Innovation and Challenge

FANCL

Annual Report 2014

For the Year Ended March 31, 2014

My Commitment to Revitalize FANCL

Returning to FANCL a corporate culture that emphasizes the venture spirit and a willingness to take on challenges

Kenji Ikemori
Founder, Chairman, Representative Director

Founding Philosophy

Eliminate the "Negatives" with a Sense of Justice

Corporate Philosophy

"Can Achieve More"

FANCL Group is a corporation that truly cares for people. FANCL has strived to eliminate customers' negative experience and pursue gentleness, safety, and assurance of its products.
We always put ourselves in customers' shoes and the happiness of our customers forms the basis of everything we do.

Responding to Challenges in Fiscal 2014

In the year since I returned to active management, we have brought considerable speed to pushing ahead with reforms. In addition, the basic reform policies put in place under the new management structure have clarified the direction FANCL should be taking, and I truly sense that the mood within the Company is much brighter as a result.

The first task we tackled was the disposal of underperforming businesses. These efforts, including the transfer of NEUES Co., Ltd., operator of beauty salons, the closing of directly-owned but underperforming stores, and our withdrawal from the retail businesses in Taiwan and Singapore, have improved our bottom line by ¥600 million annually. This completes the disposal of loss-making divisions.

In our cosmetics business, the launch of renewed versions of our long-running bestselling FANCL cosmetics, including *Facial Washing Powder* and *Mild Cleansing Oil*, has brought an increase in customers, and sales in the cosmetics business are steadily recovering.

While we are still in the intermediate stages of our major reforms, I believe these efforts over the past year have seen FANCL come together as a group and move forward.

Success and New Issues

To position FANCL as a group of professionals with both technical skills and expert knowledge, in June 2013, we established FANCL College, our internal training organization. As of the end of March 2014, a total of 2,443 store staff have undergone training, more than quadruple the number in the previous year. We have also made a considerable increase in the numbers of registered dieticians, pharmacists and other qualified people, marking further progress in our efforts to develop highly-specialized store staff.

In October 2013, our flagship store FANCL Ginza Square marked its grand re-opening after ten years in business, and will serve as a base for gathering and communicating information in advance of further global expansion. Business since the re-opening has been strong, with the number of Japanese customers growing by 150%.

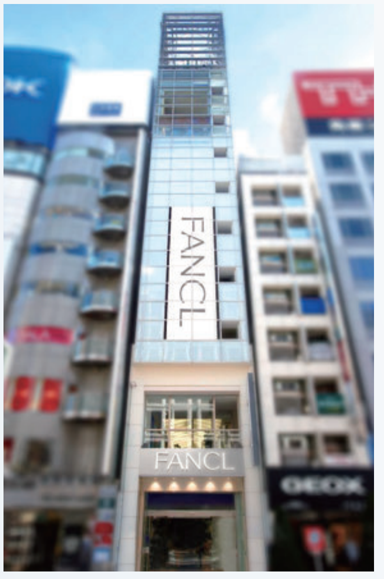
In addition, using the FANCL Ginza Square store as a model, we plan a lateral roll-out of three new types of specialty stores nationwide, with all existing stores to be converted to one of these three formats of stores within the next three years.

Despite these achievements, issues remain. Efforts to develop a new business model for our supplement business have been delayed by the time needed to acquire evidence and challenges have arisen in developing advertising under the restrictions of the Pharmaceutical Affairs Act. Work on new developments in the health food distribution sector has also proven inadequate and remains an issue. FANCL will bring an even greater sense of urgency to ensuring the execution of these plans in fiscal 2014.

Qualified personnel

Main qualified personnel	No. of people
Dietitians	60
Registered dietitians	60
Pharmacists	20
Beauty & health advisers	80
Health counselors	20

(As of May 2014)



FANCL Ginza Square

Prepare Strategies Aimed at the "Next 10 Years"

My desire is to make FANCL a company in which all employees can invest their dreams. To accomplish this will require initiating innovation across all sectors. We realize that turning the business around will be difficult if we merely maintain the status quo. Once again, we will return to FANCL a corporate culture that emphasizes the venture spirit and a willingness to take on challenges, bringing a sense of urgency to our efforts to evolve, adapt to the times and enhance shareholder value.

My return to active management was the first step in preparing FANCL for the next ten years. While a little more time will be needed before we see results, FANCL will continue to work together as a group to aggressively push ahead with major reforms. We look forward to your continued understanding and support.

August 2014

Kenzi Ikemori

Founder, Chairman, Representative Director

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Cautionary Note Regarding Forward-Looking Statements
Statements made in this annual report with respect to FANCL's current plans, strategies, estimates, and beliefs, as well as other statements that are not historical facts, are forward-looking statements about the future performance of FANCL. These statements are based on management's beliefs in light of information available to it at the time of the writing of this report. The actual performance of the Company could differ significantly from these forward-looking statements as a result of unpredictable factors such as changes in customer preferences, social conditions, and economic conditions. Moreover, FANCL is under no obligation to revise forward-looking statements, irrespective of new data, future events, or other developments. Readers should therefore not place undue reliance on them.

Financial Highlights

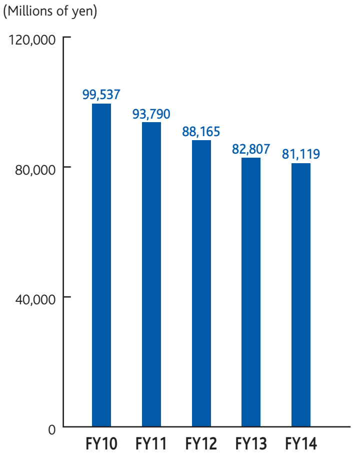
FANCL CORPORATION and Consolidated Subsidiaries
For the years ended March 31

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2014 (A)	2013 (B)	Change (A) – (B)	2014
For the year:				
Net sales	¥81,119	¥82,807	¥(1,688)	$788,174
Operating income	3,943	3,859	85	38,315
Net income (loss)	1,344	(2,194)	3,537	13,057
Net cash provided by operating activities	6,595	6,146	450	64,082
Net cash provided by (used in) investing activities	1,403	(823)	2,225	13,628
Net cash used in financing activities	(3,956)	(2,252)	(1,704)	(38,439)
	Millions of yen			Thousands of U.S. dollars (Note 1)
At year-end:				
Total assets	¥85,800	¥86,849	¥(1,049)	$833,659
Equity	71,646	74,081	(2,435)	696,131
	Yen			U.S. dollars (Note 1)
Per share:				
Net income	¥ 21.0	¥ (33.8)	¥ 54.8	$ 0.20
Equity	1,127.3	1,141.4	(14.0)	10.95
Cash dividends	34.0	34.0	0.0	0.33
	%			
Ratio:				
Operating income margin (%)	4.9	4.7	0.2	
Advertising and sales promotion expenses ratio (%)	21.8	21.5	0.3	
ROE (%)	1.8	(2.9)	4.7	

Note: U.S. dollar amounts are the yen equivalent, calculated, for convenience only, at a rate of ¥102.92 = U.S.$1, the approximate Tokyo foreign exchange rate as of March 31, 2014.

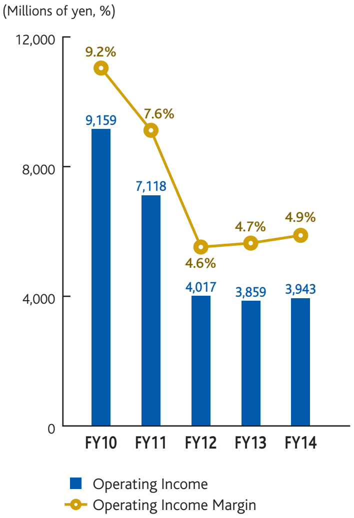
Net Sales

(Millions of yen)



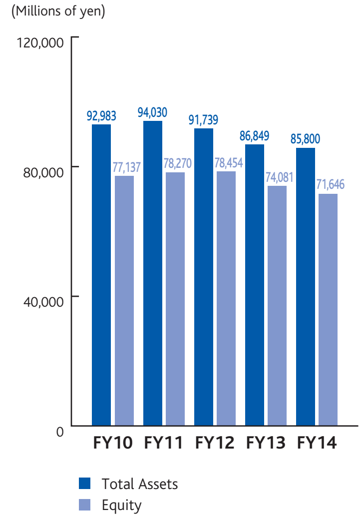
Operating Income and Operating Income Margin

(Millions of yen, %)



Total Assets and Equity

(Millions of yen)



To Our Shareholders and Other Stakeholders

(Left)
Kenji Ikemori
Founder, Chairman,
Representative Director

(Right)
Kazuyoshi Miyajima
President, Representative Director

Utilize strengths as a research and development-focused manufacturer with direct sales capabilities

Reinforce business foundations while maintaining a strong focus on profitable business operations

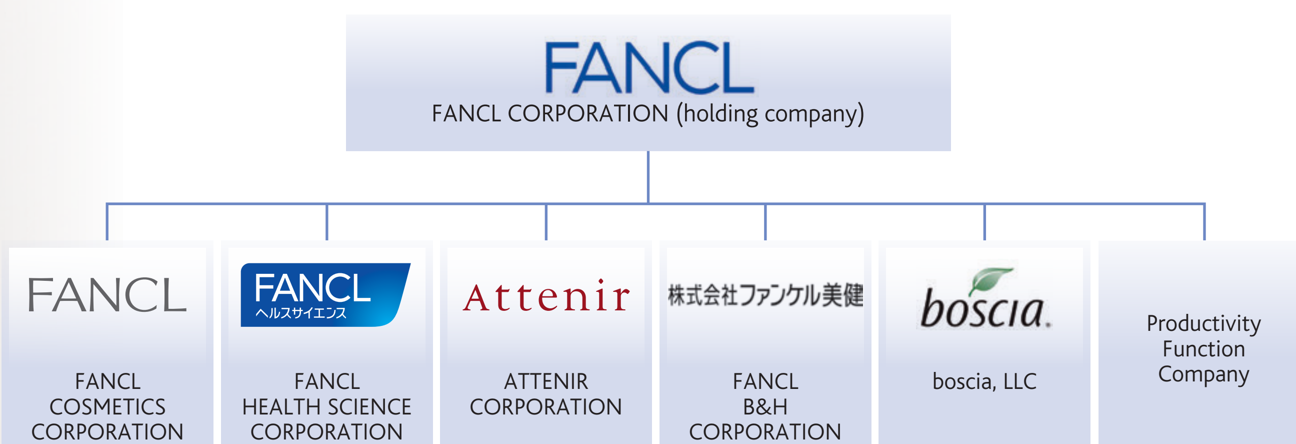
Commitment to Renewed Growth

All of us at FANCL have made an unwavering commitment to return to our founding principles and push ahead with major reforms, to achieve the kind of customer-centric management that is the essence of FANCL.

In November 2013, FANCL put in place a medium-term strategy (Fiscal 2014–2016) under its new management structure, with the basic policy of utilizing our strengths as a research and development-focused manufacturer with direct sales capabilities. Under this policy, FANCL will work to reinforce business foundations while maintaining a strong focus on profitable business operations.

In April of this year, FANCL shifted to a holding company structure with the intent of carrying out two objectives: to leverage our people by splitting our businesses, and to speed up management decision-making and thereby enhance corporate value.

Holding Company Structure



Our Envisaged Growth Strategy

1. Beauty Business

The market for cosmetics in Japan has been affected by a rapidly aging population; it is predicted that by 2015, 70% of cosmetics customers will be over 40, with particularly notable growth in the over-60 segment.

Given these conditions, FANCL Cosmetics is working to further reinforce its anti-aging research and expand its lineup of products targeting an aging society. In addition, we will open up segments for customers with advanced beauty awareness by mobilizing our unmatched “Mutenka” technology to develop personal cosmetic products designed to accentuate individual beauty. We will also expand aggressively in the retail sector, which holds the largest share of sales in the cosmetics market, creating opportunities to interact with new customers.

In the direct sales channel, we will increase customer satisfaction and brand loyalty through the deployment of staff with specialist knowledge and counseling capabilities, and the introduction of counseling tools.

We will also strengthen business by redefining ATTENIR's brand concept as Innovation, Honesty and Elegance, developing cosmetics lineups and the most advanced lineup of aging-care products, and restructuring our sales system.

Medium-Term Strategy

	FY14	FY15	FY16
FANCL Cosmetics	Strengthen new businesses through renewal of facial washing lineup		Strengthen skincare lineup
	Start the "Skin Biomarker Analysis"	Renew all makeup items	
		Full-fledged rollout of distribution channels	
	Strengthen specialization through specialist employees		
ATTENIR	Rebuilding our operating base Overall brand concept Design unification	Organize product lineup Collection revamp Build new follow-up system	Unmatched aging care Line launch

2. Health Business

FANCL will establish a model for success in the market for preventing lifestyle-related diseases, targeting middle-aged and senior customers. FANCL was the first to introduce the word "supplement" to Japan 20 years ago, and as a pioneer in that market, has continued to outdistance its competitors. However, recent years have seen new competitors from different industries flood the market, including food manufacturers and pharmaceutical companies, and after over a decade of having the lead to itself, FANCL now finds itself about to be outpaced by these new players.

No significant growth in revenue can be expected from a business model that relies on sales of individual beauty and diet supplements. Tough regulations on language used in advertising also make it difficult to accurately convey product functionality.

This is why FANCL intends to build an entirely new business model and recapture market position from its competitors.

In anticipation of the future direction of health foods, we will also take on the challenge of developing and creating a market for new "highly functional foods" that have the functionality of supplements.

Medium-Term Strategy

	FY14	FY15	FY16
The Good Aging line	Lifestyle-related disease prevention supplements The Good Aging line Launch Hatsugamai Power PSG	Lifestyle-related disease prevention supplements The Good Aging line New product launches (Fiscal 2015: 4 items, Fiscal 2016: Several items)	
		New business model development	
Existing lineup	Renew HTC® Collagen DX	Propose revamping Koshirax Launch Calorie Limit for Adults Launch Ukon Kakumei	
	Product consolidation (added value)		
Highly function foods/meals	Launch Yogurt from a supplement company	Development of nutritional supplement foods	

As a manufacturer of Mutenka cosmetics and health foods, FANCL will work to expand its global brand, supported by markets in Asia, Europe and the U.S. We also hope to contribute to reducing health care costs at the national, corporate and household levels by aggressively promoting preventive medicine and increasing the number of healthy seniors.

Change to a high earnings structure and strengthen the management base

FANCL aims to reduce the cost ratio of its core products by 5% within three years. In addition to reviewing raw ingredients and materials and our manufacturing processes, we will work to improve cost ratios by consolidating existing products and by developing higher value-added products. We will also break away from external dependencies and make an effort to realign head office costs.

In employee development, we will utilize FANCL College to strengthen specialized training of retail staff and to make a strong push to cultivate the next generation of managers. We are proactive in promoting women, with the goal of having women account for 40% of managerial-level staff by the fiscal year ending March 31, 2016 (from 31% in the fiscal year ended March 31, 2013).

In investments, FANCL will take a balanced approach to investing in both labor and energy savings in its manufacturing divisions.

Investment in research and development (R&D) will also be more aggressive. A second research facility will be built, with completion scheduled for the spring of 2016, and will be positioned as an innovation center. Here, FANCL will accelerate its foundational health and beauty-related technology R&D, giving shape to unique ideas contributed by employees and creating new products for the next generation. Aggressive development of high value-added technologies and new products will be supported by the addition of 50 talented researchers, as we work to speed up the pace of development and innovate with new technology.

In IT systems, while we will invest in reinforcing our Web presence as a driver of growth, we will also ensure that the impact of those investments is carefully monitored to minimize the cost of funding IT systems.

Under the new medium-term strategy, the focus will be on profitability and productivity indicators, and by achieving extensive cost reductions, FANCL aims for a consolidated operating margin of 8% by the fiscal year ending March 31, 2016.

Management base	
Cost reductions/ Expense reductions	• Review raw ingredients, materials and manufacturing processes. • Consolidate existing product lineup, develop higher value-added products. • Break away from external dependencies and realign head office costs.
Human resources development	• Ramp up training of store staff at FANCL College. • Rigorously promote women, with a goal of having women account for 40% of management in three years (31% in the fiscal year ended March 31, 2013).

Investment	
Manufacturing division	• Implement balanced investing to achieve both labor and energy savings.
R&D	• To reinforce R&D capabilities and speed, develop a second research facility within two years, at an investment of approximately ¥1.3 billion. • Planned increase in talented researchers (50).
Information systems	• Invest in growth, including reinforcing Web presence, but carefully monitor the impact to minimize system investments and costs.
Retail stores	• Systematic roll-out and renovation of stores over three years.

Enhance shareholder value

Rather than simply responding passively to changing times, the FANCL Group will become a driver of change by adhering to its philosophy of eliminating negatives, taking on new challenges, and delivering new value, all with the goal of enhancing corporate value. Based on our policies for returning profits to shareholders—a dividend payout ratio in excess of 40% of consolidated net income; dynamic acquisition of our own shares; and cancellation of treasury stock in excess of 10% of issued and outstanding shares—FANCL hopes to continue being a Company that responds to the expectations of its shareholders.

We ask for the continued understanding and support of all of our shareholders and investors as FANCL takes on these new challenges.

Messages from the Major Operating Companies

FANCL FANCL COSMETICS CORPORATION

With the aim of "offering bare-skin beauty to the people of the world," in fiscal 2015, FANCL will completely renew Mutenka makeup and strengthen distribution channels

Minako Yamaoka
President, Representative Director of FANCL COSMETICS CORPORATION

Business Concept and Future Vision

FANCL's Mutenka cosmetics embody the concept of "Mutenka" in which nothing at all unneeded comes into contact with the skin. These cosmetics can be used with peace of mind by individuals with sensitive skin. Furthermore, we have eliminated the stress factors that cause skin damage and evolved cosmetics enabling the application of effective beauty ingredients to the skin.

FANCL will continue to be a skincare partner for people all over the world, using its unique position built around an axis of our Mutenka anti-stress skin care that we advocate based on knowledge gained from Mutenka research.

About the concept of "Mutenka"

There are many cosmetics products throughout the world that are described as "Mutenka" simply because they don't use any additives such as fragrances or artificial colorings. There are also some products that are described as "Preservative-free Mutenka" simply because they do not contain the common preservative paraben.

