | **0.8%** | **6,065** | **△9.5%** | **6,120** | **△2.6%** |
| FY2005 | 47,546 | 4.8% | 6,700 | 0.3% | 6,281 | △0.4% |

| | Net Income | | Earnings Per Share (EPS) | Earnings Per Share (diluted) | Return on Equity (ROE) | Ordinary Income / Total Assets | Ordinary Income / Net Sales |
|---|---|---|---|---|---|---|---|
| | (¥ million) | Change % YoY | | | | | |
| **FY2006** | **3,099** | **△3.5** | **¥124.36** | **¥ ---** | **7.9%** | **12.4%** | **12.8%** |
| FY2005 | 3,211 | △1.3 | ¥128.73 | ¥ --- | 8.6% | 13.5% | 13.2% |

Notes:

1) Investment profit or loss on equity method
3/06: ¥32 million    3/05: ¥26 million
2) Average number of shares on a consolidated basis
3/06: 24,120,912    3/05: 24,123,461
3) There were no changes in the accounting methods applying to the period.
4) The percentages that follow Net Sales, Operating Income, Ordinary Income and Net Income are year-on-year increase/decrease rates.

(2) Financial Position

| | Total Assets | Shareholders' Equity | Shareholders' Equity Ratio | Shareholders' Equity Per Share |
|---|---|---|---|---|
| | (¥ million) | (¥ million) | | |
| **FY2006** | **51,320** | **40,568** | 79.1% | ¥1,677.82 |
| FY2005 | 47,397 | 38,168 | 80.5% | ¥1,577.94 |

Notes: Total number of issued shares on a consolidated basis

3/06: 24,120,048 3/05: 24,121,835

(3) Cash Flow

Consolidated Basis

| | Operating Activities | Investing Activities | Financing Activities | Cash and Cash Equivalents at end of year |
|---|---|---|---|---|
| | (¥ million) | (¥ million) | (¥ million) | (¥ million) |
| **FY2006** | **4,911** | **△2,444** | **△1,196** | **8,983** |
| FY2005 | 6,061 | △6,919 | △1,345 | 7,662 |

(4) Consolidation and equity method application

Number of consolidated subsidiaries: 9

Number of non-consolidated subsidiaries with equity method applied: 0

Number of affiliated companies with equity method applied: 1

(5) Changes in consolidation and equity method application

Consolidation (new): 0 (Exclusion: 0)

Equity method (new): 0 (Exclusion: 0)

## 2. Outlook for the Fiscal 2007 (April 1, 2006 – March 31, 2007)

| | Net Sales | Ordinary Income | Net Income |
|---|---|---|---|
| | (¥ million) | (¥ million) | (¥ million) |
| Interim | 27,000 | 3,300 | 1,650 |
| 2007 | **50,600** | **5,200** | **2,500** |

Projected 12-month Earnings Per Share (EPS) ¥103.65 (for reference only)

The figures above include projections based on assumptions, forecasts and plans with respect to the future made as of the date of publication of this document. Due to risks and uncertainties arising from economic factors, market environment changes, and currency fluctuations, actual performance may differ from the figures forecast. Please refer to page 16 in the attachment.

# Mandom Group Companies

The Mandom Group consists of Mandom Corporation, 11 subsidiaries and 2 affiliates. The Group's main line of business is the manufacture and sales of cosmetics.
Summarized below are the roles of each of the Group companies in our business activities.

Cosmetics Business

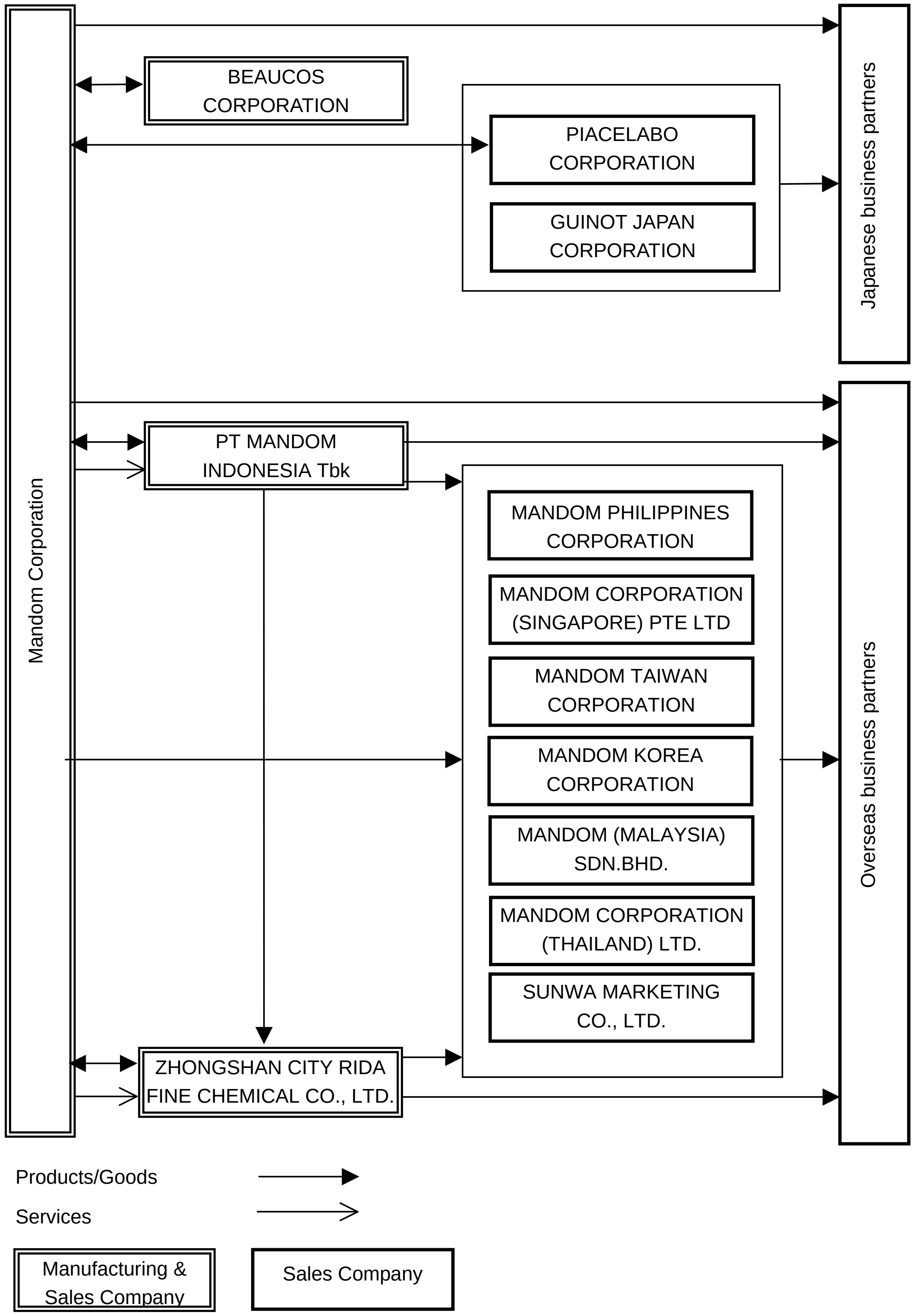
| | | |
|---|---|---|
| Manufacture /Sales | | 2 Japanese & 2 overseas companies |
| | Japan | Mandom Corporation and 1 consolidated subsidiary<br>Mandom Corporation manufactures and markets cosmetics handled by the company.<br>Mandom Corporation also manufactures cosmetics to be sold by the consolidated Japanese subsidiary.<br>BEAUCOS CORPORATION manufactures cosmetics to be sold by Mandom Corporation and the consolidated Japanese subsidiary.<br>Mandom Corporation exports cosmetics handled by the Japanese Group companies. |
| | Overseas | 1 consolidated subsidiary and 1 non-consolidated subsidiary<br>These two subsidiaries - the consolidated subsidiary, PT MANDOM INDONESIA Tbk, and the non-consolidated subsidiary, ZHONGSHAN CITY RIDA FINE CHEMICAL CO. LTD., - manufacture and sell cosmetics that they each handle. In addition, they manufacture and export cosmetics to be sold by Mandom Corporation. |
| Sales | | 2 Japanese & 7 overseas companies |
| | Japan | 2 consolidated subsidiaries<br>Supplied mainly by BEAUCOS CORPORATION and Mandom Corporation, PIACELABO CORPORATION and GUINOT JAPAN CORPORATION market the products. |
| | Overseas | 5 consolidated subsidiaries, 1 equity-method affiliate and 1 non-equity-method affiliate<br>These companies mainly purchase supplies from Mandom Corporation and 2 Group's overseas manufacturing companies and sell these products.<br>Consolidated subsidiaries:<br>MANDOM PHILIPPINES CORPORATION, MANDOM CORPORATION (SINGAPORE) PTE LTD, MANDOM TAIWAN CORPORATION, MANDOM KOREA CORPORATION, MANDOM (MALAYSIA) SDN.BHD.<br>Equity-method affiliate: SUNWA MARKETING CO., LTD.<br>Non-equity-method affiliate: MANDOM CORPORATION (THAILAND) LTD. |

Other Business Activities

| |
|---|
| MANDOM BUSINESS SERVICE CORPORATION, a non-consolidated subsidiary, is an insurance agency and undertakes property management for Mandom Corporation's head office building. |

SUNWA MARKETING CHINA CO., LTD., a non-equity-method affiliate, has been liquidated.

The figure below shows the business relationship among Group companies.