FANCL's cosmetics are different from these so-called Mutenka products. Our products are "Absolute Mutenka" in the sense that they absolutely do not contain the following additives:

"Preservatives," "Sterilizers," "Petroleum surfactants," "Fragrances," "Mineral oils," "Ultraviolet absorbents" and "Artificial colorings"

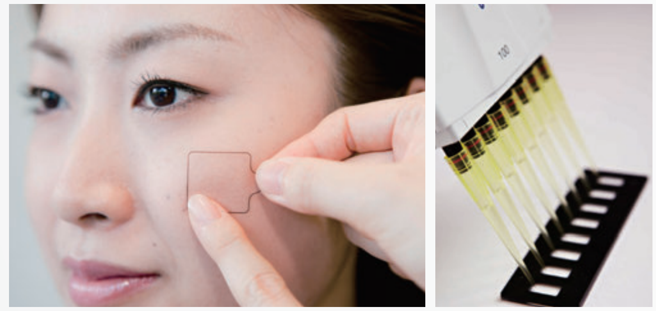
Product Strategy

For one year from April 2014, FANCL will begin a complete renewal of its Mutenka makeup to provide a balance between beautifying the skin and making the skin look beautiful. FANCL base makeup products will be renewed in April 2014, followed by point makeup in the fall and an expansion of our aging-care makeup line in the winter.

FANCL will also employ its cutting-edge additive-free research and technology in an attempt to enhance brand value through the development of personal cosmetics. We have developed a unique "Skin Biomarker Analysis" capable of

Base Make

analyzing individual skin characteristics and aging signs, which differ from person to person, and in six months, nearly 700 people have experienced this test at the FANCL Ginza Square location. Utilizing this "Skin Biomarker Analysis" as a strategic counseling tool, FANCL will build a structure for providing personal advice, and push ahead with the development of personal cosmetics. We expect to be able to introduce these new products to the market in the spring of 2015.



The "Skin Biomarker Analysis"

Marketing Strategy

FANCL will step up expansion of sales through the distribution channel, creating new points of contact with customers. From April 2014, we began sales of our long-selling *Mild Cleansing Oil* and *Facial Washing Powder* products through 6,000 outlets of a major drugstore chain.

Both products have traditionally enjoyed strong recognition, but it was sometimes difficult for customers to acquire them as sales focused primarily on the direct sales channels. The expansion of sales through drugstores nationwide will make it possible to acquire new customers.

With the start of drugstore sales, we will also deploy new television commercials for *Mild Cleansing Oil*, targeting sales among customers who may not have interacted with FANCL in the past. The commercials will focus on product functionality, as well as emphasizing that everyone is using them, that they are selling well, and the buzz being generated.

We will also strengthen our efforts in the distribution channel, including the introduction of five items at LAWSON convenience stores.

In our stores, we will strengthen the makeup techniques of our store staff, develop makeup artists in the stores, and introduce makeup simulators offering virtual makeup sessions. We will also enhance our ability to provide customers with makeup counseling and advice.

Going forward, we will be more proactive in suggesting makeup products to skin care users as well, in the hope of raising the rate of bundled sales of skin care and makeup products.

Mild Cleansing Oil *Facial Washing Powder*

Mild Cleansing Oil TV commercial

Strengthen the makeup techniques of our store staff

FANCL ヘルスサイエンス

FANCL HEALTH SCIENCE CORPORA

FANCL will once again generate innovation as a pioneer in the supplement business, first by establishing a successful model in the market for prevention of lifestyle-related disease prevention in the middle-aged and elderly.

Tsuyoshi Tatai
President, Representative Director of FANCL HEALTH SCIENCE CORPORATION

Business Concept and Future Vision

Our goal is to establish an unassailable position by supporting customers' health across their entire lifetime as Japan's leading health-support company and to achieve "Good Aging" by scientifically supporting the creation of health across the lifetime of each and every person.

FANCL plans to pursue this business along two lines. First, we will target those in their 30s to 50s, a group with particularly strong interest in good health, providing them with basic supplements and health foods that function as supplements. Second, for the upper segment of the market—those 50 and older who spare no expense in investing in their health—we will offer our Good Aging line, doctor-supervised supplements and wellness support through our partnership with the KENKOIN MEDICAL CORPORATION.

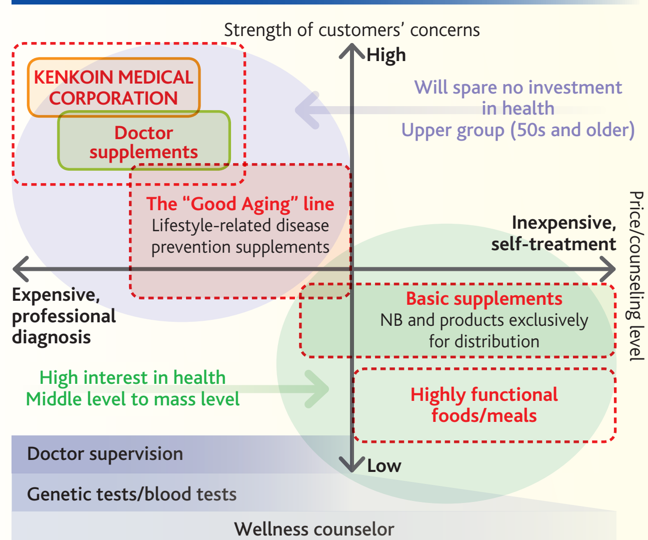
Differentiation Strategy

Two pillars in our strategy to differentiate ourselves from other companies

FANCL will boldly promote a two-pillar differentiation strategy. The first is our partnership with KENKOIN MEDICAL CORPORATION, Japan's first healthcare institution devoted exclusively to preventive medicine. In addition to joint research and acquisition of evidence involving supplements, we will form a powerful team with them to roll out a new business model for our new Good Aging product line.

The second pillar involves FANCL's unique technical abilities emphasizing efficiency within the body and duration

Health business overall view



Two pillars in our strategy to differentiate ourselves from other companies

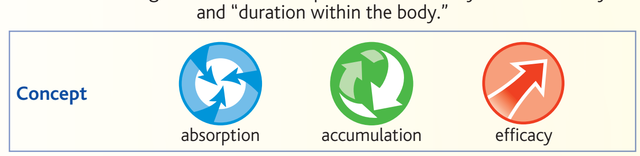
(1) Collaboration with the KENKOIN MEDICAL CORPORATION
—technology, research ability, peace of mind, credibility—

KENKOIN MEDICAL CORPORATION
Japan's first preventive medicine specialist clinic
- Provision of general medical services
- Supervision of clinical trials
- Training of health counselors
- Provision of information about preventive medicine

FANCL HEALTH SCIENCE
- Joint R&D of supplements
- Sales of medical supplements

(2) Laying claim to technological capabilities
(= efficiency within the body, duration within the body)

We seek a greater efficiency of uptake, rather than the absolute dosage of the essential ingredient, with an emphasis on "efficiency within the body" and "duration within the body."



TION

within the body. The amount of ingredients the body can absorb from supplements is limited, and FANCL continues to pursue research in ways to efficiently heighten the effectiveness of these ingredients rather than merely increasing their quantity. We will work to differentiate our products by improving their efficiency, adjusting ingredient levels to optimize effectiveness, and by using formulation techniques to change the length of time required for absorption and ensure longer, more sustainable effectiveness in the body.

(1) Good Aging line strategy

FANCL is building a new business model for its Good Aging line, which specializes in lifestyle-related disease prevention. Customers are first asked to undergo genetic and blood testing and to provide complete health information, including diet and exercise habits. Once this information has been thoroughly reviewed, a health counselor working under the supervision of a physician at KENKOIN MEDICAL CORPORATION, a medical institution, will provide specific solutions to potential future health issues. The counselor will also suggest the optimal preventive supplements, diet and exercise, providing the customer with lifetime support.

In November 2013, FANCL introduced *Hatsugamai Power PSG*, a germinated brown rice derivative effective in the prevention of arteriosclerosis. We also plan to introduce four new products to the market in the current fiscal year, including products for prevention of diabetes, brain aging, dementia and locomotive syndrome.

(2) Basic supplement strategy

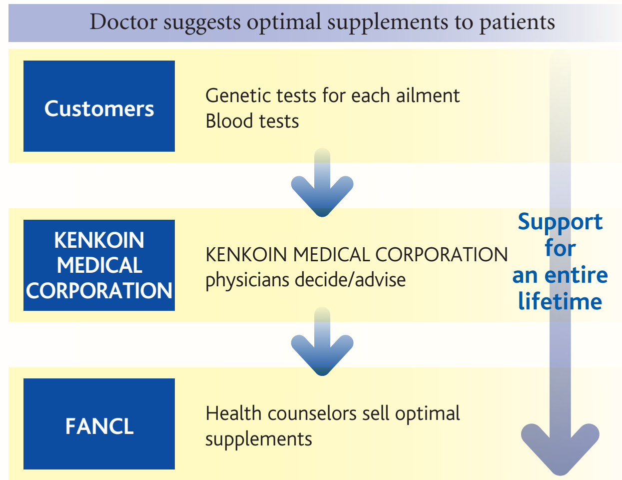
In basic supplements, we will continue pursuing technological capabilities while nurturing star products, consolidating product lines, and working to strengthen our distribution channels.

In the current fiscal year, FANCL will also focus on strengthening sales of *Koshirax*, our anti-back pain supplement; a version of our best-selling diet supplement *Calorie Limit* targeting middle-age and senior customers; *Enkin (Lutein & Blueberry)*, sales of which are growing steadily; and *Ukon Kakumei*, a supplement which takes advantage of our unique "liquid in hard capsule" technology.

We will improve customer continuity by expanding periodic services that have been applied to a limited number of products so far, to all supplements.

We will also put effort into sales of products for distribution

Building the new "Good Aging" business model



Concept of the "Good Aging" genetic bank

Once a customer has undergone genetic testing, the system allows information to be accessed at any time, providing support for individual concerns (illnesses) in the form of preventive methods and health management advice.

Koshirax | *Calorie Limit for the Mature Aged* | *Enkin (Lutein & Blueberry)* | *Ukon Kakumei*

and into developing new suppliers.

We will also explore new methods of advertising. To break out of the status quo, under which we are limited in our ability to accurately portray the effectiveness of our products due to limitations on advertising language, our ads will focus on representing our technological abilities and level of specialization and our approach as a Company. In doing so, we will work to build widespread recognition for FANCL HealthScience, while also acquiring customers primarily through seminars and other venues where we can describe our products directly.

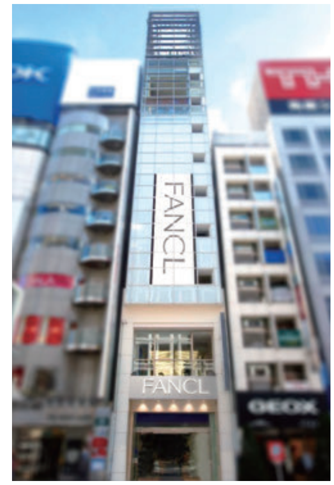
Over the next three years, we will grow our high added-value Good Aging line to represent one-third of our overall business, significantly improving profitability.

Store Strategy

FANCL Ginza Square

A flagship store that embodies the future of FANCL

In October 2013, the flagship store named "FANCL Ginza Square" re-opened following renovations. The store embodies the future of FANCL, and is where we will bring together our corporate identity, technology and services and work to accumulate expertise.



FANCL Ginza Square Floor Guide Highlights

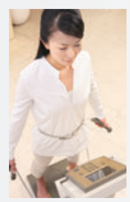
4th Floor FANCL Beauty Shop

Skincare counselling by problem area

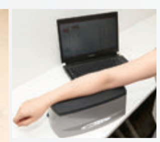
Professional counselling

Here we use an advanced skin analyzer to give a more detailed analysis of the skin's condition and provide personalized advice.

7th Floor FANCL Health House



Body balance measurement



Glycation measurement

Professional counselling

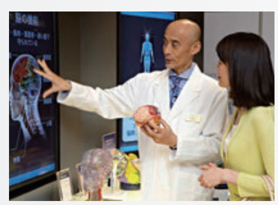
Dieticians and other counselors with advanced expertise use cutting-edge equipment to provide useful health information and suggest optimal supplements.

5th Floor FANCL Future Skin Laboratory

Future skin laboratory

This floor allows customers to experience technology that ties directly into our R&D efforts. The "Skin Biomarker Analysis" personalizes your skin's aging risk, and our researchers on site can provide advice on daily skin care directly to customers.

8th Floor FANCL Preventive Healthcare Studio



Advanced health trial area

Advanced Health Trial Area

Customers can have fun learning about the importance of proper nutrition in preventing sickness through displays designed under the supervision of KENKOIN MEDICAL CORPORATION, around the theme of keeping people well.

Store Channel Strategy

Our stores are positioned as showrooms where customers can experience FANCL technology, and are being rolled out as specialty stores where we can respond professionally to individual customer needs. Based on expertise accumulated through the "FANCL Ginza Square," in March 2014, we will begin a changeover of our stores into three types of specialty shops: FANCL Beauty Shop for beauty products; FANCL Health House for supplements; and our Hybrid Shop, a combination of health and beauty specializations. The Hybrid Shop concept, in particular, is the first of its kind in Japan, and is attracting keen interest from major retailers. We hope that success with these Hybrid Shops will give us an advantage as we expand our stores going forward.

The three types of specialty shops

FANCL Beauty Shop

Hankyu Nishinomiya Gardens branch

FANCL Health House

Ikebukuro Shopping Park branch

FANCL Hybrid Shop

Kyoto Porta branch

Internet Strategy

Enhancing apps and content in the age of the smartphone

With the rapid spread of smartphones, the number of users accessing our sites via smartphone has rapidly increased. To ensure we provide a more pleasant user experience, FANCL has introduced a number of new services, including a digital catalog that enables viewing of our member magazine from smartphones, and a shopping app that makes it easy for customers to purchase their favorite products directly from their phones.

We have also established an official account on LINE, a free phone and messaging tool, and will use it to send out information to members on new products, sales campaigns and special offers from our directly-operated retail stores.

Digital catalog


Shopping app


LINE Online-to-Offline store guidance

New e-mail marketing system starts

In November 2013, FANCL shifted to a new e-mail marketing system. The system collects browser histories, the products users put into their shopping carts and other behavioral data. Based on case-by-case scenarios that determine when information should be sent out, customers are automatically sent a personalized e-mail containing the information and products most relevant to them. This is an effective way of stimulating customer interaction at a lower cost. This fiscal year, we also plan to utilize this system to deliver personalized pages on our PC website.

New e-mail marketing system starts (November 2013)

A system that effectively realizes a personal approach by collecting customers' behavioral data

Web browsing history

Age

Customer data

Purchase history

Gender

Time of purchase

Automatically send e-mails containing optimal information and products for individual customers

Promote increased sales and enhance rates of continuous use

Overseas Strategy

Introducing boscia, a major hit product, to Europe and Japan

FANCL undertook a fundamental review of its overseas business, withdrawing from its unprofitable retail businesses in Taiwan and Singapore. In fiscal 2014, we will begin wholesaling to partners in the Asia region, as we switch to a lower-risk business model.

In 2002, we introduced "boscia" in the U.S. and the product, carried by Sephora cosmetic retailers, has rapidly grown into a major botanical skin care brand, with double-digit growth continuing. It is now available in six countries worldwide, including Canada and Mexico, and plans are underway to enter the European market. Based on its brand reputation in the U.S., we are also considering reverse importation of the products to Japan, cultivating a third major brand alongside FANCL and ATTENIR.

In addition, as the U.S. skincare market is the third largest after Japan and China, we expect solid growth there going forward, and will be taking on the challenge of reintroducing the FANCL brand in the U.S. We will work to validate the needs of local customers and quickly push ahead with our market strategy.

boscia products

Attenir ATTENIR CORPORATION

With "Generous is beauty," as a brand statement, we go back to our original business culture to enact major reforms to revitalize the brand

Kenichi Sugama
President, Representative
Director of ATTENIR CORPORATION

Redefining the ATTENIR brand

ATTENIR is undergoing major reforms aimed at revitalizing the brand. We have created a new brand slogan, "Generous is beauty," and provide products and services that are "generously beautiful," targeting our main segment of customers who are in their 40s.

In addition, with the goal of becoming an aspirational brand that women can identify with and yearn for, we are implementing promotions that maximize the use of the web to invoke buzz and enhance brand recognition.

Attenir
"Generous is beauty"

Product Strategy

Our product strategy calls for establishing key items and strengthening our main products.

Fiscal 2015 will see a renewal of our highest luxury prestige cream, which will be developed into the brand's key item. We will also renew our main skin care products, clarifying their functions and roles while further enhancing functionality. Our makeup line will also undergo a major renewal, as we work to achieve a balance between a luxury feel and a sense of excitement.

ATTENIR will also strengthen the collection of fashions and accessories it offers in pursuit of greater originality for the ATTENIR brand.

Communication Strategy

ATTENIR will deploy a new communication strategy that conveys brand value while invoking empathy and a desire to experience the offering.

In April 2014, Attenir information magazine underwent a renewal. It now acts as much more than a simple catalog, also offering information that communicates brand value.

To strengthen our web strategy, ATTENIR will renew its website in the summer of 2014, enhancing links with SNS sites and making it easier for customers to select products.

(1) Delivering the finest quality
(2) Providing accessible prices
(3) Achieving a sense of elegance

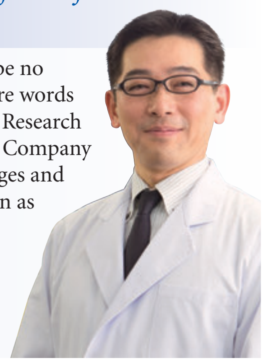
Helping customers make generous use of the finest products is a philosophy that has been part of ATTENIR since its founding, and as we work toward the rebirth of the ATTENIR brand, we will continue to honor that unchanging promise.

Inner Effector Basic Skincare

Inner Effector EX

With the aim of making FANCL into a center of knowledge and specialist expertise, FANCL's staff use all their ingenuity to find the best ways of working on the front lines. Here we introduce some of our passionate staff who are playing active roles in a variety of jobs.

Take on challenges without fear of failure



Chairman Kenji Ikemori saying, "You'll be no good if you don't take on challenges" were words that rang in the hearts of Health Science Research Institute staff members. We want to be a Company that has a mentality of taking on challenges and making technological improvements even as we repeatedly make mistakes.

Kei Yui
Director of the HSRC
Health Science Research Center
FANCL Research Institute

Creating a foundation for the future

I get the feeling in my bones that on the front line of training we are getting an increase in the number of employees with a renewed awareness of the spirit behind our foundation. Now is the time for us to build a foundation for the future. It's important to take on the challenges of new things while carrying on the spirit of our foundation.

Yoshiko Tanaka
Vice Principal of FANCL College
Division Manager, Training Division

Always wanting to present new ideas

Recently FANCL has increased its speed, and looking around I can sense a heightened awareness of their work. I want us to be a Company that has a strong sense of customer needs and aims to eliminate the negatives.

Jun Saito
Sales Group #1
Wholesale Division
Business Sales Headquarters
FANCL HEALTH SCIENCE CORPORATION

Making us into a Company with dreams

When training retail staff members, I get the feeling that people have the same thoughts when working toward the same goal. I'd like to make us a Company that has dreams and where staff members involved in retail sales all have a clear goal.

Kanako Kondou
Beauty Training Group
Training Division
FANCL College

Awareness of quality and manufacturing costs

I love how our Chairman Kenji Ikemori says, "You can do anything if you try and give it your all." Being in a crucial position that affects quality, production costs and procurement costs, I'd really like to tackle the issues of enhancing quality and cutting costs.

Yoshimitsu Takai
Assistant Manager
Technical Development Group
Yokohama Factory
FANCL B&H CORPORATION

A corporate culture overflowing with venture spirit

I love FANCL's corporate culture overflowing with venture spirit. Currently, we're working full-fledged toward revamping our makeup products, but looking ahead, we don't want to be bound by existing constraints and want to be willing to take on challenges in new businesses.

Maki Harada
Manager, Cosmetics Planning Group #2
Product Planning Division
FANCL COSMETICS CORPORATION

Delivering products with value

Our mission is to deliver products of the finest quality at prices where they can be used generously.

We continue daily to take on the challenge of producing products reflecting the ATTENIR Philosophy to the maximum possible extent to give us an even firmer bond with customers.

Yoko Sasai
Product Planning Group #2
Product Planning Division
ATTENIR CORPORATION

FANCL thinking about customers

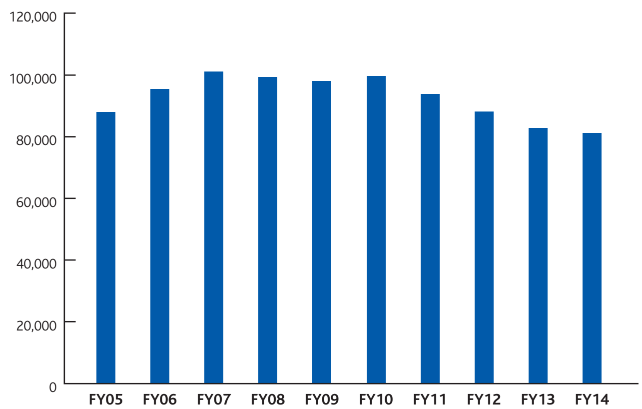
I'm delighted at those moments when I hear satisfied customers talking about FANCL products and services. I'd like FANCL to continue thinking about customers so we can retain our lifelong relationships with them.

Tomoko Ozawa
Group Manager
Customer Relationship Management Division
FANCL COSMETICS CORPORATION

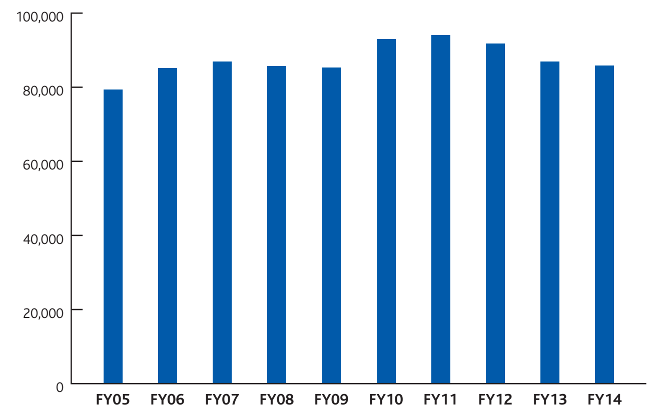
Business Overview

The FANCL Group's principal business is the manufacture and sale of cosmetics and nutritional supplements. Sales are conducted through three main channels: mail-order (including online sales), directly operated retail stores, and wholesale. In April 2014, FANCL moved to a holding company system.

Net Sales
(Millions of yen)



Total Assets
(Millions of yen)



Net sales in fiscal 2014 decreased 2.0% year on year to ¥81,119 million, mainly due to a year-on-year decrease in sales in the nutritional supplements business as well as in Other Businesses, due partly to the first quarter transfer outside of the Group of shares of consolidated subsidiary NEUES Co., Ltd., which was engaged in the beauty salon business, despite an increase in sales in the cosmetics business.
Total assets decreased ¥1,049 million year on year to ¥85,800 million.

Cosmetics Business

FANCL Cosmetics sells "Mutenka" cosmetics, with mail-order, retail store and wholesale sales as the primary sales channels.
ATTENIR Cosmetics is a cosmetics company focused mainly on mail-order sales of high-quality, low-cost products.


MOISTURIZING


AGING CARE


WHITENING

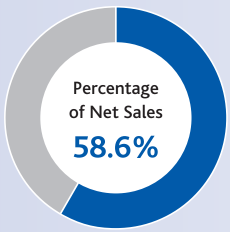

BC LINE


Base Make

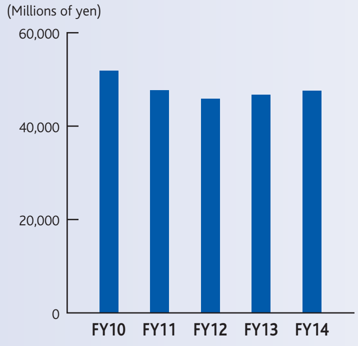

ATTENIR Cosmetics

Cosmetic Business net sales in fiscal 2014 increased 1.7% year on year to ¥47,526 million, accounting for 58.6% of net sales.

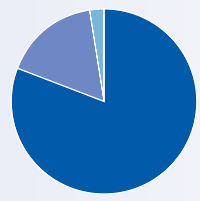
Net Sales Composition



Five-Year Trend
(Millions of yen)

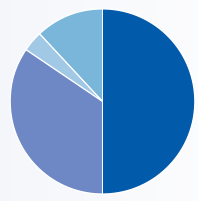


Cosmetics Business Breakdown



FANCL Cosmetics	80.9%
ATTENIR Cosmetics	16.8%
Others	2.3%

Sales Channel Breakdown



Mail-Order Sales	50.1%
Retail Store Sales	34.5%
Wholesale Sales	3.7%
Overseas Sales	11.7%

Nutritional Supplements Business

FANCL sells an array of products as the pioneer in popularizing nutritional supplements throughout Japan. Looking ahead, FANCL will establish a "success model" in the market for products for preventing lifestyle-related disorders aimed at middle-aged and senior customers.


HTC® Collagen DX


Calorie Limit


Multiple Vitamin & Mineral

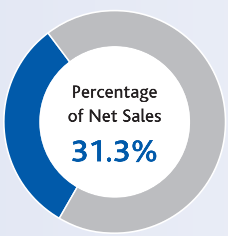

Reduced Coenzyme Q10


Joint Support

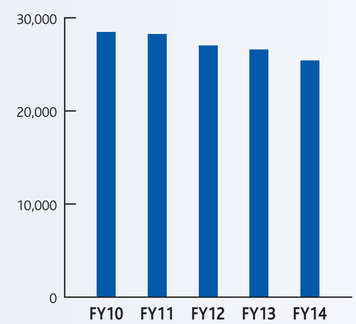

Good Choice
(core daily supplement)

In fiscal 2014, net sales in the Nutritional Supplements Business decreased 4.6% year on year to ¥25,386 million, and accounted for 31.3% of net sales.

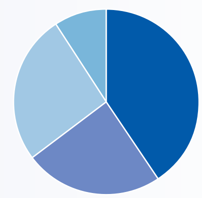
Net Sales Composition



Five-Year Trend
(Millions of yen)



Sales Channel Breakdown



Mail-Order Sales	40.8%
Retail Store Sales	24.1%
Wholesale Sales	26.0%
Overseas Sales	9.1%

Other Businesses

Operations in this segment include the production and sale of germinated brown rice and kale juice, and mail-order sales of lifestyle goods, undergarments and other merchandise business.


Pre-germinated Brown Rice

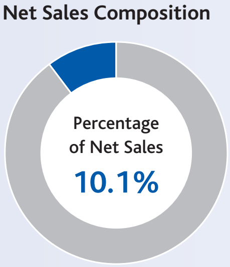

Assorted Cereal Cracker


Kale Juice-Premium
(powder)

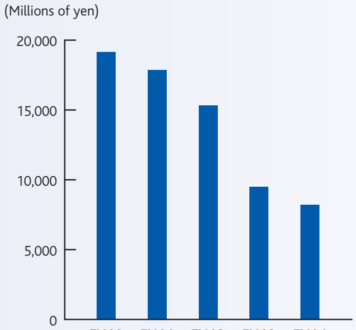

Frozen Kale Juice

Net sales in fiscal 2014 decreased 13.5% year on year to ¥8,207 million, and accounted for 10.1% of net sales.

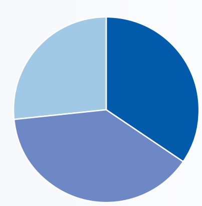
Net Sales Composition



Five-Year Trend
(Millions of yen)



Breakdown of Germinated Brown Rice, Kale Juice and Other Businesses



Germinated Brown Rice	34.5%
Kale Juice	39.0%
Other Businesses	26.5%

Corporate Governance

FANCL regards the enhancement of corporate governance as an important management issue in gaining the trust of shareholders and other stakeholders. Our basic policy is to achieve business efficiency and transparency through rigorous adherence to corporate ethics and relevant laws, and through enhancements to our internal control system, including risk management.

FANCL decided to transition to a holding company structure as of April 1, 2014. As part of this transition, the Company split off the cosmetics division and health foods division (a simple incorporation-type company split), the goals being to promote rapid decision-making and business execution, and to raise the level of specialization and autonomy for each business. We believe that a holding company structure is the most appropriate for FANCL to implement rapid decision-making and present policies that are optimal for the entire Group, in doing so strengthening corporate governance.

Corporate Governance Framework

Company with Audit & Supervisory Board

FANCL has adopted the Company with Audit & Supervisory Board Members system. One outside director and two outside audit & supervisory board members have been appointed to provide opinions and recommendations from diverse points of view, introducing an outside perspective that we utilize in the conduct of management. The auditing structure is further strengthened and enhanced through coordination between the Audit & Supervisory Board and the Internal Audit Office. Accordingly, we believe that the current system is the most rational framework in terms of enhancing the effectiveness of FANCL's corporate governance.

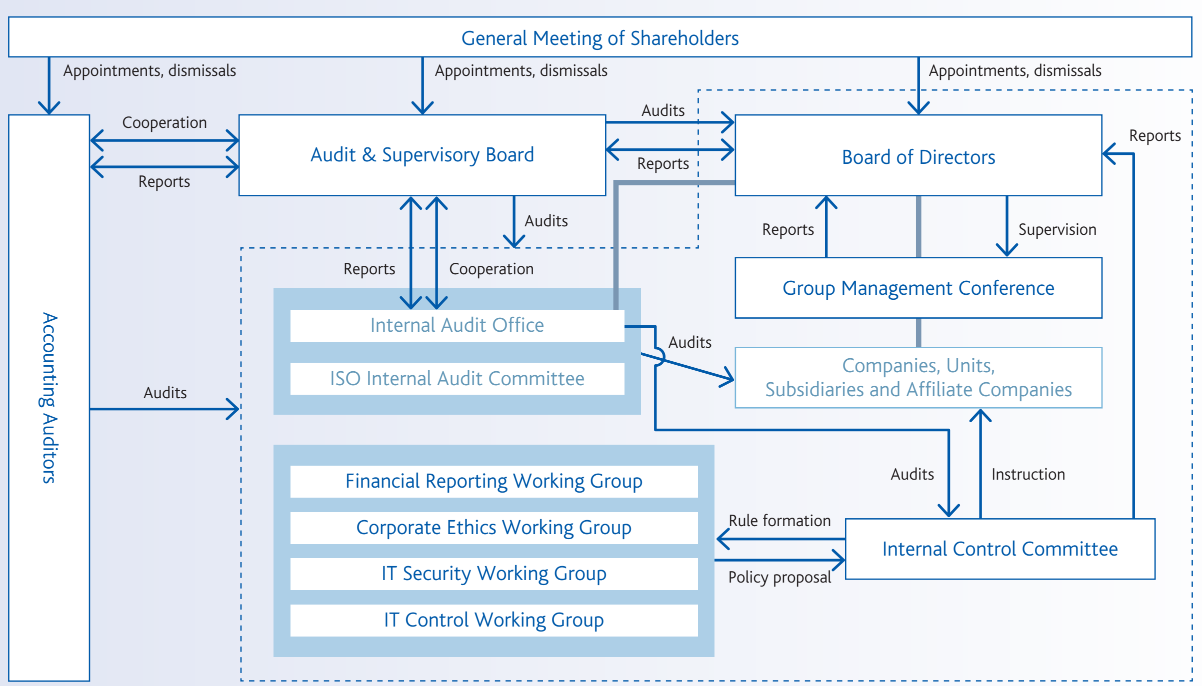
FANCL has also introduced the executive officer system. The term of office for directors and executive officers is one year.

Audit & Supervisory Board Members

FANCL has adopted the Audit & Supervisory Board Members system. Two of the four Audit & Supervisory Board Members are from outside the Company. Audit & Supervisory Board Members attend meetings of the Board of Directors, Group Management Conferences and other important meetings, expressing opinions as necessary in order to enhance the effectiveness of auditing regarding management's decision making. Audit & Supervisory Board Members also exchange opinions with senior management on a regular basis, providing an impartial management monitoring system.

FANCL's Audit & Supervisory Board Members are appointed at the Annual General Meeting, and act as shareholders' representatives charged with performing both operational audits, assessing directors' execution of duties, and accounting audits, encompassing Company earnings.

Corporate Governance System



They initiate derivative suits against the Board of Directors on behalf of the shareholders, and represent the Company in those suits.

Board of Directors

The Board of Directors comprises 14 directors, one of whom is an outside director. The board makes decisions on important issues regarding the execution of business and other statutory matters and receives reports on and supervises the status of execution of business at the Company and its subsidiaries.

Group Management Conference

The Group Management Conference comprises directors, Audit & Supervisory Board Members, and executive officers. The Management Conference conducts preliminary deliberations on matters for decision by the Board of Directors, and deliberates on important matters regarding management, within the scope of authority granted by the Board of Directors.

Executive Compensation

a) Directors' Compensation

The compensation of directors comprises a base remuneration and compensation at the time of retirement (stock compensation-type stock options).

The base remuneration is paid on a monthly basis, with the amount determined by the President, Representative Director, with approval from the Board of Directors, according to such factors as whether the director is full or part-time, the position held and other duties, as well as business performance.

The compensation at the time of retirement is intended to provide an incentive for directors to increase shareholder value during their term. It is a stock price-linked compensation paid to directors who concurrently serve as executive officers. The Board of Directors determines the specifics of the share options conferred as follows.

The exercise price per share is set at one yen, and options may only be exercised within ten days after the director's retirement. The number of share options conferred for a single fiscal year is determined by taking an amount obtained by multiplying the director's monthly compensation at the time the options are conferred (base remuneration divided by 12) by a coefficient based on the director's position, and dividing this by a fair price for the share options to be conferred.

In addition to the above, directors, except for outside directors, are to be granted ordinary stock options as an incentive during their period of service by a resolution from an extraordinary general meeting of shareholders.

b) Audit & Supervisory Board Members' Compensation

Compensation for Audit & Supervisory Board Members consists of base remuneration only, with the amount determined by agreement with Audit & Supervisory Board Members in accordance with their duties and responsibilities.

Fiscal 2014 Compensation Packages for Directors and Audit & Supervisory Board Members

Recipient	Total compensation (millions of yen)	Total compensation by type (millions of yen)		Number of recipients
		Base remuneration	Stock options	
Directors (excl. outside directors)	343	261	82	13
Audit & Supervisory Board Members (excl. outside Audit & Supervisory Board Members)	27	26	0	2
Outside directors and Audit & Supervisory Board Members	24	24	–	5

The above compensation includes compensation paid to one director and two Audit & Supervisory Board Members who retired at the end of the 33rd Annual General Meeting of Shareholders, held on June 15, 2013. Of these, Mr. Junji Iida was appointed as an Audit & Supervisory Board Member following his retirement as a director at the 33rd Annual General Meeting of Shareholders. The amounts of his compensation and his inclusion within the numbers of recipients are therefore included under directors for the period during which he was a director, and under Audit & Supervisory Board Members for the period during which he was an Audit & Supervisory Board Member. Moreover, the stock options granted to Audit & Supervisory Board Members are those granted to the Audit & Supervisory Board Members during his time as a director.

Outside Directors and Audit & Supervisory Board Members

FANCL appoints outside directors and outside Audit & Supervisory Board Members in order to utilize their opinions and recommendations from diverse points of view, in management, and to further strengthen supervision over the execution of business.

When appointing outside directors and Audit & Supervisory Board Members, FANCL's practice is to select individuals deemed to be adequately independent, rather than persons from an affiliated company, a major corporate shareholder or a major business affiliate.

Outside directors supervise management by attending meetings of the Board of Directors, where they receive reports regarding the status of earnings and the internal control system, posing questions and offering recommendations from a specialist perspective. Outside Audit & Supervisory Board Members also attend meetings of the Board of Directors and receive reports regarding the status of earnings and the internal control system. In addition, they attend Audit & Supervisory Board meetings, where they exchange opinions and information with full-time Audit & Supervisory Board Members. The Internal Audit Office also has a system for coordinating auditing practices with outside Audit & Supervisory Board Members.

Message from an Outside Audit & Supervisory Board Member

Toshio Takano
Outside Audit & Supervisory Board Member

Q1. One year has passed since you were appointed as an Outside Audit & Supervisory Board Member. In this role, what did you work on the most in the past year?

When I was appointed as an outside Audit & Supervisory Board Member of FANCL last year, I noted that I would focus on ensuring that the decision-making process of management is as proper and transparent as possible. The Board of Directors of FANCL has fulfilled its checking functions with respect to management. This has been done by having the Board of Director's one outside director and the two outside Audit & Supervisory Board Members proactively express their respective opinions from an independent perspective on every agenda item. Furthermore, I have confirmed that the foregoing process is carried out properly in the course of exchanging frank opinions with the directors both within and outside of meetings of the Board of Directors. In this sense, I believe that FANCL's corporate governance is functioning effectively.

Based on my experience as an Audit & Supervisory Board Member of other companies, I have also discussed ways to improve FANCL's Audit & Supervisory Board, as well as other matters, with the other members, and measures have been implemented accordingly.

Q2. What is your assessment of FANCL's business activities, compliance and risk management?

FANCL's measures in each of these areas are highly commendable. For example, FANCL has vigorously implemented activities to ensure compliance, from the perspective of emphasizing fair and impartial trading relationships with its suppliers. Activities have included holding seminars related to the Antimonopoly Act and the Subcontract Act for all of the Group's businesses. At the same time, FANCL has prepared a Compliance Code of Conduct Handbook for employees.