## Affiliated Companies

| Name | Address | Capital or Invested Capital | Main Business Activities | Voting Rights | Relationship | Notes |
|---|---|---|---|---|---|---|
| (Consolidated Subsidiary) | | (million yen) | | (%) | | |
| PIACELABO CORPORATION | Chuo-ku, Osaka | 200 | Sales of cosmetics | 100.0 | Mandom Corporation manufactures and sells its cosmetics and leases out office premises; 4 concurrent directors (employees of Mandom Corporation) | |
| BEAUCOS CORPORATION | Chuo-ku, Osaka | 100 | Manufacture and sales of cosmetics | 100.0 | Mandom Corporation sells its cosmetics and leases out office premises and production facilities; 4 concurrent directors (employees of Mandom Corporation) | |
| GUINOT JAPAN CORPORATION | Chuo-ku, Osaka | 100 | Sales of cosmetics | 100.0 | Mandom Corporation loans out business funds and leases out office premises; 4 concurrent directors (of which 3 are employees of Mandom Corporation) | |
| MANDOM PHILIPPINES CORPORATION | Philippines | (million Philippine peso) 30 | Sales of cosmetics | 100.0 | Mandom Corporation exports and sells products through it; 4 concurrent directors (of which 3 are employees of Mandom Corporation) | |
| MANDOM CORPORATION (SINGAPORE) PTE LTD | Singapore | (thousand Singapore dollars) 600 | Sales of cosmetics | 100.0 | Mandom Corporation exports and sells products through it; 1 concurrent director (employee of Mandom Corporation) | |
| MANDOM TAIWAN CORPORATION | Taiwan | (million new Taiwan dollars) 50 | Sales of cosmetics | 100.0 | Mandom Corporation exports and sells products through it; 4 concurrent directors (of which 3 are employees of Mandom Corporation) | |
| MANDOM KOREA CORPORATION | South Korea | (million Korean won) 2,500 | Sales of cosmetics | 100.0 | Mandom Corporation exports and sells products through it; 3 concurrent directors (of which 2 are employees of Mandom Corporation) | |
| MANDOM (MALAYSIA) SDN.BHD. | Malaysia | (million ringgit) 10 | Sales of cosmetics | 97.6 | Mandom Corporation exports and sells products through it; 1 concurrent director (employee of Mandom Corporation) | |
| PT MANDOM INDONESIA Tbk | Indonesia | (million rupiah) 90,480 | Manufacture and sales of cosmetics | 60.7 | Mandom Corporation sells cosmetics materials to it and purchases cosmetics products from it; 6 concurrent directors (of which 5 are employees of Mandom Corporation) | *1 *2 *3 |
| (Equity-method affiliate) | | | | | | |
| SUNWA MARKETING CO.,LTD. | Hong Kong | (million Hong Kong dollars) 12 | Sales of cosmetics | 39.0 | Mandom Corporation exports and sells products through it; 2 concurrent directors (employees of Mandom Corporation) | |

(Notes)

1. *1 indicates special subsidiary.
2. There are no companies that have submitted securities registration or financial statements.
3. The ratio of sales of *2 (excluding internal sales between consolidated companies) to the consolidated sales total exceeds 10%.

   Key profit and loss data:

   | | | |
   |---|---|---|
   | (i) | Sales | 10,314 million yen |
   | (ii) | Ordinary Income | 1,478 million yen |
   | (iii) | Net Income | 1,058 million yen |
   | (iv) | Net Assets | 5,512 million yen |
   | (v) | Total Assets | 6,548 million yen |

4. On February 21, 2006, *3 increased its capital by 12,480 million rupiah, bringing its capital to 90,480 million rupiah in total.

# Management Policies

## 1. Fundamental Management Policy

The Mission of the Mandom Group is to provide beauty products and services that capture the essence of ever-changing consumer needs. The two fundamental policies that Management believes are necessary to carry out the Group Mission are: 1) the policy of active participation of every Mandom employee in all facets of the Group's operations, and 2) the creation of lifestyle values that will appeal to consumers of Mandom products and services. In regard to shareholders and stakeholders, Mandom strives to create consistent growth in corporate and shareholder value by employing sound management practices and transparent principles of corporate governance, which benefit the whole stakeholder community.

## 2. Earnings Distribution Policy

Returning profits to shareholders through dividend payments is a core management policy within the constraints of earmarking adequate internal reserves for operational development and new business development for the medium to long term. Thus, under this stronger commitment to dividend policy, the Group will endeavor to maintain a dividend payout ratio of not less than 40% of net income and a dividend-on-equity ratio (DOE) above 3%.

Internal reserves are intended to be put to optimum effect in expanding the Group's existing operations through manufacturing facilities investment and in enhancing corporate value through strategic investment into areas including overseas operations and R & D.

The dividend payment over the whole year increased ¥5 over the previous year, bringing it to ¥60 per share (improved dividend ratio of 48.2% on a consolidated basis, DOE of 3.6%).

## 3. Share Trading Unit

Backed by the belief that reduction in share-trading unit would be an effective method of broadening private investor base and increasing Mandom share circulation on the stock market, the company cut the share-trading unit in August 2000 from 1000 shares to 100 shares. Mandom shares are increasing in liquidity and shareholder number now totals 15,326 as of the end of this fiscal year, which is 3,472 more than in March 2005.

## 4. Management Targets and Performance Indicators

Management places particular priority on the efficient use of capital and on improving returns to shareholders. The two performance indicators Mandom uses in this regard are: Return on Equity (ROE) and Earnings Per Share (EPS). Management uses these indicators to measure progress in the Group's continued growth and corporate value enhancement based on increased profits. To attain these target performance indicators, the aim of the current Three-Year Mid-Term Management Plan is to increase profits through the expansion of existing core operations with cosmetry as the key area by investing in manufacturing equipment and R&D, and through the expansion of overseas operations by continuing investments in the Southeast Asian markets.