Having embraced the concept of "Mutenka," FANCL has worked over many years to maintain and practice high corporate ethics, with the aim of delivering safe, reliable products. I was strongly interested in how this is accomplished at the manufacturing sites. After I was appointed to my current post, I toured each factory and closely observed the manufacturing processes for each product. As a result, I was greatly reassured to learn that various measures are implemented without fail to ensure a degree of safety and reliability that surpasses even that of a pharmaceuticals manufacturing plant. Among these measures are double and triple checking systems. Since last year, the news media has put the spotlight on an incident at another cosmetics company in which cosmetics products have caused unwanted white blotches on the skin of users. This type of problem can quickly escalate to an incident that erodes customer confidence in cosmetics products as a whole. Therefore, FANCL needs to devote even more effort to quality assurance.

Q3. FANCL has adopted a new management framework since April. As an outside Audit & Supervisory Member, what will you focus on going forward?

I intend to continue monitoring the matters I just discussed as they are crucial points. Furthermore, in April 2014, FANCL shifted to a holding company system by splitting the cosmetics division and health foods division from the Company into new companies, and making FANCL Corporation the holding company. The goal is to clarify responsibilities and speed up decision-making by reorganizing each business into an independent company, and improve earnings through a process of selection and concentration. Duties can be executed while utilizing the benefits of the system, but I intend to keep a watchful eye over management under the new framework to ensure no future governance problems arise, including with regard to subsidiaries.

Directors and Officers

(As of June 23, 2014)

Board of Directors

Kenji Ikemori
Founder, Chairman, Representative Director

- 1980 Independently founded a cosmetic business
- 1981 Established FANCL
  C.E.O. and Representative Director
- 2003 Chairman and Representative Director
- 2004 Chairman Director
- 2005 Honorary Chairman
- 2013 Chairman, Representative Director (Current)

Kazuyoshi Miyajima
President, Representative Director

- 2001 Joined FANCL
- 2001 Director and General Manager of President's Office
- 2003 Managing Director and General Manager of President's Office
- 2008 Chairman and Representative Director
- 2013 President, Representative Director (Current)

Tsuyoshi Tatai
Vice President, Representative Director

- 1994 Joined FANCL
- 1994 Managing Director and General Manager of Business Planning and Promotion
- 2001 Representative Director and Senior Managing Director
- 2003 Retired from FANCL Director
- 2007 Joined FANCL
- 2007 C.O.O., Representative Director and Vice President Products of Operations Controller, Chairman and Director of IIMONO OHKOKU Co., Ltd. (Currently I'foret Co., Ltd.)
- 2009 Retired from role as FANCL C.O.O., Representative Director and Vice President
- 2013 Vice President, Representative Director (Current)
- 2014 President, Representative Director of FANCL HEALTH SCIENCE CORPORATION (Current)

Minako Yamaoka
Senior Managing Director

- 1995 Joined FANCL
- 2000 General Manager of Sales Planning Office, Sales Division
- 2001 Deputy General Manager of Cosmetics Business Department and General Manager of Sales Planning Department
- 2007 Executive Officer, and President of Cosmetics Company
- 2008 Executive Officer and Director, and President of Cosmetics Company
- 2013 Senior Managing Director, and President of Beauty Company
- 2014 Senior Managing Director, Cosmetics (Current), President, Representative Director of FANCL COSMETICS CORPORATION (Current)

Kazuyuki Shimada
Executive Managing Director

- 2003 Joined FANCL
- 2013 Executive Managing Director, and General Manager of Group Support Center (Current)

Toru Tsurusaki
Executive Director

- 2005 Joined FANCL
- 2013 Managing Director of FANCL ASIA (PTE) LTD (Current)
- 2014 Executive Director, and General Manager of International Business Headquarters (Current)

Yasushi Sumida
Executive Director

- 2005 Joined FANCL
- 2013 Executive Director, and General Manager of FANCL Research Institute (Current)

Norihiro Shigematsu
Executive Director

- 1996 Joined FANCL
- 2014 Executive Director, Health Supplements (Current)

Yoshihisa Hosaka
Executive Director

- 2005 Joined FANCL
- 2014 Executive Director, General Manager of Online Channel Unit (Current)

Tomochika Yamaguchi
Executive Director

- 2003 Joined FANCL
- 2014 Executive Director, General Manager of Store Channel Unit (Current)

Akihiro Yanagisawa
Director

- 1993 Joined FANCL
- 2007 President, Representative Director of FANCL B&H CORPORATION (Current)
- 2008 President, Representative Director of NICOSTAR BEAUTECH Co., Ltd. (Current)
- 2010 Director (Current)

Kenichi Sugama
Director

- 1990 Joined FANCL
- 2003 Director (Current)
- 2013 President, Representative Director of ATTENIR CORPORATION (Current)

Gen Inomata
Director

- 1994 Joined FANCL
- 1998 President and CEO of FANCL INTERNATIONAL, INC. (Current)
- 2009 President and CEO of boscia, LLC (Current)
- 2013 Director (Current)

Norito Ikeda*1
Director

- 2001 C.F.O. and Representative Director of The Bank of Yokohama, Ltd.
- 2003 President and Chief Executive Officer of The Ashikaga Bank, Ltd. (Representative Director)
- 2009 Director (Current)
- 2012 President, Representative Director, The Corporation for Revitalizing Earthquake-Affected Business (Current)

Audit & Supervisory Board Members

Seiichiro Takahashi
Audit & Supervisory Board Member

- 2004 Joined FANCL
- 2010 Deputy General Manager of Administration Headquarters, and Manager of Legal Division
- 2012 Audit & Supervisory Board Member (Current)

Junji Iida
Audit & Supervisory Board Member

- 1992 Joined FANCL
- 2002 President, Representative Director of ATTENIR CORPORATION
- 2013 Audit & Supervisory Board Member (Current)

Katsunori Koseki*2
Audit & Supervisory Board Member

- 1984 FANCL Biken (Currently FANCL Corporation) Audit & Supervisory Board Member
- 1989 Established the Katsunori Koseki Certified Public Tax Account Office (Current)
- 1996 Audit & Supervisory Board Member (Current)

Toshio Takano*2
Audit & Supervisory Board Member

- 1987 Deputy Director of Operations, Special Investigation Department, Tokyo District Public Prosecutors Office
- 2000 Chief Public Prosecutor, Tokyo District Public Prosecutors Office
- 2004 Superintendent Public Prosecutor, Nagoya High Public Prosecutors Office
- 2005 Registered as an attorney
- 2011 Member of the Central Third-Party Committee to Check Pension Records (Current)
- 2013 Audit & Supervisory Board Member (Current)

Executive Officers

Yukihiro Ishigami
Kohji Yamaguchi
Akiko Matsugaya
Shoko Matsukuma
Koichi Matsumoto

*1 Outside director
*2 Outside Audit & Supervisory Board Member

Corporate Social Responsibility

FANCL's CSR activities are built around the United Nations Global Compact, 10 principles covering four areas, in which we have participated since April 2013; the ISO 26000 standard; and environmental reporting guidelines. Each division identifies specific issues, establishes targets, and utilizes PDCA cycles in working to achieve them. In fiscal 2014, we focused our activities on the four areas covered by the United Nations Global Compact and achieved some fruitful results, including an award from the Minister of the Environment.

Human Rights

Integrating differing viewpoints, opinions and careers is a part of FANCL's corporate culture, and we actively promote diversity.

The majority of customers purchasing cosmetics are women, and every aspect of our business relies on the unique ideas that come from the perspective of women. We thus devote considerable resources to leveraging women in our business.

Indicators:	FY14	FY13	FY12
Percentage of women in management	33%	31%	28%
Number of foreign nationals employed	10	10	6
Number of employees aged over 60	31	22	17
Number of employees with disabilities (including special subsidiaries) ( ) shows percentage employed; legal requirement is 1.8%	52 (2.5%)	53 (2.3%)	45 (2.1%)

Bump Dots for People with Visual Disabilities Providing User-Friendly Services for all Customers

Bump dots are FANCL-designed stickers with raised surfaces that are attached to products to enable people with visual impairments to identify the contents by touching the labels. Three visually impaired employees of Fancl Smile Co., Ltd., which promotes employment of people with disabilities, made improvements to the labels to make them truly easy to understand.

Bump dots


The Fancl Smile employees with visual impairments who were the developers

Labor

Customer Service Week

To show our thanks and appreciation for our telephone service team and to encourage better understanding among other employees of the work done by our contact centers, each year since 2008, FANCL has set aside the third week in October to hold award ceremonies and conduct call monitoring.

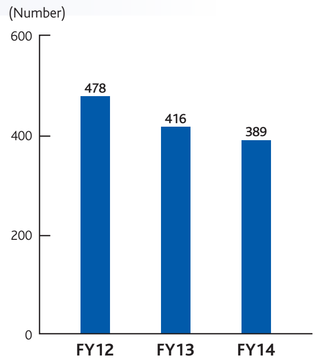

Rest areas freshened up with hand-crafted decorations


Scene from an award ceremony—a staff member receives an award certificate from President Kazuyoshi Miyajima

Measures Against Corruption

FANCL believes the ideal relationship with its suppliers is one of mutual harmony and prosperity. In 1999, we established a set of basic purchasing policies, and our criteria for suppliers are made available online. Each year, we conduct a survey of our suppliers, and monitor the compliance of each Group company with their respective purchasing policies, the Subcontract Law and other laws.

Number of Questionnaires Sent



Building friendly relationships with business partners

Environment

ATTENIR Clear Oil Cleanse with Argan Oil Compound

Extremely rare argan oil with outstanding effects on the skin is used as a compound in a cleanser in Japan for the first time. Argan oil used in the cleanser is a high-quality oil produced by the Targanine Production Cooperative, recipients of the Slow Food Award. This leads to the conservation of the argan tree, and used effectively, this oil contributes to the improvement of the status and employment of women in Morocco, an argan tree producing country.

An argan tree from Morocco in Africa

ATTENIR's Clear Oil Cleanse

Initiatives to Reduce CO_2

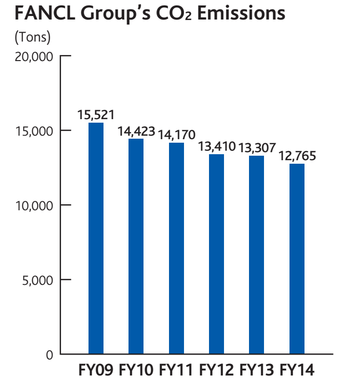
FANCL's environmental activities are implemented under the FANCL Eco Plan, our environmental business plan. Tying environmental goals to directors' compensation ensures a framework for management-driven promotion of consideration for the environment.

Praised for environmental activities joining the Company and the home as one

Since 2008, FANCL has brought together its directors, employees and even their families to promote efforts to reduce CO_2. This was the first attempt to involve the home in corporate environmental activities, efforts which were recognized with the 2013 Environment Minister's Award for Global Warming Prevention Activity (Implementation and dissemination of countermeasures), conducted by the Ministry of the Environment.

Award ceremony

FANCL Group's CO_2 Emissions



Figures are calculated by the FY2014 CO_2 emission coefficient.

Global Environmental Activities

FANCL Kids Baseball Challenge Recycled Baseball Equipment Gets the World's Children Smiling

We have been holding FANCL Kids Baseball Challenge clinics for children at elementary and junior high schools across Japan since 2010. The baseball clinics have been held at 19 locations nationwide with a total of 7,091 children taking part.

Collections of unwanted baseball equipment have been made at the clinics ever since they were first held and now 15,101 items of baseball equipment have been donated through a supporting organization to places such as Africa, where such equipment is lacking.

Donating equipment to children in Ghana, Africa

Within the FANCL Group, the Research Institute engages in a variety of product development and research activities. With a policy of R&D into items only FANCL can create and apply, we move forward with refined research.

Total R&D expenses in fiscal 2014 amounted to ¥2,428 million. R&D expenses by business segment are highlighted below.

Cosmetics Business

The Cosmetics Business conducts a broad range of research relating to product development for FANCL Cosmetics and ATTENIR Cosmetics, from exploratory research on materials to research on safety and efficacy and development of formulations and containers. In fiscal 2014, we conducted research into the effects of stress factors such as UV light and beauty product preservatives on the skin, and the resultant drop in skin function. As a result of research on enhancing the beauty of bare skin, we also developed the world's first "Skin Biomarker Analysis."

Nutritional Supplements Business

Based on the "efficacy in body" approach, we examine each of a supplement's properties to ensure its effects are efficiently utilized by the body after consumption. We develop our technology and design and develop our products to achieve improved absorbability, greater sustainability and heightened functionality—ensuring that more of the active ingredient is absorbed by the body, where it lasts longer and has a stronger effect. In fiscal 2014, this led to the development of *Koshirax*, a supplement that brings a new approach to the fundamental causes of heaviness and stiffness in the body.

Other Businesses

In addition to germinated brown rice and kale juice, we are working to strengthen product development in the area of high-functioning foods for healthcare that can be incorporated into the daily diet and have the functionality of a supplement.

R&D-Related Data

	FY14	FY13	FY12	FY11	FY10
R&D expenses (Millions of yen)	2,428	2,499	2,647	2,429	2,351
Ratio to sales	3.0%	3.0%	3.0%	2.6%	2.4%
Researchers	150	145	138	134	134
Patent applications in Japan	70	60	50	57	55

Strengthening R&D

The Research Institute

The FANCL Research Institute was established as the Central Research Institute in 1999. It was renamed as the Research Institute in 2005.

FANCL engages in a broad range of R&D activities, including joint projects with many different research institutions in Japan and abroad, as well as participation in collaborative projects involving industry, government and academic partners. FANCL's research staff of 150 people (as of the end of March 2014) includes scientists with doctorate degrees in fields such as agriculture, pharmaceuticals, and other sciences.

FANCL Research Institute

Under the Medium-Term Strategy (FY2014–16) formulated in November 2013, FANCL decided on a basic policy that will utilize strengths as a research and development-focused manufacturer with direct sales capabilities.

The FANCL Research Institute has also embarked on efforts to strengthen R&D, including construction of a second laboratory. This second research facility will be positioned as an innovation laboratory, and will involve creation of an incubation system for nurturing next-generation technology. Specifically, the laboratory will push ahead with drug formulation, pharmaceutical and genetic research focused on further enhancing efficacy and potency; a neuroscience and immunology-based approach that focuses on improved quality of life for the elderly; and, in collaboration with physicians, the acquisition of highly reliable scientific evidence, all with the goal of developing innovations in the fields of aesthetic and preventive medicine.


FANCL Research Institute

Going forward, our existing Research Institute will take on a product development role, which, when integrated with the innovation-driven R&D of our second facility, will enable us to push forward in developing innovative new products. Our goal is not to keep up with changing times, but to be the agent of those changes by generating new product ideas, and to achieve that, we are working to enhance our technology development even further.

Financial Section

Eleven-Year Summary

FANCL CORPORATION and Consolidated Subsidiaries
For the years ended March 31

	Millions of yen				
	2014	2013	2012	2011	2010
For the year:					
Net sales	**¥ 81,119**	¥ 82,807	¥ 88,165	¥ 93,790	¥ 99,537
Cosmetics	**47,526**	46,721	45,824	47,678	51,902
Nutritional supplements	**25,386**	26,601	27,037	28,248	28,492
Others	**8,207**	9,485	15,304	17,864	19,142
Net sales, by sales channel					
Mail-order sales	**39,696**	40,134	46,342	50,318	53,259
Retail store sales	**23,286**	22,310	22,252	23,696	24,992
Wholesale and overseas	**18,136**	20,363	19,571	19,775	21,286
Gross profit	**55,394**	55,529	58,997	61,842	66,453
Gross profit margin (%)	**68.3**	67.1	66.9	65.9	66.8
Selling, general and administrative expenses	**51,451**	51,670	54,980	54,725	57,294
Selling, general and administrative expense ratio (%)	**63.4**	62.4	62.4	58.3	57.6
Operating income	**3,943**	3,859	4,017	7,118	9,159
Cosmetics	**4,661**	3,889	4,685	7,098	7,946
Nutritional supplements	**1,126**	1,963	1,584	2,125	3,250
Others	**(4)**	(290)	(587)	(506)	(488)
Operating income margin (%)	**4.9**	4.7	4.6	7.6	9.2
Net income (loss)	**1,344**	(2,194)	2,454	2,850	4,307
Net income (loss) to net sales (%)	**1.7**	(2.6)	2.8	3.0	4.3
ROE (%)	**1.8**	(2.9)	3.1	3.7	5.8
Advertising expenses	**¥ 8,265**	¥ 8,632	¥ 8,540	¥ 8,231	¥ 7,971
Sales promotion expenses	**9,427**	9,190	10,861	11,241	11,461
Research and development expenses	**2,428**	2,499	2,647	2,429	2,351
Capital expenditures	**2,669**	2,991	4,001	3,652	1,511
Depreciation and amortization	**2,972**	3,444	3,438	2,971	3,158
Net cash provided by operating activities	**¥ 6,595**	¥ 6,146	¥ 6,322	¥ 6,311	¥ 10,532
Net cash provided by (used in) investing activities	**1,403**	(823)	(7,009)	(922)	(3,555)
Net cash provided by (used in) financing activities	**(3,956)**	(2,252)	(2,316)	(2,278)	432
Net increase (decrease) in cash and cash equivalents	**4,149**	3,172	(3,049)	3,059	7,670

	Yen				
Per share:					
Net income	**¥ 21.0**	¥ (33.8)	¥ 37.8	¥ 43.9	¥ 68.3
Equity (Note 2)	**1,127.3**	1,141.4	1,209.1	1,205.3	1,188.3
Cash dividends	**34.0**	34.0	34.0	34.0	34.0

	Millions of yen				
At year-end:					
Total assets	**¥ 85,800**	¥ 86,849	¥ 91,739	¥ 94,030	¥ 92,983
Equity (Note 2)	**71,646**	74,081	78,454	78,270	77,137
Equity ratio (%)	**83.5**	85.3	85.5	83.2	83.0
Interest-bearing debt	**–**	–	–	–	–
Working capital	**39,594**	40,209	38,675	36,153	35,262
Number of stores	**183**	191	193	195	194
Number of consolidated subsidiaries	**5**	6	7	7	8

2009	2008	2007	2006	2005	2004
¥ 98,004	¥ 99,350	¥101,065	¥ 95,322	¥ 87,937	¥ 84,957
50,081	49,062	46,376	41,287	37,098	34,926
29,089	30,017	31,666	33,246	31,132	29,656
18,834	20,271	23,023	20,789	19,707	20,375
54,680	56,301	58,921	57,237	54,544	54,439
26,307	27,530	26,815	23,607	20,067	17,722
17,017	15,519	15,329	14,478	13,326	12,796
65,281	66,988	67,170	62,083	57,905	55,696
66.6	67.4	66.5	65.1	65.8	65.6
58,615	59,521	58,800	53,508	52,477	47,927
59.8	59.9	58.2	56.1	59.7	56.4
6,666	7,467	8,370	8,575	5,428	7,769
6,762	7,409	7,133	5,568	4,745	6,283
2,929	3,506	3,903	5,405	4,638	5,371
(981)	(1,385)	(898)	(762)	(1,967)	(1,821)
6.8	7.5	8.3	9.0	6.2	9.1
2,663	3,694	2,547	5,184	1,710	3,387
2.7	3.7	2.5	5.4	1.9	4.0
3.8	5.3	3.6	7.5	2.6	5.1
¥ 8,963	¥ 9,876	¥ 9,393	¥ 9,792	¥ 11,105	¥ 9,865
12,434	12,509	13,502	9,319	9,475	7,998
2,189	2,302	2,327	1,978	1,959	1,720
3,905	2,317	3,865	2,592	2,257	4,864
3,167	3,020	2,670	2,540	2,463	2,556
¥ 6,005	¥ 7,379	¥ 6,472	¥ 9,163	¥ 4,638	¥ 5,861
(1,518)	(672)	(1,734)	(10,280)	(4,807)	(4,117)
(1,770)	(6,036)	(2,495)	(22)	(1,090)	(4,533)
2,672	650	2,243	(1,139)	(1,254)	(2,809)

¥ 43.5	¥ 58.4	¥ 39.6	¥ 242.6	¥ 80.3	¥ 154.6
1,155.7	1,141.6	1,116.6	3,317.0	3,111.2	3,082.4
34.0	24.0	24.0	55.0	50.0	42.5

¥ 85,309	¥ 85,686	¥ 86,931	¥ 85,148	¥ 79,416	¥ 78,479
70,823	69,900	71,449	71,406	66,203	65,613
83.0	81.6	82.2	83.9	83.4	83.6
–	–	–	–	–	–
36,669	36,049	36,701	33,037	28,622	29,214

197	218	218	208	169	143
7	7	6	6	6	6

Notes:

1. As a service to customers, FANCL operates a points system whereby customers are refunded 5% of their mail-orders or FANCL retail store purchases (inclusive of tax) as reward points. Customers can redeem these points, with 1 point equal to 1 yen, toward future purchases.