Mandom's financial targets on a consolidated basis which are set in its Three-Year Mid-Term Management Plan that started in April 2005 are shown in the following table:

**Mid-Term Management Plan Financial Targets (Consolidated Basis)**

| | FY 2005 | FY 2008 |
|---|---|---|
| Return on Equity (ROE) | 8.6% | 10.0% |
| Earnings Per Share (EPS) | ¥128 | ¥160 |

In the first year of the new Mid-Term Management Plan (year ended March 2006), the Group's overseas business showed a healthy performance overall, with PT Mandom Indonesia Tbk as its powerful engine. The result was an enlargement of business size and increase in profits. This was unfortunately offset by the slowdown in Japanese operations eating into profits. Consequently, both performance indicators failed to attain the previous year's levels. In the second year of the Management Plan (year ending March 2007), strategic investment will be made into marketing expenditure for the core Japanese operations, which will bring down profit efficiency even further. However, by the third and final year of the Management Plan, management envisages an improved profit structure for the Japanese operations and continued strengthening of overseas operations, turning the profit curve into an upward direction. In view of the investment set aside for business expansion and surplus capital, the Group's capital efficiency will improve, and in terms of offering returns to shareholders from a long-term perspective, the Group will adopt a flexible policy in the acquisition of treasury stock.

Notes:

ROE = Net income / Shareholders' equity at the beginning of the period (excluding shares newly paid-in) and Shareholders' equity at the end of the period (excluding shares newly paid-in) divided by two.

EPS = Net income minus directors' bonuses in profit allocation / Average number of outstanding shares

## 5. Medium- to Long-Term Business Strategy

The Mandom Group's key goal is to deliver consistently high growth while expanding its area of business activity. To achieve this, active deployment of management resources will be made to increase profits. The Three-Year Mid-Term Management Plan that commenced in April 2005 incorporates not only assured business expansion of existing core operations but also foundation laying for new business activities in the interest of broadening Group business areas with a long-range view. Not only will strengthening of internal resources be made but if a speedy and efficient means of corporate value enhancement is identified, Management will actively and flexibly engage in acquiring external resources through M & A or business partnerships.

The pivotal elements of this drive for expansion are reinforcement of product strength and increase in categories, chiefly of key product lines in the core cosmetry business. The Southeast Asian market will continue to be regarded as the growth engine. The assured growth of overseas business activities will be the main thrust. Meanwhile, women's cosmetics business will become a new area for development as a source of income from a long-term perspective. Accordingly, relevant R & D and marketing will be strengthened in order to build its infrastructure for future development as Mandom's in-house business area.

Following on from the previous Mid-Term Management Plan, Mandom's focus in its core business is on three key product lines. They are: *Gatsby* men's cosmetics; *Lucido L* branded merchandise for women, now with a new emphasis on Face & Body lines; and hair coloring products by area. In particular, Mandom is placing *Gatsby*, the Group's leading men's cosmetic brand, at the very heart of the expansion strategy. The *Gatsby* brand will be the main instrument of Group business growth, targeting the biggest expansion as a brand through improved product lineup both in Japan and overseas and through expanded marketing overseas. Styling is the foremost of Mandom's strategic categories. In *Lucido L,* styling lines will be prioritized so as to expand the brand's share in the women's hair styling market with key emphasis first on Japan. Overseas, new effort will be directed into raising the brand profile. Face & Body products will be groomed into becoming Mandom's second most important category. Using priority marketing suited to the Area and improved product lineup, Face & Body will be developed to meet the needs of the expanding market trends in Asia overall while capitalizing on Mandom's technological capabilities. Hair coloring products, which assumed strategic status in the previous Management Plan, will continue to be pushed forward, with fashion hair coloring items being given further market impetus in Southeast Asia. In Japan, Mandom will endeavor to maintain market share in fashion hair coloring while the large and attractive gray hair market will be targeted full-scale. Thus, in addition to the scale expansion of hair coloring in total, a stable profit structure will be created for hair coloring that avoids the buffets of fashion trends.

Women's cosmetics is a new area for foundation building. With future overseas marketing of men's cosmetics also in view, branding, technology, and marketing will be integrated and R & D and production will be conducted in-house. To this end, this Mid-Term Management Plan will devote efforts into the review and turnaround of current profit structure and improvement of operational setups.

Mandom's key Area is overseas. The core cosmetry products (*Gatsby*) are central in Mandom's strategy of continued business expansion in countries where we already have a foothold. Together with horizontal marketing, new Area-developed items will be increased and marketing investment strengthened to nurture brands. In China, a market that promises to reap great rewards, heavy marketing investment will be made in Mandom's three key areas (Beijing, Shanghai, Guangzhou). This will further result in enlarging the size of the share of overseas operations in the Group's activities. Besides the countries where Mandom already operates, opening up of new Areas will be initiated chiefly in Asia, aimed at the long-term expansion of overseas business.

Alongside the motivation for growth, the pursuit of profitability means continuous commitment to cost reduction. The promotion of internal manufacture to improve production lot and marketability, the effective use of the Group's production facilities and the overhaul of materials purchasing will continue. Third Party Logistics (3PL) will be in operation to step up the reduction of distribution costs and of turning them into variable costs. Supply Chain Management (SCM) will be in the pipeline, in order to enable Mandom to pursue further gains in profitability and management efficiency through optimization and streamlining of all operational processes that would also encompass our business partners.