   Through fiscal 2006, these points were recognized as a cost when used and deducted from sales as an effective discount. However, from fiscal 2007, points will be booked as selling, general and administrative (SG&A) expenses when they are issued to customers. Accordingly, while amounts related to this points system in fiscal 2006 and prior years were charged as extraordinary losses, amounts associated with this change were booked as SG&A expenses in fiscal 2007.

   Compared to the previous accounting method, this change resulted in increases of ¥4,000 million in net sales, ¥3,717 million in SG&A expenses, and ¥283 million in ordinary income, as well as a decrease of ¥1,849 million in income before income taxes in fiscal 2007.

   As for operating results for fiscal 2007, the impact of the aforementioned change in accounting standards will be excluded from actual changes for line items from net sales through operating income.

2. Presented as shareholders' equity until fiscal 2006. Presented as equity from fiscal 2007 due to a change in accounting standards.

Management's Discussion and Analysis

Summary

- Net sales decreased 2.0% year on year to ¥81,119 million, due to lower sales in the Nutritional Supplements Business and Other Businesses, despite higher sales in the Cosmetics Business.
- Operating income increased 2.2% to ¥3,943 million mainly due to higher revenues from the Cosmetics Business, improved gross profit margin following the withdrawal from unprofitable businesses, and overall cost-cutting.
- Net income rose to ¥1,344 million compared to a loss of ¥2,194 million in the previous fiscal year due to the recording of a loss for business withdrawal following the decision to withdraw from the retail businesses in Taiwan and Singapore.
- Total assets decreased ¥1,049 million from the previous fiscal year-end due to a decrease in property, plant and equipment, net due to depreciation and other factors. Total liabilities increased ¥1,340 million from a year earlier. Total net assets decreased ¥2,389 million from a year earlier, mainly due to an increase in FANCL shares and the payment of dividends.

Business Activities

The FANCL Group consists of FANCL Corporation, 14 subsidiaries and 2 affiliates accounted for by the equity method. The Group's main business is the manufacturing and sale of cosmetics products and nutritional supplements. The Group's sales activities are centered on three sales channels: mail-order sales (including Internet sales), retail store sales and wholesale sales.

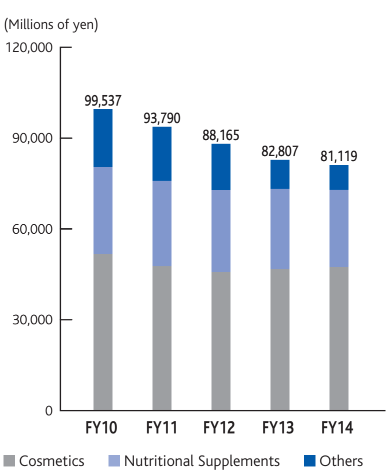
Business Results in the Fiscal Year Ended March 31, 2014

In the fiscal year ended March 31, 2014, overall net sales decreased 2.0% year on year to ¥81,119 million, mainly due to a decline in sales in the Nutritional Supplements Business as well as in Other Businesses resulting from the transfer of shares of NEUES Co., Ltd., a consolidated subsidiary in the beauty business, in the first quarter of the consolidated fiscal year to a non-group entity. The overall decrease was despite higher sales in the Cosmetics Business.

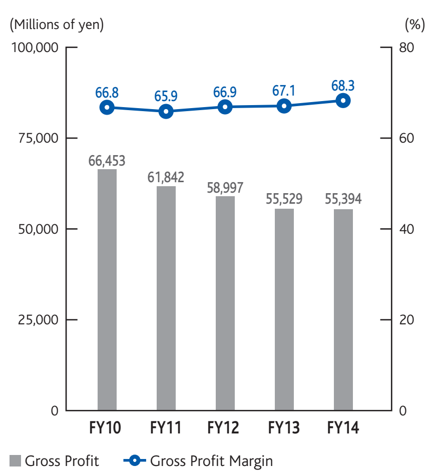
Cosmetics Business

Cosmetics Business net sales increased 1.7% year on year to ¥47,526 million. Sales of FANCL cosmetics were ¥38,474 million, up 3.7% year on year, mainly due to strong sales of renewed *Facial Washing Powder* and *Mild Cleansing Oil*. Sales of ATTENIR cosmetics decreased 0.6% to ¥7,965 million as sales of core products, such as *Inner Effecter Basic Skincare*, were strong and overall sales of ATTENIR cosmetics were largely in line with those of the previous year. Results by sales channels were as follows: mail-order sales increased 1.8% year on year to ¥23,806 million; retail store sales increased 6.3% to ¥16,406 million; wholesale sales decreased 21.5% to ¥1,742 million; and overseas sales decreased 2.2% to ¥5,573 million.

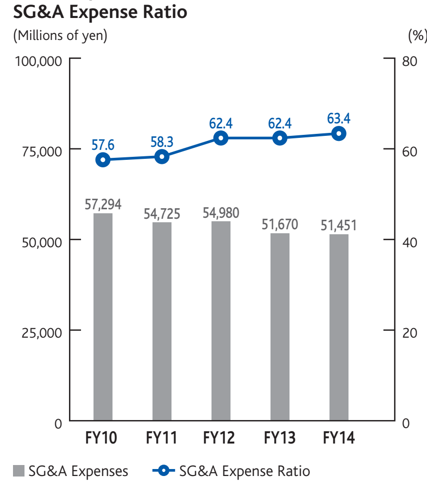
Net Sales by Business Segment



Gross Profit and Gross Profit Margin



SG&A Expenses and SG&A Expense Ratio



Cosmetics Business

	Millions of yen			
	2014	2013	2012	2011
Net sales	¥47,526	¥46,721	¥45,824	¥47,678
FANCL Cosmetics	38,474	37,103	36,407	37,453
ATTENIR Cosmetics	7,965	8,015	8,219	8,790
Others	1,087	1,604	1,199	1,436
Gross profit	34,569	33,764	33,632	34,798
Gross profit margin	72.7%	72.3%	73.4%	73.0%
Selling, general and administrative expenses	29,908	29,875	28,947	27,700
Advertising expenses	4,619	5,350	4,238	3,597
Operating income	4,661	3,889	4,685	7,098
Operating income margin	9.8%	8.3%	10.2%	14.9%

	Customers			
Number of active customers*[1] at fiscal year-end:				
FANCL cosmetics (Mail-order and retail stores)	1,276,896	1,184,560	1,191,570	1,247,110
ATTENIR cosmetics (Mail-order)	371,882	418,267	368,142	422,040

*1 Active customers: Customers making at least one purchase during the preceding seven months.

Nutritional Supplements Business

	Millions of yen			
	2014	2013	2012	2011
Net sales	¥25,386	¥26,601	¥27,037	¥28,248
Gross profit	17,068	17,758	18,304	18,664
Gross profit margin	67.2%	66.8%	67.7%	66.1%
Selling, general and administrative expenses	15,942	15,795	16,720	16,539
Advertising expenses	3,188	2,628	2,941	2,943
Operating income	1,126	1,963	1,584	2,125
Operating income margin	4.4%	7.4%	5.9%	7.5%

	Customers			
Number of active customers*[1] at fiscal year-end:				
Mail-order and retail stores	708,922	814,101	928,629	1,052,012

*1 Active customers: Customers making at least one purchase during the preceding seven months.

Other Businesses

	Millions of yen			
	2014	2013	2012	2011
Net sales	¥8,207	¥9,485	¥15,304	¥17,864
Germinated brown rice	2,830	2,923	2,917	2,988
Kale juice	3,203	3,220	3,377	3,682
IIMONO OHKOKU mail-order	–	–	5,667	7,418
Others	2,174	3,342	3,343	3,775
Gross profit	3,757	4,007	7,061	8,380
Gross profit margin	45.8%	42.2%	46.1%	46.9%
Selling, general and administrative expenses	3,761	4,297	7,648	8,886
Advertising expenses	458	654	1,362	1,691
Operating income (loss)	(4)	(290)	(587)	(506)
Operating income (loss) margin	(0.1)%	(3.1)%	(3.8)%	(2.8)%

	Customers			
Number of active customers*[1] at fiscal year-end:				
Germinated brown rice (Mail-order)	167,368	187,558	192,539	186,182
Kale juice (Mail-order)	100,405	97,323	89,496	93,491

*1 Active customers: Customers making at least one purchase during the preceding seven months.

Nutritional Supplements Business

Net sales in the Nutritional Supplements Business decreased 4.6% to ¥25,386 million. Despite the same level of sales of dietary supplement *Calorie Limit* and growth in *Enkin (Lutein* and *Blue Berry)*, revenues from product sales decreased due to reduced sales in other products. Results by sales channel were as follows: mail-order sales decreased 3.6% year on year to ¥10,356 million; retail store sales increased 1.6% to ¥6,107 million; wholesale sales decreased 6.7% to ¥6,607 million and overseas sales decreased 16.3% to ¥2,316 million.

Other Businesses

Net sales in Other Businesses decreased 13.5% year on year to ¥8,207 million. In the Hatsuga genmai (germinated brown rice) Business, sales decreased 3.2% to ¥2,830 million due to poor mail-order sales and despite strong wholesale sales. In the Kale Juice Business, sales decreased 0.5% to ¥3,203 million, roughly on par with the previous year as sales of powder-type products such as *Honshibori Aojiru Premium* were strong and sales of frozen-type products were sluggish. Sales of Other Businesses decreased 35.0% to ¥2,174 million, as shares of NEUES Co., Ltd., a consolidated subsidiary in the beauty business, were transferred to a non-group entity.

Statements of Income

Gross Profit

Gross profit decreased ¥135 million, or 0.2%, year on year to ¥55,394 million, mainly due to decreased sales. The gross profit margin improved 1.2 percentage points year on year to 68.3%.

SG&A Expenses

Selling, general and administrative (SG&A) expenses decreased ¥220 million, or 0.4%, to ¥51,451 million. This decrease reflected overall cost-cutting.

Operating Income

Operating income increased 2.2% to ¥3,943 million, mainly due to higher revenues from the Cosmetics Business, improved gross profit margin following the withdrawal from unprofitable businesses, and overall cost-cutting.

In the Cosmetics Business, operating income increased 19.9% to ¥4,661 million, mainly due to an increase in revenues.

In the Nutritional Supplements Business, operating income decreased 42.6% to ¥1,126 million, mainly due to a decrease in sales and higher marketing expenses.

Other Businesses posted an operating loss of ¥4 million, a decrease of ¥286 million from the previous fiscal year, primarily due to improved profitability resulting from decreased marketing expenses and the sale of a beauty business subsidiary, despite a decrease in sales.

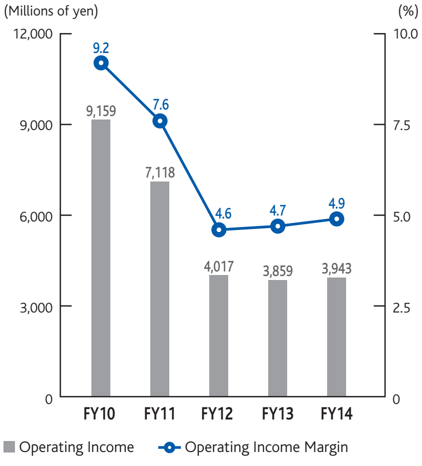
Net Income

Net income rose to ¥1,344 million compared to a loss of ¥2,194 million in the previous fiscal year due to the recording of a loss of ¥752 million for business withdrawal following the decision to liquidate the Taiwanese corporation and withdraw from the retail businesses in Taiwan and Singapore.

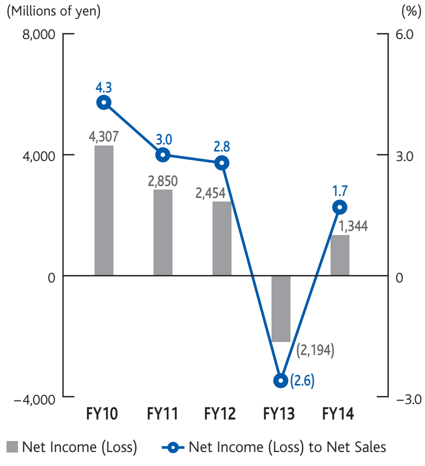
The FANCL Group posted a net income per share of ¥21.03, compared with net loss per share of ¥33.81 in the previous fiscal year.

The ratio of ordinary income to total assets declined 0.1 points from the previous fiscal year to 4.9%, and the ratio of net income to equity was 1.8%, compared to a ratio of net loss to equity of 2.9% in the previous fiscal year.

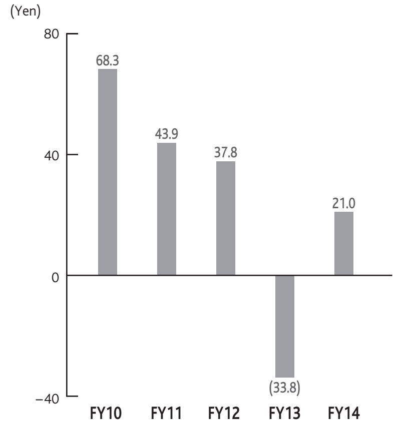
Operating Income and Operating Income Margin



Net Income (Loss) and Net Income (Loss) to Net Sales



Net Income per Share



Liquidity and Capital Resources

Cash Flows

FANCL has adopted a financial policy of ensuring the funds needed for business activities, while maintaining sufficient liquidity. The Company's basic policy is to use operating cash flows to fund new investments and store remodeling investments.

Cash Flows From Operating Activities

Net cash provided by operating activities was ¥6,595 million, compared with ¥6,146 million in the previous fiscal year. The main contributors were income before income taxes and minority interests of ¥2,326 million and depreciation and amortization of ¥2,972 million. These factors were partly offset by an increase in income due to a decrease in inventories of ¥1,060 million, an increase in other current liabilities of ¥645 million and income taxes paid of ¥1,319 million.

Cash Flows From Investing Activities

Net cash provided by investing activities was ¥1,403 million, compared with ¥823 million of net cash used in investing activities in the previous fiscal year. Cash was mainly provided by proceeds from sales and redemption of securities of ¥3,861 million. Cash was mainly used for purchases of property, plant and equipment of ¥1,572 million and purchases of intangible assets of ¥868 million.

As a result, free cash flow was a positive ¥7,998 million.

Cash Flows From Financing Activities

Net cash used in financing activities was ¥3,956 million, compared with ¥2,252 million in the previous fiscal year. This was largely the result of purchases of treasury stock of ¥1,721 million and cash dividends paid of ¥2,180 million.

Capital Requirements

The FANCL Group's main capital requirements are for funding the purchase of raw materials for manufacturing products, as well as manufacturing costs, SG&A expenses, and other operating expenses. The main operating expenses are marketing expenses, such as for advertising, while the major part of R&D expenses for improving product quality are recorded as expenses.

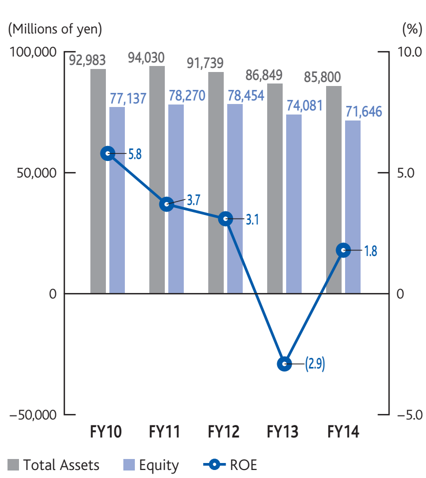
The FANCL Group's basic policy is to use internal capital to provide not only working capital as described above, but also to fund capital investments including investments in system development, factory equipment, new stores and renovation of existing stores.

Balance Sheet

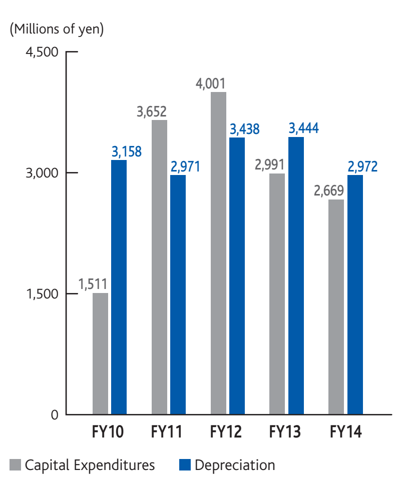
Assets

Total assets as of March 31, 2014 had decreased by ¥1,049 million from the end of the previous fiscal year to ¥85,800 million. The main factors were an increase of ¥844 million in current assets and a decrease of ¥1,893 million in property, plant and equipment. The main factors behind the increase in current assets were an increase of ¥1,653 million in cash and bank deposits, an increase of ¥339 million in notes and accounts receivable—trade, an increase in other current assets of ¥1,311 million due to an increase in accrued refunded income taxes, and a decrease in marketable securities of ¥1,356 million. The main factors behind the decrease in property, plant and equipment, net, were a decrease of ¥851 million in property, plant and equipment, net due to depreciation, a decrease of ¥376 million in intangible assets, and a decrease of ¥666 million in total investments and other assets due to a decline in lease and guarantee deposits, and deferred tax assets.