At the end of the first year of the current Management Plan (year ended March 2006), the Group's overseas business achieved healthy results. However, the Japanese side saw disappointing results in the core business and women's cosmetics, underachieving target levels. In the core business, the top priority brand, *Gatsby*, attained its planned results but other major brands including *Lucido L* dropped in sales, dramatically impacting overall performance. In women's cosmetics, although targets were not met, the reasons were early withdrawal of loss-making contract brands and strategic shift towards Mandom products. The foundation-building drive is actually progressing successfully. From the new fiscal year onwards, brand rebuilding will take place in the Japanese core business, which is up against intensifying competition, and the strengthening of the overseas business will continue so that assured growth will result.

Profitability is expected to fall hugely for a short time because investment in sales costs for Japanese brand rebuilding will take its toll. Nevertheless, by the final year of the Management Plan, the return to a normal profit structure is envisaged. The sales-to-cost ratio for the previous fiscal year saw an increase due to the effect of the spiraling raw material costs in PT Mandom Indonesia Tbk. In view of the present trends in crude oil prices, Management perceives this to be a continued risk factor of profit decline in both Mandom Corporation and in PT Mandom Indonesia Tbk for the new fiscal year.

## 6. Management Issues

Mandom regards the following as core issues to be addressed in view of the previous year's business results:

### (1) Responses to Changes in the Men's Cosmetics Market in Japan

Men's cosmetics constitute a core part of Mandom's business operations, with an approximately 75% share in turnover as of the end of the previous year. Competition in the business environment in the sector, however, intensified greatly as of last year. This is not a short-lived trend but a permanent state of affairs for this market, with companies from different business sectors eagerly making entry into the market. Against this backdrop, to provide our customers with more satisfaction, Management views as its priority action the delivery of marketing innovation described in (2) below and technological reinforcement (especially in skincare in tandem with the strengthening of women's cosmetics infrastructure).

### (2) Marketing Innovation Through R & D Reinforcement

Mandom must meet the rapidly-changing and diversifying needs and demands of consumers. Vital to achieving this end is the development of research technology that breaks the mold of convention. The downturn of major brands in Japan last year and tougher competition in men's cosmetics described in (1) above mean that to achieve sustained growth, this is a significant issue to be addressed. Management will review the marketing process from a research-oriented stance and create a new framework that exploits the latest information technology.

### (3) Personnel Development and HR Overhaul for Individual and Corporate Growth

It is Mandom's strong belief that corporate growth cannot be realized without individual growth of the employees. Thus, Management will continue to focus on "maximizing the full potential of all staff." While pursuing the strategy of human resources development for the benefit of the Group as a whole, Management will create a framework and mechanism for staff to acquire the "capacity for change," a requisite for the new age of rapid and massive corporate environmental change.

### (4) Greater Social Contribution through Quality Assurance and Environmental Action

Corporate social responsibility (CSR) forms an increasingly significant part of business activities today. Mandom considers CSR to be a key management issue. Improvements in quality assurance and environmental action constitute Mandom's important social responsibilities. Furthermore, Management will seek out CSR activities that the Group should undertake as a good corporate citizen and build a system whereby CSR can be properly implemented.

### (5) Pursuit of Capital Efficiency

The pursuit of efficiency in asset/capital management was a key issue for the Group’s previous Management Plan (FY ended March 2003 - FY ended March 2005). By seeking to achieve greater profitability mainly through cost reduction and by adopting market-price accounting and posting evaluation losses of assets in the financial statements, ROE/ROA indicators improved during the three years. Despite this, profit decline in FY 2006 and in the forecast for FY 2007 signify deterioration in capital efficiency, an issue that needs addressing. To increase profit, Management will seek to make manufacturing and R&D investment as well as conduct effective M & A and forge business partnerships. While keeping an eye on investment status, treasury stock acquisition will also be considered as an instrument for improvement.

# Results of Operations and Financial Condition

## 1. Review of Operations

### (1) Business Results

| | Net Sales (¥ Million) | Operating Income (¥ Million) | Ordinary Income (¥ Million) | Net Income (¥ Million) | EPS (¥) | ROE (%) |
|---|---|---|---|---|---|---|
| FY 2006 | 47,923 | 6,065 | 6,120 | 3,099 | 124.36 | 7.9 |
| FY 2005 | 47,546 | 6,700 | 6,281 | 3,211 | 128.73 | 8.6 |
| Change % YoY | 0.8 | △9.5 | △2.6 | △3.5 | △3.4 | △8.1 |

The Japanese economy at this financial year shows steady recovery led by domestic demand thanks to pickup in manufacturing investment and consumer spending fed by private-sector profit growth. In the cosmetics sector, the macroeconomic indicators (quantity, sum total) saw improvement and average unit price showed a clear change for the better, with departure from the deflationary cycle finally beginning to emerge. Still, the market environment is undergoing further intensification of competition. Meanwhile, the Asian economy, where the Group's overseas operations are conducted, maintained good export-led performance and healthy overall consumer spending, although in some regions the steep rise in crude oil prices is dampening consumption and affecting the cosmetics market.

In this climate, the Group directed effort into fostering and strengthening brand power and promoting product development that responds quickly to diversifying consumer demands.

Total consolidated sales for the year ended March 2006 reached ¥47,923 million, an increase of ¥377 million (0.8%) over the previous year. Although good results of profit increase were maintained in Japan due to the shipment of seasonal summer goods bringing above-target level sales and increased profit for the core brand *Gatsby*, the poor performance of women's cosmetics including *Lucido L,* compounded by the fall in sales due to subsidiary sell-off that took place in the previous year, meant that sales in Japan overall was 1.8% down on the previous year. Overseas, *Gatsby* brand recognition has become established throughout Southeast Asia, and with the exception of some regions, steady increase in sales in the hair styling category and dramatic above-target growth in women's cosmetics sales resulted in an increase in sales of 8.5% over last year.

Increase in sales led to the cost of sales rising from last year by ¥667 million, up to ¥20,114 million (3.4% increase over FY 2005). In Japan, disposal loss of returned goods (cost of sales) increased and the steep rise in crude oil prices in Indonesia, the Group's overseas production base, resulted in the rise of raw materials costs. The cost to sales ratio climbed by 1.1% compared to last year, now standing at 42.0%. Thus, cost increase in excess of profit increase brought gross profit down by ¥289 million over the previous year to ¥27,808 million (1.0% decrease over FY 2005).

The cost of sales expenditure and general administrative costs increased ¥345 million from last year, reaching ¥21,742 million. This is mainly because of aggressive marketing investment input aimed chiefly at gaining the competitive edge (increases in A & P). Operating profits were down by ¥635 million, 9.5% lower than the same period last year, to ¥6,065 million.

Non-operating loss and profit went into black for the first time on a consolidated basis, thanks to the halving of non-operating costs. This was brought about by a drastic cutback in inventory disposal loss both in Japan and overseas. The net loss in extraordinary profit and loss was also contained at about half the level of the previous year. Although the removal, sale and evaluation loss of fixed assets were included in the financial statement, the restructuring of subsidiaries and other operations have now come to a halt.

Ordinary income registered a 2.6% decrease over last year, totaling ¥6,120 million, a drop of ¥161 million. The pretax net income for the year ended March 2006 was ¥51 million more than last year at ¥5,919 million (0.9% increase year on year).

Meanwhile, a reduction in tax burden was enjoyed in FY 2005, due to the Japanese subsidiary with deferred tax payment having been merged. This year though, there was no such reduction in Japan and taxes reverted to the normal level. Corporate tax payment amounted to ¥2,377 million, ¥143 million more than last year (6.4% up year on year).

Minority shareholders' interest rose to ¥442 million by ¥19 million from FY 2005, thanks to the healthy profit growth mainly of PT Mandom Indonesia Tbk.

The bottom line for the year ended March 2006 was that net income stood at ¥3,099 million, down 3.5% in year-on-year percentage rate from last year's ¥3,211 million.

The dividend payout at the end of the period is to be ¥30 per share as initially announced (¥60 over the 12-month period).

### (2) Sales Breakdown by Region

**Consolidated Basis (¥ Million)**

| Regional Segment | Net Sales | | | Operating Income | | |
|---|---|---|---|---|---|---|
| | Fiscal Year 2006 | Fiscal Year 2005 | Change % YoY | Fiscal Year 2006 | Fiscal Year 2005 | Change % YoY |
| Japan | 35,003 | 35,635 | △1.8 | 4,399 | 4,935 | △10.9 |
| Asia | 12,920 | 11,910 | 8.5 | 1,663 | 1,762 | △5.6 |

In the domestic market, although the overall picture in cosmetics is that of recovery, competition greatly intensified and despite strong input of new products, planned turnover was not achieved.

*Gatsby*, the core brand, increased sales to ¥18,300 million, thanks to paper products (Face Care, Body Care), which performed strongly throughout the year. Yet, the fashion hair coloring market is still shrinking in the women's cosmetics sector and *Lucido L* is struggling. In addition, imported brand products did not do well. Sales figures for this year totaled ¥35,003 million (1.8% decrease year on year).

With respect to profit, product disposal (cost of sales) due to increases in returned goods had a negative impact and pushed up cost. Heavy spending on advertising and promotion and rising logistics costs could not be cushioned off either. Sadly, the operating profit sank to ¥4,399 million (10.9% decrease year on year).

On the Asian scene, the market was stable overall for cosmetics. The *Gatsby* brand is now fully established on the market and the hair styling category was the main driver in maintaining growth. The Indonesian consolidated subsidiary, PT Mandom Indonesia Tbk recorded a huge increase in sales of women's cosmetics (Pucelle, Pixy), again achieving double-digit growth (local currency basis) and boosting overseas business. Sales totaled ¥12,920 million (8.5% growth year on year).

In profit terms, PT Mandom Indonesia Tbk, the manufacturing powerhouse, faced mounting production costs due to higher materials cost brought on by sharply increasing crude oil prices. Moreover, aggressive input in marketing (sales promotion, advertising) pushed profits down, resulting in an operating profit of ¥1,663 million (5.6% down, year on year).

Growth in Southeast Asian subsidiaries and export to the Middle East (exported from Indonesia) pushed up overseas sales turnover substantially, which recorded ¥13,551 million (8.5% up on last year). The ratio of overseas sales to consolidated sales rose to 28.3%, reflecting the slump in growth of Japanese operations.