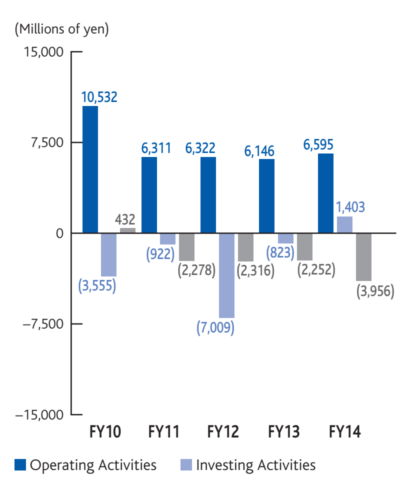
Total Assets, Equity and ROE



Capital Expenditures and Depreciation



Cash Flows



Trends in Cash Flow-Related Indices

Years ended March 31	2014	2013	2012	2011	2010
Equity ratio (%)	83.5	85.3	85.5	83.2	83.0
Equity ratio based on market price (%)	90.8	76.7	78.8	80.5	123.7
Debt service coverage (%)	–	–	–	–	–
Interest coverage ratio (times)	–	–	–	–	1,182.3

Notes:
Equity ratio: Shareholders' equity/Total assets
Equity ratio based on market price: Market capitalization/Total assets
Debt service coverage: Interest-bearing debt/Operating cash flow
Interest coverage ratio: Operating cash flow/Interest paid
1. Calculations based on consolidated financial results figures.
2. Market capitalization = market price on last trading day of period x total shares outstanding at end of period (excluding treasury shares)
3. Operating cash flow is the Net Cash Provided From Operating Activities figure in the consolidated statements of cash flows.
4. Interest-bearing debt includes all debt on which interest is paid and is recorded in the liabilities section of the consolidated balance sheet.

Liabilities

The sum of total current liabilities and total long-term liabilities was ¥13,646 million as of March 31, 2014, an increase of ¥1,340 million from the end of the previous fiscal year, with total current liabilities increasing ¥1,458 million and total long-term liabilities declining ¥119 million. The main factors behind the rise in total current liabilities were an increase of ¥638 million in accounts payable—other and an increase of ¥1,295 million in other current liabilities due to an increase in deposits, which was partially offset by a decrease of ¥658 million in accrued income taxes. The main factors behind the decline in total long-term liabilities included a decrease of ¥75 million in deferred tax liabilities.

Net Assets

Total net assets were ¥72,154 million as of March 31, 2014, a decrease of ¥2,389 million from the end of the previous fiscal year. The main factor in the decline was a decrease of ¥1,584 million due to an increase in FANCL shares, a decrease of ¥2,184 million in retained earnings due to payment of dividends, and an increase of ¥1,344 million in retained earnings due to posting of net income.

As a result, the ratio of capital to assets decreased 1.8 percentage points year on year to 83.5%.

Business Risks

1. Product Development and Competitive Environment

In the FANCL Group's product development, the product planning and development division is responsible for formulating and proposing product plans based on customer needs and market research. In collaboration with related departments such as the FANCL Research Institute, it makes final decisions on commercialization. At present, the Group develops cosmetics and nutritional supplements using its own technology, but there is no guarantee that this will result in successful development and new products. Furthermore, in light of the increasing number of women with sensitive skin and greater health consciousness, there are more new entrants into the markets of cosmetics for sensitive skin and nutritional supplements and the appearance of similar products could operate to reduce the relative competitiveness of the FANCL lineup and hurt our growth potential and earning capabilities.

2. Product Manufacturing and Quality Assurance

The FANCL Group's cosmetics, nutritional supplements and germinated brown rice are manufactured at six directly managed domestic factories, while kale juice and undergarment production is outsourced to subsidiaries. Departments in charge of procurement manage all aspects of raw materials purchases and, working in cooperation with marketing departments, disperse purchases among multiple suppliers and coordinate purchases with suppliers. Nevertheless, unanticipated conditions due to external factors may make it impossible to procure planned quantities. A quality assurance department has been established to improve product quality. At quality conferences, it verifies the quality control situation with respective departments, and strives to maintain quality by conducting on-site plant inspections and other means. If a quality problem arises, it could impact negatively on the Group's operating results.

3. Disasters and Bad Weather

To minimize the effects of fire and natural disasters on its production system, the FANCL Group conducts periodic inspections and checks on all its facilities. Geographic dispersion of plants is intended to reduce risks. Nevertheless, there are no guarantees that the impact of fire or natural disaster can be fully prevented. The harvest volumes of rice and kale and the raw materials for germinated brown rice and kale juice are subject to the vagaries of the weather. We therefore strive for dispersion of producing areas and raw material stockpiling, but weather factors can cause shortages and higher prices that impact adversely on the Group's operating results.

4. Limits of Intellectual Property Protection

The Group is moving forward with securing patents and other rights to its accumulated technology and other intellectual property, but this is an area in which the legal basis is not fully prepared and cannot cover all business development domains. And because it takes at least a year and a half from patent application to publication, there is the possibility that there may be development investment in technology for which other companies have already sought patents. In the future, after commercialization, other companies' patents could be published and involve the Company in patent infringement cases.

5. Legal Restrictions

The Cosmetics Business is governed by the Pharmaceutical Affairs Law to assure the quality, effectiveness and safety of pharmaceuticals, over-the-counter drugs, cosmetics and medical equipment. It is under this legislation that the FANCL Group manages its Pharmaceutical Control Division and sells cosmetics and related products. The Nutritional Supplements Business is subject to the Food Sanitation Law, which prescribes food standards, additives, sanitation surveillance and business permissions. For foods for sale, the Nutrition Improvement Law prescribes standards for display of nutritional elements and caloric values. Those of the Company's supplements that meet certain requirements are also subject to the regulations of the functional foods health system, which enables selection with assurance of foods corresponding to consumers' eating habits.

The Group is also governed by the Specified Commercial Transactions Law, whose objectives are fair conduct of mail-order businesses in order to protect consumers, and by the Law for Prevention of Unfair Premiums and Unfair Labeling, intended to prevent customer inducement by those means. The Group has established a Compliance & Legal Division, responsible for compliance and ensuring more thoroughgoing observance of laws and regulations. Notwithstanding this, any violations that occur may adversely affect the Group's operating results.

6. Personal Information

The Group's use of mail-order and the Internet as its main sales channels has resulted in possession of personal information about many individuals. The Group strictly observes the "Guidelines for Personal Data Protection" prescribed by the Japan Direct Marketing Association, and has established an all-Company committee to reinforce the information control system. Continuous efforts are also made with regard to employee education in this area. Nevertheless, should there occur leakage of such information outside the Company, a loss of customer trust could reduce sales and subject the Company to losses from payment of liability damages to customers.

7. Risk From Fluctuations in Currency Exchange Rates

The transactions of FANCL Group subsidiaries and affiliates based outside of Japan are denominated in non-yen currencies. Furthermore, the financial statements of subsidiaries and affiliates based outside of Japan are converted into yen for the purpose of creating the consolidated financial statements.

Consequently, fluctuations in currency exchange rates could potentially have a significant impact on the operating results and financial position of the FANCL Group.

Consolidated Balance Sheet

FANCL CORPORATION and Consolidated Subsidiaries
As of March 31, 2014 and 2013

	March 31,		
	2014	2013	2014
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Assets			
Current assets:			
Cash and bank deposits *(Notes 3 and 15)*	¥ 20,374	¥ 18,721	$ 197,961
Notes and accounts receivable *(Notes 3 and 17)*	10,410	10,072	101,150
Marketable securities *(Notes 3 and 4)*	12,003	13,359	116,626
Merchandise and products	2,283	2,834	22,183
Work in progress	32	44	308
Raw materials and supplies	2,653	3,177	25,776
Deferred tax assets *(Note 6)*	1,112	1,139	10,802
Others	2,167	856	20,486
Less: Allowance for doubtful accounts *(Note 3)*	(59)	(71)	(571)
Total current assets	50,975	50,132	495,292
Tangible fixed assets *(Notes 9, 10 and 13)*:			
Buildings and structures	21,998	22,674	213,737
Less: Accumulated depreciation and accumulated impairment loss	(13,697)	(13,729)	(133,080)
Buildings and structures (net)	8,301	8,945	80,656
Machinery, vehicles, tools, furniture and fixtures	14,104	13,896	137,036
Less: Accumulated depreciation and accumulated impairment loss	(12,021)	(11,548)	(116,800)
Machinery and transport equipment (net)	2,083	2,348	20,236
Land	10,178	10,216	98,888
Leased assets	319	327	3,100
Less: Accumulated depreciation and accumulated impairment loss	(138)	(214)	(1,340)
Leased assets (net)	181	113	1,761
Construction in progress	62	33	602
Total tangible fixed assets, net	20,805	21,655	202,144
Intangible fixed assets:			
Others *(Note 10)*	3,420	3,797	33,232
Total intangible assets	3,420	3,797	33,232
Investments and other assets:			
Investment securities *(Notes 3 and 4)*:	7,241	7,328	70,357
Long-term loans receivable *(Note 3)*	–	458	–
Lease and guarantee deposits *(Note 3)*	1,512	1,794	14,688
Deferred income taxes *(Note 6)*	790	945	7,680
Others	1,498	1,182	14,553
Less: Allowance for doubtful accounts	(441)	(442)	(4,288)
Total investments and other assets	10,600	11,266	102,991
Total fixed assets	34,825	36,718	338,366
Total assets	¥ 85,800	¥ 86,849	$ 833,659

	March 31,		
	2014	2013	2014
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Liabilities and net assets			
Current liabilities:			
Notes and accounts payable *(Note 3)*	¥ 2,259	¥ 2,383	$ 21,948
Accrued liabilities	3,463	2,824	33,643
Accrued income taxes	275	933	2,668
Allowance for bonuses	1,052	934	10,218
Allowance for point program	1,406	1,434	13,665
Allowance for loss on business withdrawal	213	–	2,069
Others	2,714	1,415	26,372
Total current liabilities	11,381	9,923	110,582
Long-term liabilities:			
Allowance for retirement benefits *(Note 7)*	–	1,594	–
Liability for retirement benefits *(Note 7)*	1,579	–	15,343
Allowance for directors' retirement benefits *(Note 7)*	77	55	747
Others	609	735	5,917
Total long-term liabilities	2,265	2,384	22,007
Total liabilities	13,646	12,396	132,590
Net assets *(Notes 5 and14)*:			
Shareholders' equity *(Note 5)*:			
Common stock:			
Authorized – 233,838,000 shares in 2014 and 2013			
Issued – 65,176,600 shares in 2014 and 2013	10,795	10,795	104,889
Capital surplus	11,706	11,706	113,741
Retained earnings	51,043	51,907	495,948
Less: Treasury stock 1,622,701 shares in 2014 and 269,757 shares in 2013	(1,918)	(334)	(18,634)
Total shareholders' equity	71,627	74,074	695,944
Accumulated other comprehensive income:			
Net unrealized holding gain (loss) on securities	5	7	51
Retirement benefit liability adjustments *(Note 7)*	14	–	136
Total accumulated other comprehensive income	19	7	187
Share subscription rights	508	461	4,938
Total net assets	72,154	74,543	701,069
Total liabilities and net assets	¥ 85,800	¥ 86,849	$ 833,659

See notes to consolidated financial statements.

Consolidated Statement of Income

FANCL CORPORATION and Consolidated Subsidiaries
For the years ended March 31, 2014 and 2013

	Year ended March 31,		
	2014	2013	2014
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Net sales *(Notes 17 and 18)*	¥ 81,119	¥ 82,807	$ 788,174
Cost of sales	25,725	27,278	249,951
Gross profit	55,394	55,529	538,223
Selling, general and administrative expenses *(Note 8)*	51,451	51,670	499,909
Operating income	3,943	3,859	38,315
Other income (expenses):			
Interest and dividend income	60	254	581
Foreign exchange gains (loss)	135	76	1,311
Expenses for office renovations	73	–	712
Expenses for unused property	(79)	–	(769)
Loss on retirement of fixed assets	(257)	(100)	(2,501)
Loss on valuation of investment securities	–	(4,690)	–
Loss on impairment of fixed assets *(Note 10)*	(190)	(585)	(1,846)
Loss on litigation	(223)	–	(2,170)
Loss on business withdrawal *(Note 11)*	(752)	–	(7,307)
Loss on sales of stocks of affiliates	(137)	–	(1,330)
Loss on closing of stores	(196)	(138)	(1,903)
Loss on liquidation of subsidiaries and affiliates	(154)	(365)	(1,492)
Others, net	103	471	1,002
Income (loss) before income taxes and minority interests	2,326	(1,219)	22,604
Income taxes *(Note 6)*:			
Current	877	1,310	8,523
Deferred	105	(335)	1,025
	983	975	9,548
Income (loss) before minority interests	1,344	(2,194)	13,057
Net income (loss) *(Note 14)*	¥ 1,344	¥ (2,194)	$ 13,057

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

FANCL CORPORATION and Consolidated Subsidiaries
For the years ended March 31, 2014 and 2013

	Year ended March 31,		
	2014	**2013**	**2014**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Income (loss) before minority interests	¥1,344	¥(2,194)	$13,057
Other comprehensive income *(Note 19)*:			
Net unrealized holding gain (loss) on other securities	(2)	11	(16)
Total other comprehensive income (loss)	(2)	11	(16)
Comprehensive income	¥1,342	¥(2,182)	$13,041
(Breakdown)			
Comprehensive income attributable to owners of the parent company	¥1,342	¥(2,182)	$13,041
Comprehensive income attributable to minority interests	–	–	–

See notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

FANCL CORPORATION and Consolidated Subsidiaries
For the years ended March 31, 2014 and 2013

	Shareholders' equity						Accumulated other comprehensive income					
	Common stock											
	Number of shares	Amount	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized holding gain on securities	Retirement benefit liability adjustments	Total accumulated other comprehensive income	Share subscription rights	Minority interests	Total net assets
	(Thousands)						*(Millions of yen)*					
April 1, 2012	65,176	¥ 10,795	¥ 11,706	¥ 56,317	¥ (361)	¥ 78,458	¥ (5)	¥ –	¥ (5)	¥343	¥ –	¥ 78,797
Dividends of surplus	–	–	–	(2,206)	–	(2,206)	–	–	–	–	–	(2,206)
Net income (loss)	–	–	–	(2,194)	–	(2,194)	–	–	–	–	–	(2,194)
Purchase of treasury stock	–	–	–	–	(1)	(1)	–	–	–	–	–	(1)
Disposal of treasury stock	–	–	–	(11)	27	17	–	–	–	–	–	17
Other net changes during the year	–	–	–	–	–	–	11	–	11	118	–	129
April 1, 2013	65,176	¥ 10,795	¥ 11,706	¥ 51,907	¥ (334)	¥ 74,074	¥ 7	¥ –	¥ 7	¥ 461	¥ –	¥ 74,543
Dividends of surplus	–	–	–	(2,184)	–	(2,184)	–	–	–	–	–	(2,184)
Net income	–	–	–	1,344	–	1,344	–	–	–	–	–	1,344
Purchase of treasury stock	–	–	–	–	(1,721)	(1,721)	–	–	–	–	–	(1,721)
Disposal of treasury stock	–	–	–	(24)	137	113	–	–	–	–	–	113
Other net changes during the year	–	–	–	–	–	–	(2)	14	12	47	–	59
March 31, 2014	65,176	¥ 10,795	¥ 11,706	¥ 51,043	¥ (1,918)	¥ 71,627	¥ 5	¥ 14	¥ 19	¥ 508	¥ –	¥ 72,154

	Shareholders' equity						Accumulated other comprehensive income					
	Capital stock											
	Number of shares	Amount	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized holding gain on securities	Retirement benefit liability adjustment	Total other comprehensive income	Share subscription rights	Minority interests	Total net assets
						(Thousands of U.S. dollars) (Note 2)						
April 1, 2013	65,176	$ 104,889	$ 113,741	$ 504,343	$ (3,244)	$ 719,729	$ 66	$ –	$ 66	$ 4,483	$ –	$ 724,278
Dividends of surplus	–	–	–	(21,217)	–	(21,217)	–	–	–	–	–	(21,217)
Net income	–	–	–	13,057	–	13,057	–	–	–	–	–	13,057
Purchase of treasury stock	–	–	–	–	(16,721)	(16,721)	–	–	–	–	–	(16,721)
Disposal of treasury stock	–	–	–	(233)	1,330	1,097	–	–	–	–	–	1,097
Other net changes during the year	–	–	–	–	–	–	(16)	136	121	455	–	576
March 31, 2014	65,176	$ 104,889	$ 113,741	$ 495,948	$ (18,634)	$ 695,944	$ 51	$ 136	$ 187	$ 4,938	$ –	$ 701,069

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

FANCL CORPORATION and Consolidated Subsidiaries
For the years ended March 31, 2014 and 2013

	Year ended March 31,		
	2014	2013	2014
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Cash flows from operating activities:			
Income (loss) before income taxes and minority interests	¥ 2,326	¥ (1,219)	$ 22,604
Depreciation	2,972	3,444	28,881
Impairment loss	190	585	1,846
Stock compensation expense	149	135	1,447
Amortization of goodwill	–	57	–
Increase (decrease) in allowance for doubtful accounts	(12)	(18)	(112)
Increase (decrease) in allowance for bonuses	127	(12)	1,234
Increase (decrease) in allowance for point program	(28)	54	(269)
Increase (decrease) in allowance for retirement benefits	–	(10)	–
Increase (decrease) in liability for retirement benefits *(Note 7)*	(0)	–	(5)
Increase (decrease) in allowance for directors' retirement benefits *(Note 7)*	22	(63)	217
Increase (decrease) in allowance for loss on business withdrawal *(Note 11)*	213	–	2,069
Interest and dividend income	(60)	(254)	(581)
Loss (gain) on foreign exchange	(116)	(119)	(1,131)
Loss (gain) on investments in anonymous association	(19)	(19)	(181)
Loss (gain) on sales of stocks of affiliates	137	–	1,330
Loss (gain) on valuation of investment securities	–	4,690	–
Loss (gain) on sales of fixed assets	14	–	136
Loss on disposal of fixed assets	257	100	2,501
Loss on closing of stores	196	138	1,903
Gain on reversal of subscription rights to shares	(3)	–	(26)
Loss on litigation	223	–	2,170
Loss on business withdrawal *(Note 11)*	140	–	1,358
Exchange gain on cash dividends	–	(107)	–
Compensation received	–	(292)	–
Loss on liquidation of subsidiaries and affiliates	154	365	1,492
Decrease (increase) in accounts receivable	(419)	(783)	(4,073)
Decrease (increase) in inventories	1,060	224	10,302
Decrease (increase) in other current assets	12	36	121
Decrease (increase) in other fixed assets	45	73	438
Decrease (increase) in accounts payable	(101)	431	(978)
Increase (decrease) in other current liabilities	645	(821)	6,264
Increase (decrease) in other fixed liabilities	(3)	(73)	(32)
Others	(83)	54	(808)
Sub-total	8,040	6,596	78,116