### (3) Outlook for Next Fiscal Year, Ending March 31, 2006

| | Net Sales (¥ Million) | Operating Income (¥ Million) | Ordinary Income (¥ Million) | Net Income (¥ Million) | EPS (¥) | ROE (%) |
|---|---|---|---|---|---|---|
| FY 2007 | 50,600 | 5,430 | 5,200 | 2,500 | 103.65 | 6.2 |
| FY 2006 | 47,923 | 6,065 | 6,120 | 3,099 | 124.36 | 7.9 |
| Change % YoY | 5.6 | △10.5 | △15.0 | △19.3 | △16.7 | △21.5 |

Although the Japanese economy looks to be on a growth curve led by domestic demand, fears remain for a slowdown in consumption fueled by erosion of disposable income. Competition in the cosmetics sector is expected to stay as tough as ever. The Asian economy is on a recovery course in general but in some regions (Indonesia), the massive rise in petroleum product prices will lead to sustained dampening of the economy and consumer spending.

Such being the context, Mandom Group aims to direct effort into powerfully bolstering the *Gatsby* brand in Japan and Southeast Asia and reinforcing product marketing geared towards special market demands. Throughout Asia, the Face & Body category will be nurtured. Special attention will be paid to improving competitiveness in the Japanese market. Strong input into product development and marketing expenditure will be made in order to achieve growth in sales.

In FY 2007, Management plans to continue to achieve growth based mainly on the overseas business. The high crude oil prices are expected to persist, putting upward pressure on sales-to-cost ratio. Added to this will be the heavy marketing investment in Japan that would temporarily have an adverse effect on profitability. Still, the strategic input and leading investment of management resources in FY 2007, including foundation building in the women's cosmetics sector, are aimed at the reinstatement of good performance figures in the final year of the ongoing Mid-Term Management Plan (year ending March 2008).

To summarize, the consolidated sales for the year ending March 2007 are forecast as ¥50,600 million (5.6% up year on year), operating profit ¥5,430 million (10.5% down year on year), ordinary profit ¥5,200 million (15.0% down year on year) and net profit ¥2,500 million (19.3% down year on year).

The dividend payout for the whole year is expected to total ¥60 per share, on a par with FY 2006, despite the negative profit growth forecast.

These forecasts are based on an exchange rate of ¥111 to the US dollar and 8,900 rupiah to the US dollar.

## 2. Financial Condition

(¥ Million)

| | Fiscal Year 2006 | Fiscal Year 2005 | Change % YoY |
|---|---|---|---|
| Cash & cash equivalents balance at start of period | 7,662 | 9,767 | △2,104 |
| Operating cash flow | 4,911 | 6,061 | △1,149 |
| Investment cash flow | △2,444 | △6,919 | 4,474 |
| (Fixed assets investment) | (△2,921) | (△1,976) | (△945) |
| Financing cash flow | △1,196 | △1,345 | 149 |
| Foreign currency translation adjustment | 50 | 16 | 34 |
| Net increase in cash and cash equivalents | 1,321 | △2,187 | 3,509 |
| Increase due to change in number of consolidated companies | - | 82 | △82 |
| Cash & cash equivalents balance at end of period | 8,983 | 7,662 | 1,321 |
| * Pre-tax net income | 5,919 | 5,868 | |
| Depreciation cost | 1,653 | 1,632 | |
| * Fixed asset investment | | | |
| Tangible fixed assets | 2,799 | 1,666 | |
| Intangible fixed assets | 121 | 310 | |

### (1) General Overview

Total assets during the twelve-month period increased by ¥3,922 million to ¥51,320 million, chiefly due to the increase in fixed assets by ¥3,758 million. This is principally because of investment in facilities in excess of depreciation cost (in Japan and Indonesia), leading to an increase in tangible fixed assets of ¥1,480 million, and greater use of longer-term fund management, leading to an increase in investment securities of ¥2,525 million. Inventory increased both in Japan and overseas but this is temporary and not at a level that arouses particular concern. Long- and short-term deferred tax assets decreased ¥103 million to ¥609 million.

Liabilities increased over the twelve-month period by ¥860 million. This is accounted for in the main by the increases in tax liabilities (current liabilities) of ¥434 million, deferred tax liabilities (fixed liabilities) of ¥170 million, and employees/directors retirement benefit liabilities (fixed liabilities) of ¥88 million.

Shareholders' equity increased by ¥2,400 million during this twelve-month period to ¥40,568 million. This is chiefly due to current net profit being held in reserve and securities valuation gain increasing.

### (2) Cash Flow Situation

Net cash provided by operating activities stood at ¥4.911 million, a ¥1,149 million drop over the previous year. Pre-tax net income stood at ¥5,919 million, a figure comparable to that of FY 2005, because inventory increased by ¥821 million. Depreciation cost was ¥1,653 million, similar to that of the previous twelve months.

Cash provided by investment activities decreased ¥4,474 million, leaving a negative balance of ¥2,444 million. While acquisition of tangible fixed assets increased by ¥1,133 million compared to the previous year to ¥2,799 million, redemption/sale of financial assets (securities, investment securities) increased more than acquisition. The acquisition of tangible fixed assets mainly breaks down into the construction cost of R & D facilities in Japan (construction in progress) and the acquisition of cosmetics manufacturing equipment in Japan and Indonesia.