Consolidated Statement of Cash Flows (continued)

FANCL CORPORATION and Consolidated Subsidiaries
For the years ended March 31, 2014 and 2013

	Year ended March 31,		
	2014	2013	2014
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Interest and dividends received	79	247	767
Dividends received from anonymous associations	19	30	181
Proceeds from compensation	–	292	–
Income taxes paid	(1,319)	(1,020)	(12,811)
Payments for loss on litigation	(223)	–	(2,170)
Net cash provided by (used in) operating activities	6,595	6,146	64,082
Cash flows from investing activities			
Proceeds from refund of fixed-term deposits	–	500	–
Payment for acquisition of marketable securities	–	(1,000)	–
Proceeds from redemption and sales of marketable securities	3,861	6,139	37,516
Payment for purchase of tangible fixed assets	(1,572)	(1,969)	(15,271)
Proceeds from sales of tangible fixed assets	2	1	21
Payment for purchase of intangible fixed assets	(868)	(1,407)	(8,436)
Proceeds from sales of intangible fixed assets	2	–	21
Payments for purchase of investment securities	–	(4,000)	–
Proceeds from sales and redemption of investment securities	0	1,000	3
Payment for investment in affiliates	(44)	–	(429)
Payments for purchase of shares in affiliates	(9)	(204)	(83)
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	(101)	–	(984)
Payments for loans	–	(99)	–
Proceeds from collection of loans	32	126	315
Other payments	(64)	(102)	(620)
Others	162	192	1,576
Net cash provided by (used in) investing activities	1,403	(823)	13,628
Cash flows from financing activities			
Proceeds from disposal of treasury stock	14	0	132
Payment for purchase of treasury stock	(1,721)	(1)	(16,721)
Cash dividends paid	(2,180)	(2,200)	(21,180)
Others	(69)	(51)	(670)
Net cash provided by (used in) financing activities	(3,956)	(2,252)	(38,439)
Effect of exchange rate changes on cash and cash equivalents	108	101	1,045
Net increase in cash and cash equivalents	4,149	3,172	40,317
Cash and cash equivalents at beginning of the year	28,228	25,056	274,271
Cash and cash equivalents at end of the year	¥32,377	¥28,228	$314,588

See notes to consolidated financial statements

Notes to Consolidated Financial Statements

FANCL CORPORATION and Consolidated Subsidiaries
For the years ended March 31, 2014 and 2013

1. Summary of Significant Accounting Policies

(a) Basis of preparation

FANCL CORPORATION (the "Company") and its domestic consolidated subsidiaries maintain their books of account in accordance with accounting standards generally accepted in Japan, and its overseas consolidated subsidiary maintains its book of accounts in conformity with those of its country of domicile. The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and have been compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan. Certain reclassifications have been made to present the accompanying consolidated financial statements in a format which is familiar to readers outside Japan. Certain amounts in the prior years' financial statements have been reclassified to conform to the current year's presentation.

(b) Basis of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its consolidated subsidiaries (collectively, the "Group") over which substantial control is exerted through either majority ownership of voting stock and/or by other means. All significant intercompany balances and transactions have been eliminated in consolidation. Investments in non-consolidated subsidiaries and other affiliates are stated at cost because of their immateriality.

All assets and liabilities of the subsidiaries are revalued at their respective fair value upon acquisition, if applicable, and the excess of cost over the underlying net assets at the date of acquisition is amortized over a period based on an estimated useful life on a straight-line basis. However, if such excess is insignificant, it is charged to income when incurred.

There are five consolidated subsidiaries, namely ATTENIR CORPORATION, FANCL Hatsuga Genmai Co., Ltd., FANCL ASIA (PTE) LTD, FANCL B&H CORPORATION, and NICOSTAR BEAUTECH Co., Ltd.

One subsidiary, FANCL ASIA (PTE) LTD, is consolidated using its financial statements as of its fiscal year end, which falls on December 31, and necessary adjustments are made to its financial statements to reflect any significant transactions from January 1 to March 31.

(c) Foreign currency translation

All assets and liabilities denominated in foreign currencies of the Company and its domestic consolidated subsidiaries are translated at the current exchange rates in effect at each balance sheet date when not hedged by forward foreign exchange contracts, or at the contracted rates of exchange when hedged by forward foreign exchange contracts. The resulting foreign exchange gain or loss is recognized as other income or expense.

(d) Cash equivalents

Cash and cash equivalents consist of cash on hand, cash in banks, which can be withdrawn at any time, and short-term investments with a maturity of three months or less when purchased, which can easily be converted to cash and are subject to little risk of change in value.

Under the accounting standard governing the statement of cash flows, the definition of cash and cash equivalents in the statement of cash flows differs from that of cash and bank deposits in the balance sheet with respect to certain items. The reconciliation between the cash definitions referred to above is presented in Note 15.

(e) Securities

All securities owned by the Company and its consolidated subsidiaries are considered to be available-for-sale securities and are classified as "other" securities, one of the three categories (trading, held-to-maturity and other) defined in the Accounting Standard for Financial Instruments.

Other securities with quoted market prices are carried at fair market value. The difference between the acquisition cost and the carrying value of other securities, net of taxes, is recognized as a component of net assets and is reflected as "Net unrealized holding gain (loss) on securities." The cost of other securities sold is computed by the average method. Other securities without quoted market prices are stated at cost by the average method.

Investment in anonymous association is stated at an amount accounted for by the equity method based on its net assets at the closing date nearest to the Company's year-end.

(f) Inventories

Merchandise, products, work in progress and raw materials are stated at cost by the average method. Supplies are stated at cost by the last purchase price method.

In case of a decrease in profitability, the book-value-reduction method is used.

(g) Depreciation and amortization

	Buildings	Assets other than buildings
Acquired prior to April 1, 1998	Declining-balance method *1	Declining-balance method *1
Acquired during the period from April 1, 1998 to March 31, 2007	Straight-line method *1	Declining-balance method *1
Acquired on or after April 1, 2007	Straight-line method *2	Declining-balance method *2

*1 Represents the methods permitted under the Corporation Tax Law of Japan prior to the revision made to such law which went into effect on April 1, 2007.
*2 Represents the methods permitted under the revised Corporation Tax Law stated in *1 above.

The following summarizes the estimated useful lives of tangible fixed assets by major category:

Buildings and structures	2 – 50 years
Machinery, vehicles, tools, furniture and fixtures	2 – 22 years

Effective the year ended March 31, 2009, the residual value of tangible fixed assets which were acquired before April 1, 2007 and have been fully depreciated to their respective depreciable limits under the Corporation Tax Law, is to be depreciated to nil over a period of five years.

Intangible assets are amortized by the straight-line method. The cost of software intended for internal use is amortized by the straight-line method over an estimated useful life of five years.

(h) Leases
The Company and its consolidated subsidiaries lease certain equipment under non-cancelable lease agreements referred to as finance leases.

Finance leases other than those which transfer the ownership of the leased assets to the lessee are depreciated to nil over the period of the lease term. Finance leases transactions in which ownership is not transferred to the lessee commencing on or before March 31, 2008 are not capitalized but are accounted for by a method similar to that applicable to operating leases.

(i) Research and development expenses
Research and development expenses are charged to income when incurred.

(j) Allowance for doubtful accounts
The allowance for doubtful accounts is provided at an amount sufficient to cover possible losses on the collection of receivables and is determined based on the historical experience with write-offs plus an estimated amount for probable doubtful accounts after a review of the collectability of individual receivables.

(k) Allowance for employees' bonuses
The allowance for employees' bonuses represents a provision for the future payment of employees' bonuses.

(l) Allowance for point program
The allowance for point program represents a provision for redemptions of coupons from the customer loyalty program provided at an amount reasonably estimated to be incurred in the future based on the historical experience with respect to the usage of coupons against unused coupons at the balance sheet date.

(m) Allowance for loss on business withdrawal
The allowance for loss on business withdrawal is provided based on an estimated amount at the balance sheet date.

(n) Liability for retirement benefits
The Group has retirement benefit plans which entitle its employees upon retirement to either a lump-sum payment or pension annuity payments for life, or a combination of both, based on their length of service, salary at the time of retirement and number of years of participation in the plans.

The accrued retirement benefits for employees have been provided based on an estimate of the retirement benefit obligation and the pension fund assets.

The retirement benefit obligation for employees is attributed to each period by the straight-line method over the estimated years of service of the eligible employees.

Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized over periods (5 years), which are shorter that the average remaining years of service of the employees.
Prior service cost is being amortized as incurred by the straight-line method over periods (5 years), which are shorter than the average remaining years of service of the employees.

Certain domestic consolidated subsidiaries that have defined benefit pension plans calculate liabilities and expenses using the simplified method. The domestic consolidated subsidiaries also provide accrued retirement benefits for directors at the full amount which would be required to be paid if all directors retired at the balance sheet date based on their respective internal regulations.

(o) Deferred income taxes
Deferred income taxes are recognized by the asset and liability method under which deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities, and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(p) Derivatives
Derivative financial instruments are stated at fair value.

(q) Accounting standard and guidance not yet adopted

Accounting standards for business combinations
On September 13, 2013, the ASBJ issued "Revised Accounting Standard for Business Combinations" (ASBJ Statement No. 21), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22), "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7), "Revised Accounting Standard for Earnings Per Share" (ASBJ Statement No. 2), "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10), and "Revised Guidance on Accounting Standard for Earnings Per Share" (ASBJ Guidance No. 4).

(1) Overview
Under these revised accounting standards, the accounting treatment for any changes in a parent's ownership interest in a subsidiary when the parent retains control over the subsidiary and the corresponding accounting for acquisition-related costs were revised. In addition, the presentation method of net income was amended, the reference to "minority interests" was changed to "non controlling interests", and transitional provisions for these accounting standards were also defined.

(2) Scheduled date of adoption
The Company expects to adopt these revised accounting standards and guidance from the beginning of the fiscal year ending March 31, 2016.

(3) Impact of adopting revised accounting standards and guidance
The Company is currently evaluating the effect of adopting these revised standards on its consolidated financial statements.

Accounting standards for retirement benefits
On May 17, 2012, the ASBJ issued "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25), which replaced the Accounting Standard for Retirement Benefits that had been issued by Business Accounting Council in 1998 with an effective date of April 1, 2000 and the other related practical guidance, being followed by partial amendments from time to time through 2009.

(1) Overview
The standard provides guidance for the accounting for unrecognized actuarial differences and unrecognized prior service costs, the calculation methods for the retirement benefit obligation and service costs, and enhancement of disclosures taking into consideration improvements to financial reporting and international trends.

(2) Scheduled date of adoption
The revised accounting standard and guidance were adopted as of the end of the fiscal year ended March 31, 2014. However, revisions to the calculation methods for the retirement benefit obligation and service costs are scheduled to be adopted from the beginning of the fiscal year ending March 31, 2015.

(3) Impact of adopting revised accounting standard and guidance
As a result of this adoption, operating income, ordinary income and income before income taxes and minority interests for the fiscal year ending March 31, 2015 will decrease by ¥13 million ($124 thousand), respectively.

(r) Accounting Changes
The Company adopted "Accounting Standard for Retirement Benefit" (ASBJ Statement No. 26 of May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25 of May 17, 2012) (except for certain provisions described in the main clause of Section 35 of the standard and in the main clause of Section 67 of the guidance) as of the end of the fiscal year ended March 31, 2014. These accounting standards require entities to apply a revised method for recording the retirement benefit obligation, after deducting pension plan assets, as a liability for retirement benefits. In addition, unrecognized actuarial differences and unrecognized prior service costs are recorded as a liability for retirement benefits. Concerning the application of the Accounting Standard for Retirement Benefits, based on the provisional treatment set out in Clause 37 of the standard, the effects of such changes in the current fiscal year have been recorded in retirement benefits liability adjustments through accumulated other comprehensive income. As a result of this change, a liability for retirement benefits was recognized in amount of ¥1,579 million ($15,343 thousand) and accumulated other comprehensive income increased by ¥14 million ($136 thousand) as of March 31, 2014. In addition, net assets per share increased by ¥0.22 ($0.002).

2. U.S. Dollar Amounts
For the convenience of the reader, the accompanying consolidated financial statements with respect to the year ended March 31, 2014 have been presented in U.S. dollars by translating all yen amounts at ¥102.92 = U.S.$1.00, the exchange rate prevailing on March 31, 2014. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

3. Financial Instruments

1. Matters relating to financial instruments
   (1) Basic policy on financial instruments
   With respect to managing surplus funds, the Group limits such management to short-term deposits and highly safe financial assets, based on internal regulations governing fund management.

   With regard to derivatives, the Group's policy is to avoid speculative transactions. The Group had no derivative transactions during the fiscal year ended March 31, 2014.

   (2) Types, risks and risk management framework regarding financial instruments
   Notes and accounts receivable, which are operating receivables, are exposed to the credit risk of counterparties. To mitigate this risk, the Group, in line with internal regulations for managing credit exposure, manages the accounts and remaining balances for each customer at the appropriate closing date. The Group also has a system for assessing the credit status of major customers on an annual basis.

   Shares, which are investment securities, are exposed to the risk from fluctuations in market prices. These shares, however, consist mainly of common stock other companies with which the Group has business relationship, and, the fair values of those are periodically assessed and reported to the Board of Directors.

   Deposits and guarantee money set aside for rental properties are exposed to the credit risk of corporate counterparties. To mitigate this risk, the Group researches the credit standing of corporate counterparties – the parties covered under guarantees – at the time that the Group opens stores.

   (3) Supplementary explanation to matters regarding fair values of financial instruments
   Fair values of financial instruments are based on market price. If market price is not available, other reasonable valuation techniques are used. Such techniques include variable factors and the results of valuation may change depending on the assumptions used.

2. Matters regarding fair values of financial instruments
   The following table represents the amounts of financial instruments recorded in the consolidated balance sheet, their fair values, and the differences between the balance sheet amounts and the fair values. Financial instruments whose fair values are deemed extremely difficult to assess are not included (refer to "Note ii" below).

As of March 31, 2014

	Carrying value	Fair value	Unrealized gain (loss)	Carrying value	Fair value	Unrealized gain (loss)
	(Millions of yen)			*(Thousands of U.S. dollars)*		
(1) Cash and bank deposits	¥20,374	¥20,374	¥ –	$197,961	$197,961	$ –
(2) Notes and accounts receivable	10,352	10,352	–	100,580	100,580	–
(3) Marketable securities	12,003	12,003	–	116,626	116,626	–
(4) Investment securities						
Other investment securities	1,035	1,035	–	10,059	10,059	–
(5) Lease and guarantee deposits						
Store deposits and guarantee money	1,167	964	(203)	11,337	9,369	(1,969)
Total assets	¥44,931	¥44,728	¥(203)	$436,563	$434,595	$(1,969)
(1) Notes and accounts payable	¥ 2,259	¥ 2,259	¥ –	$ 21,948	$ 21,948	$ –
Total liabilities	¥ 2,259	¥ 2,259	¥ –	$ 21,948	$ 21,948	$ –

As of March 31, 2013

	Carrying value	Fair value	Unrealized gain (loss)
	(Millions of yen)		
(1) Cash and bank deposits	¥18,721	¥18,721	¥ –
(2) Notes and accounts receivable	10,001	10,001	–
(3) Marketable securities	13,359	13,359	–
(4) Investment securities			
Other investment securities	1,048	1,048	–
(5) Lease and guarantee deposits			
Store deposits and guarantee money	1,471	1,270	(201)
(6) Long-term loans receivable	458	43	(416)
Total assets	¥45,059	¥44,442	¥(617)
(1) Notes and accounts payable	¥ (2,383)	¥ (2,383)	¥ –
Total liabilities	¥ (2,383)	¥ (2,383)	¥ –

Note i: Methods for calculating fair value of financial instruments and matters regarding securities and derivatives

Assets

(1) Cash and bank deposits and (2) Notes and accounts receivable

Due to short-term settlement, the fair value for these items is almost the same as their book value. As such, the book value represents the fair value.

Notes and accounts receivable are deducted by the relating allowance for doubtful accounts.

(3) Marketable securities

For marketable securities, the fair value of bonds is based largely on the price quoted by the financial institution involved in the transaction.

(4) Investment securities

For investment securities, the fair value of shares is the market price. For bonds, fair value is based largely on the price quoted by the financial institution involved in the transaction.

For notes on securities by each holding purpose, refer to Note 4 “Investment Securities.”

(5) Lease and guarantee deposits

Fair value for lease and guarantee deposits accompanying store openings is calculated by using a reasonable discount rate based on the average number of years before store closure typically occurs.

(6) Long-term loans receivable

Fair value is measured as present value calculated by discounting the combined total of principal and interest by an assumed interest rate for similar new borrowings.

Regarding potentially doubtful receivables, the estimated amount considered doubtful is calculated based on the estimated amount deemed recoverable. Since the value derived after deduction of the amount presently deemed doubtful from the carrying value listed on the balance sheet is nearly the same as fair value, this amount is used to represent the fair value.

Liabilities

(1) Notes and accounts payable

Due to short-term settlement, the fair value of these items is almost the same as their book value. As such, the book value represents the fair value.

Note ii: Financial instruments whose fair values are deemed extremely difficult to assess

	March 31,		
	2014	**2013**	**2014**
Category	Carrying value		
	(Millions of yen)		*(Thousands of U.S. dollars)*
1 Unlisted equity securities [*1]	¥6,206	¥6,280	$60,298
2 Other lease and guarantee deposits [*2]	345	323	3,351

[*1] The fair values of unlisted equity securities are not disclosed because their market prices are not available and future cash flows cannot be estimated, therefore, their fair values are deemed extremely difficult to assess.

[*2] “Other lease and guarantee deposits,” included under “Lease and guarantee deposits,” is not disclosed because market prices are not available and assessing their fair value is extremely difficult due to the difficulty of estimating both the actual deposit period from the time that a store opens until its eventual closure and reasonable cash flows.