Financing activities ended also in a negative cash flow of ¥1,196 million. ¥1,588 million was spent on shareholder dividend including dividend payment to minority shareholders, while in Indonesia, capital increase payment of ¥396 million was received from minority shareholders due to capital increase through shareholder allocation.

### (3) Outlook Next Term

Operating cash flow in FY 2006 is expected to be around the ¥4,000 million mark, taking into account the vast reduction in pretax net income.

Investment cash flow is expected to end at a similar negative level as that of FY 2006. Although heavy investment in Japan will come to a halt, high levels of manufacturing investment is being made in Indonesia for the construction of a new plant.

In terms of financing cash flow, apart from dividend payments to shareholders, acquisition of treasury stock not in excess of ¥2,000 million is planned, aimed at improving capital efficiency.

## 3. Cash Flow Indicators

| | FY 2003 (86th Term) | FY 2004 (87th Term) | FY 2005 (88th Term) | FY 2006 (89th Term) |
|---|---|---|---|---|
| Shareholders' Equity Ratio (%) | 79.1 | 80.7 | 80.5 | 79.1 |
| Market Value Shareholders' Equity Ratio (%) | 120.4 | 123.3 | 148.4 | 139.4 |
| Redemption Term (Number of Years) | 0.1 | 0.1 | 0.1 | 0.1 |
| Interest Coverage Ratio | 61.2 | 1,308.8 | 3,266.3 | 2,659.3 |

Notes: Shareholders' Equity Ratio = Shareholders equity / Total assets

Market Value Shareholders' Equity Ratio = Net market value / Total assets

Redemption Term = Interest-bearing liabilities / Operating cash flow

Interest Coverage Ratio = Operating cash flow / Interest paid

* All figures were calculated using financial figures on a consolidated basis.
* Net market value was calculated by multiplying closing share price at fiscal year-end and number of outstanding shares at fiscal year-end (after discounting treasury stock).
* Operating cash flow here means cash flow generated by operational activities included in the consolidated cash flow statement. Interest-bearing liabilities signify all liabilities on which interest is being paid out of the liabilities listed on the consolidated balance sheet. Interest paid is the interest payment sum shown in the consolidated cash flow statement.

## 4. Operational Risks

The following are issues that may have a potentially significant impact on investors' investment decisions.

1. Input of New and Renewal Products and Acceptance of Product Returns

The Japanese cosmetics market is best viewed as a mature market. All cosmetics manufacturers have no option but to introduce new products or revamp existing products in order to maintain and improve brand image.

Every spring and autumn, Mandom launches new products, conducts product renewals or adds new items to the lineup. At the same time, to establish new products swiftly onto the market, Mandom accepts returned goods from its selling agents, either regular-line withdrawal items due to retailers' in-store merchandising change or old items after product changeovers. The total amount of such returned goods may have an impact on consolidated performance figures.

In the past two years, returns amounted to ¥1,521 million in the year ended March 2005 and ¥1,893 million in the year ended March 2006. The ratios of these figures to the turnover were 4.3% and 5.2%, respectively.

2. Dependence on Business Partners

| Company | Previous Consolidated FY (April 1, 2004 - March 31, 2005) | | Current Consolidated FY (April 1, 2005 - March 31, 2006) | |
|---|---|---|---|---|
| | Total (thousand yen) | Percentage | Total (thousand yen) | Percentage |
| Paltac | 14,864,293 | 31.3 | 14,756,373 | 30.8 |
| PT Asia Paramita Indah | 6,625,067 | 13.9 | 6,951,064 | 14.5 |

As can be seen from the table above, there are business partners that are purchasers of Mandom on whom the Company has a dependence of 10% or more in proportion to consolidated sales in the two consolidated financial years 2005 and 2006. Mandom Corporation and PT Mandom Indonesia Tbk have enjoyed a stable trading partnership with the two above-mentioned companies over a long period. Looking at the distribution market of cosmetics and similar sectors, it looks likely that the oligopoly of large wholesales both nationally and internationally will accelerate. This means that an increase may well occur in Mandom's dependence on certain agents in terms of sales.

3. Legal Regulation

The Company manufactures (imports in part) and sells quasi-medical products and cosmetics that are regulated under the Pharmaceutical Affairs Law. The manufacture and import of quasi-medical products and cosmetics require licensing and registration in compliance with the said law. The Company complies fully with the requirements of the said law and manufactures and imports products legally and properly. The Pharmaceutical Affairs Law was revised and the revised law became effective in April 2005. The Quality Assurance Division was given responsibility to deal with necessary changes in product labeling and customer enquiry in accordance with the revised law. Furthermore, the Company adheres strictly to the Pharmaceutical Affairs Law and other relevant legislation in labeling and advertising so as to engage in proper corporate conduct.

4. Currency Fluctuations

The Company is strongly committed to carrying out business in the Asian region, where market expansion is expected. There are affiliated companies in 8 countries and 1 region. The percentages of consolidated sales that overseas business generated in FY 2005 and FY 2006 were 26.3% and 28.3%, respectively. Production transfer to the Asian region will continue and there will be much greater weight of overseas business to the whole. The Group has adopted a hedge against foreign exchange risks by making balance adjustments on foreign currency denominated import and export. However, currency fluctuations may have an impact on consolidated performance.