Note iii: Projected redemption amounts for monetary receivables and securities with maturities after the account closing date

As of March 31, 2014

	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
	(Millions of yen)				*(Thousands of U.S. dollars)*			
Cash and bank deposits	¥20,353	¥ –	¥ –	¥ –	$197,751	$ –	$ –	$ –
Notes and accounts receivable	10,403	7	–	–	101,079	71	–	–
Marketable and investment securities								
Other marketable securities held to maturity:								
(1) Bonds (corporate bonds)	–	–	1,000	–	–	–	9,716	–
(2) Other	12,003	–	–	–	116,626	–	–	–
Total	¥42,759	¥7	¥1,000	¥ –	$415,456	$71	$9,716	$ –

As of March 31, 2013

	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
	(Millions of yen)			
Cash and bank deposits	¥18,682	¥ –	¥ –	¥ –
Notes and accounts receivable	10,065	6	–	–
Marketable and investment securities				
Other securities held to maturity:				
(1) Bonds (corporate bonds)	2,861	–	1,000	–
(2) Other	10,507	–	–	–
Long-term loans receivable *	33	43	–	–
Total	¥42,149	¥50	¥1,000	¥ –

* Excluded an amount of ¥415 million considered unredeemable.

4. Investment Securities

(1) Information regarding investment securities with quoted market prices classified as other securities at March 31, 2014 and 2013 is summarized as follows:

	As of March 31, 2014					
	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)
	(Millions of yen)			*(Thousands of U.S. dollars)*		
Securities whose carrying value exceeds their acquisition cost:						
Stocks	¥ 31	¥ 19	¥12	$ 302	$ 189	$113
Bonds	–	–	–	–	–	–
Other	–	–	–	–	–	–
Subtotal	31	19	12	302	189	113
Securities whose acquisition cost exceeds their carrying value:						
Stocks	–	–	–	–	–	–
Bonds	1,004	1,008	(4)	9,757	9,791	(34)
Other	12,003	12,003	–	116,626	116,626	–
Subtotal	13,007	13,001	(4)	126,384	126,418	(34)
Total	¥13,038	¥ 13,030	¥ 8	$ 126,685	$ 126,607	$ 79

	As of March 31, 2013		
	Carrying value	Acquisition cost	Unrealized gain (loss)
	(Millions of yen)		
Securities whose carrying value exceeds their acquisition cost:			
Stocks	¥ 31	¥ 19	¥ 11
Bonds	1,017	1,009	8
Other	–	–	–
Subtotal	1,048	1,029	19
Securities whose acquisition cost exceeds their carrying value:			
Stocks	0	0	(0)
Bonds	2,861	2,861	–
Other	10,498	10,507	(9)
Subtotal	13,360	13,368	(9)
Total	¥14,407	¥14,397	¥(10)

(2) Investment securities sold during the fiscal years ended March 31, 2014 and 2013

Fiscal year ended March 31, 2014

	2014					
	Proceeds from sales	Gross realized gains	Gross realized losses	Proceeds from sales	Gross realized gains	Gross realized losses
	(Millions of yen)			*(Thousands of U.S. dollars)*		
Stocks	¥ 0	¥ 0	¥ –	$ 3	$ 0	$ –
Bonds	–	–	–	–	–	–
Other	–	–	–	–	–	–
Total	¥ 0	¥ 0	¥ –	$ 3	$ 0	$ –

Fiscal year ended March 31, 2013

Not applicable.

(3) Investments in unconsolidated subsidiaries and affiliates

Investments in unconsolidated subsidiaries and affiliates included in "investment securities" as of March 31, 2014 and 2013 amounted to ¥791 million ($7,687 thousand) and ¥865 million, respectively. Investments in unconsolidated subsidiaries and affiliates as of March 31, 2014 and 2013 also included investments in stock of jointly controlled companies in the amounts of ¥230 million ($2,238 thousand) and ¥311 million, respectively.

(4) Accounting for the impairment of securities
"Acquisition cost" in the table above is recognized at book value after impairment treatment.

When the market value of the securities at year-end declines by more than 50% of the acquisition cost, the Company deems market value to be irrecoverable and recognizes impairment loss for such securities.

In cases when market value declines by more than 30% but by less than 50% of the acquisition cost at year-end, the Company does not recognize impairment losses, apart from the cases in which market value declines due to the factors of downturns in business and others.

5. Shareholders' Equity

The Companies Act provides that amounts from capital surplus and retained earnings may be distributed to the shareholders at any time by resolution of the shareholders or by the Board of Directors if distributions are within the extent of the surplus available for distribution. The Companies Act further provides that amounts equal to 10% of such distributions need to be transferred to the legal capital surplus included in capital surplus or the legal retained earnings included in retained earnings until the sum of the legal capital surplus and the legal retained earnings equals 25% of the capital stock account.

The Company may make dividend payments as the appropriation of retained earnings by a resolution of the Board of Directors pursuant to the provisions of Article 459, Paragraph 1 of the Companies Act.

The amount of year-end cash dividends per share and half-year cash dividends per share, which the Company recorded at the respective period ends for the years ended March 31, 2014 and 2013, were as follows:

	2014	**2013**	**2014**
	(Yen)		*(U.S. dollars)*
Year-end	¥17.00	¥17.00	$0.17
Half-year	17.00	17.00	0.17

The effective dates of the distribution for year-end and half-year cash dividends, which were paid during the year ended March 31, 2014, were June 17, 2013 and December 5, 2013, respectively.

The cash dividends of retained earnings of the Company for the year ended March 31, 2014 approved at a meeting of the Board of Directors, which was held on May 9, 2014, were as follows:

	(Millions of yen)	*(Thousands of U.S. dollars)*
Cash dividends	¥1,080	$10,498
	(Yen)	*(U.S. dollars)*
Cash dividends per share	¥17.00	$0.17

6. Income Taxes

The significant components of deferred tax assets and liabilities at March 31, 2014 and 2013 were as follows:

	2014	2013	2014
	(Millions of yen)		*(Thousands of U.S. dollars)*
Deferred tax assets:			
Current assets			
Accrued enterprise taxes	¥ 16	¥ 42	$ 153
Accrued special local corporation tax	14	30	136
Allowance for bonuses	376	356	3,654
Allowance for doubtful accounts	12	8	113
Allowance for point program	497	530	4,833
Loss on valuation of inventories	104	15	1,015
Unrealized gain and loss on inventories	18	32	176
Accrued business office taxes	12	13	119
Others	178	158	1,728
Less: Valuation allowance	(116)	(45)	(1,125)
Subtotal	1,112	1,139	10,802
Fixed assets			
Allowance for retirement benefits (Note 7)	—	569	—
Liability for retirement benefits (Note 7)	572	—	5,561
Allowance for directors' retirement benefits	28	20	271
Long-term accrued amount payable	13	13	124
Allowance for doubtful accounts	157	167	1,526
Golf club membership	19	19	187
Loss on valuation of investment securities	1,746	1,786	16,965
Affiliate company equity	—	17	—
Net loss carried forward	489	885	4,752
Impairment loss	307	408	2,985
Asset retirement obligations	150	169	1,456
Investments in capital of subsidiaries and affiliates	154	117	1,494
Other	127	119	1,237
Valuation allowance	(2,616)	(3,054)	(25,415)
Set-off by deferred tax liabilities	(356)	(292)	(3,461)
Subtotal	790	945	7,680
Total deferred tax assets	¥ 1,902	¥ 2,085	$ 18,482
Deferred tax liabilities:			
Long-term liabilities			
Unrealized intercompany profit on land	(232)	(232)	(2,255)
Net unrealized holding gain (loss) on other securities	(68)	(70)	(665)
Removal expenses associated with asset retirement obligations	(32)	(43)	(310)
Other	(24)	(23)	(231)
Set-off by deferred tax assets	356	292	3,461
Subtotal	—	(75)	—
Total deferred tax liabilities	—	(75)	—
Net deferred tax assets	¥ 1,902	¥ 2,010	$ 18,482

A reconciliation between the statutory tax rate and the effective tax rates as a percentage of income before income taxes and minority interests for the years ended March 31, 2014 and 2013 is summarized as follows:

	2014	2013
Statutory tax rate	37.96%	–
Additions to (deductions from) income taxes resulting from:		
Permanent nondeductible differences, such as entertainment expenses	3.78%	–
Permanent nontaxable differences, such as dividend income	(0.01)	–
Inhabitants' per capita taxes	5.32	–
Valuation allowance	(4.60)	–
Tax credits, such as for research and development expenses	(5.68)	–
Differences in effective tax rates among the Company and its consolidated subsidiaries	2.35	–
Effects of changes in income tax rates	4.19	–
Other	(1.07)	–
Effective tax rate	42.24%	–

Note: Information is not shown for the year ended March 31, 2013 because the Company recorded a loss before income taxes and minority interests for the year.

The "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 10 of 2014) was promulgated on March 31, 2014 and, as a result, the Company is no longer subject to the Special Reconstruction Corporation Tax effective for fiscal years beginning on or after April 1, 2014. In addition, the "Act for Partial Amendment of the Local Tax Act, etc." (Act No. 4 of 2014) and the "Act for Partial Amendment of the Local Corporate Tax Act, etc." (Act No. 11 of 2014) were promulgated on March 31, 2014, and the Company is subject to the amended Local Corporate Tax effective for fiscal years beginning on or after April 1, 2015.

As a result, the effective statutory tax rate used to measure the Company's deferred tax assets and liabilities was changed from 37.96% to 35.58% for the temporary differences expected to be realized or settled from fiscal years beginning April 1, 2014. The effect of the announced reduction of the effective statutory tax rate was to decrease net deferred tax assets after offsetting deferred tax liabilities by ¥97 million (U.S.$948 thousand) and increase deferred income taxes by ¥97 million (U.S.$948 thousand) as of and for the year ended March 31, 2014.

7. Retirement Benefits

For the year ended March 31, 2014

The Group has defined benefit pension plans and lump-sum retirement payment plans covering substantially all eligible employees. In addition to these plans, the Company and its domestic consolidated subsidiaries (except for one consolidated subsidiary) participate in the multi-employer Welfare Pension Fund Plan (the "Fund") under the Welfare Pension Insurance Law of Japan.

The changes in the retirement benefit obligation during the year ended March 31, 2014 are as follows (excluding plans for which the simplified method is applied):

	March 31, 2014	March 31, 2014
	(Millions of yen)	*(Thousands of U.S. dollars)*
Retirement benefit obligation at April 1, 2013	¥2,164	$21,031
Service cost	194	1,889
Interest cost	19	189
Actuarial loss	6	60
Retirement benefit paid	(93)	(900)
Other	21	203
Retirement benefit obligation at March 31, 2014	¥2,313	$22,471

The changes in plan assets during the year ended March 31, 2014 are as follows (excluding plans for which the simplified method is applied):

	March 31, 2014	March 31, 2014
	(Millions of yen)	*(Thousands of U.S. dollars)*
Plan assets April 1, 2013	¥ 999	$ 9,703
Expected return on plan assets	30	291
Actuarial loss	(12)	(121)
Contributions by the Company	152	1,477
Retirement benefit paid	(56)	(542)
Other	7	64
Plan assets at March 31, 2014	¥1,119	$10,872

The changes in the retirement benefit obligation of consolidated subsidiaries which adopt the simplified method during the year ended March 31, 2014 are as follows:

	March 31, 2014	March 31, 2014
	(Millions of yen)	*(Thousands of U.S. dollars)*
Retirement benefit obligation at April 1, 2013	¥391	$3,082
Retirement benefit expense	56	539
Retirement benefit paid	(16)	(155)
Contribution to the plans	(47)	(453)
Other	1	11
Retirement benefit obligation at March 31, 2014	¥385	$3,745

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2014 for the Company's and the consolidated subsidiaries' defined benefit plans:

	March 31, 2014	March 31, 2014
	(Millions of yen)	*(Thousands of U.S. dollars)*
Funded retirement benefit obligation	¥ 2,799	$ 27,197
Plan assets at fair value	(1,484)	(14,421)
	1,315	12,776
Unfunded retirement benefit obligation	264	2,567
Net liability for retirement benefits in the balance sheet	1,579	15,343
Liability for retirement benefits	1,579	15,343
Net liability for retirement benefits in the balance sheet	¥ 1,579	$ 15,343

Note: Including the plans of consolidated subsidiaries which adopt the simplified method.

The components of retirement benefit expense for the year ended March 31, 2014 are as follows:

	March 31, 2014	March 31, 2014
	(Millions of yen)	*(Thousands of U.S. dollars)*
Service cost	¥194	$1,889
Interest cost	19	189
Expected return on plan assets	(29)	(291)
Amortization of actuarial loss	11	111
Amortization of prior service cost	(7)	(72)
Retirement benefit expense calculated by the simplified method	56	545
Retirement benefit expense	¥243	$2,370

Note: Retirement benefit expenses for consolidated subsidiaries adopting the simplified method, which assumes retirement benefit obligation is equal to the benefits payable if all eligible employees voluntarily terminated their employment at fiscal year-end, are included in "Service cost."

Unrecognized prior service cost and unrecognized actuarial loss included in accumulated other comprehensive income (before tax effect) as of March 31, 2014 are as follows:

	March 31, 2014	March 31, 2014
	(Millions of yen)	*(Thousands of U.S. dollars)*
Unrecognized prior service cost	¥(15)	$(145)
Unrecognized actuarial loss	(7)	(67)
Total	¥(21)	$(212)

The fair values of plan assets, by major category, as a percentage of total plan assets as of March 31, 2014 are as follows:

	March 31, 2014
General accounts at life insurance companies	48%
Bonds	20%
Stocks	21%
Short-term deposits	3%
Other	8%
Total	100%

Note: The total amounts of plan assets do not include the employee pension trust set up for the corporate pension plan.

The expected return on assets has been estimated based on the anticipated allocation to each asset class and the expected long-term returns on assets held in each category.

The assumptions used in accounting for the above plans as of March 31, 2014 were as follows:

	March 31, 2014
Discount rates	0.92%
Expected rates of return on plan assets	3.00%

The Company and its consolidated subsidiaries participating in the Fund have accounted for their contributions to the Fund as retirement benefit expenses. The required contribution to the Fund during the year ended March 31, 2014 is ¥322 million ($3,130 thousands).

(1) Funded status of the Fund as of March 31, 2013

	March 31, 2013	March 31, 2013
	(Millions of yen)	*(Thousands of U.S. dollars)*
Fund's assets	¥8,136	$79,050
Projected benefit obligation	6,775	65,830
Funded status	¥1,361	$13,220

(2) The percentage of the contributions paid by the Group over total contributions paid by all participants into the Fund was 57.9% for the year ended March 31, 2014.

(3) Supplementary explanation

Information on the funded status (1) above is as follows:

	March 31, 2013	March 31, 2013
	(Millions of yen)	*(Thousands of U.S. dollars)*
General reserve	¥ 899	$ 8,739
Surplus	461	4,481
Funded status	¥ 1,361	$ 13,220

The Group does not make special contributions to the Fund.

The share of the contributions paid in (2) above dose not correspond to the proportionate share of the benefit obligation of the Group.

For the year ended March 31, 2013

The Group has defined benefit pension plans and lump-sum retirement payment plans which cover substantially all employees who terminate their employment. In addition to these plans, the Company and its domestic consolidated subsidiaries (except for one consolidated subsidiary) participate in the multi-employer Welfare Pension Fund Plan (the "Fund") under the Welfare Pension Insurance Law of Japan.

The funded status of the defined benefit pension plans at March 31, 2013 is summarized as follows:

	March 31, 2013
	(Millions of yen)
Projected benefit obligation	¥(2,873)
Fair value of plan assets	1,315
Funded status	(1,557)
Unrecognized actuarial net loss	(14)
Unrecognized prior service cost	(22)
Net retirement benefit obligation	(1,594)
Accrued retirement benefits	¥(1,594)

The consolidated subsidiaries applied a simplified method permitted for the calculation of the projected benefit obligation.

Retirement benefit expenses for the year ended March 31, 2013 were composed of the following:

	March 31, 2013
	(Millions of yen)
Service cost-benefits earned during the year	¥232
Interest cost on projected benefit obligation	33
Expected return on plan assets	(25)
Amortization of unrecognized actuarial net loss	22
Amortization of prior service cost	(7)
Contributions to welfare pension fund	314
Retirement benefit expenses	¥568

In the table above, retirement benefit expenses determined by a simplified method of the consolidated subsidiaries have been included in service cost-benefits earned during the year.

The principal assumptions used in the above actuarial calculations for the year ended March 31, 2013 were as follows:

	March 31, 2013
Discount rate	0.92%
Expected rate of return	3.00%
Actuarial cost method	Unit credit actuarial cost method
Amortization period for prior service cost	5 years *[1]
Amortization period for actuarial differences	5 years *[2]

*[1] Prior service cost is amortized by the straight-line method for a certain period within the average remaining service period of employees, and charged to income as incurred.

*[2] Amortized by the straight-line method over a period which falls within the estimated average remaining years of service of the active participants, commencing the year subsequent to the period when the actuarial difference was calculated.

The Company and its consolidated subsidiaries which participated in the Fund have accounted for their contributions to the Fund as retirement benefit expenses. The financial information of the Fund is summarized as follows:

(1) Information on the funded status of the Fund as of March 31, 2012:

	March 31, 2012
	(Millions of yen)
Fund's assets	¥6,866
Projected benefit obligation	5,897
Funded status	¥ 969

The funded status above primarily consisted of unamortized prior service cost of ¥14 million, additional asset appraisal value of (¥84) million and a general reserve of ¥1,363 million and retained earnings for the year of ¥464 million.

(2) The percentage of the contributions paid by the Company group over total contributions paid by all participants into the Fund was 56.1% for the year ended March 31, 2013.

(3) Supplementary explanation

	March 31, 2012
	(Millions of yen)
Unamortized prior service cost	¥ 15
Valuation adjustment of plan assets	(84)
General reserve	1,363
Deficits	464
Surplus	¥ –

The Company group does not make special contributions to the Fund.

The share of the contributions paid in (2) above dose not correspond to the proportionate share of the benefit obligation of the Group.

8. Research and Development Expenses

Research and development expenses charged to income for the years ended March 31, 2014 and 2013 were as follows:

	2014	2013	2014
	(Millions of yen)		*(Thousands of U.S. dollars)*
Research and development expenses	¥2,428	¥2,499	$23,259

9. Leases

The Group holds certain machinery and equipment under finance leases which do not transfer ownership to the lessee. These leases are not capitalized, but are accounted by a method similar to that applicable to operating leases. If such leases had been capitalized, the acquisition costs, accumulated depreciation and accumulated loss on impairment of the leased assets at March 31, 2014 and 2013 would have been as follows:

	2014	2013	2014
	(Millions of yen)		*(Thousands of U.S. dollars)*
Machinery and equipment:			
Acquisition cost	¥ –	¥999	$ –
Accumulated depreciation	–	778	–
Accumulated loss on impairment	–	216	–
	¥ –	¥ 5	$ –

The following table represents the future minimum lease payments subsequent to March 31, 2014 and 2013 under finance leases which do not transfer ownership.

	2014	2013	2014
	(Millions of yen)		*(Thousands of U.S. dollars)*
Minimum lease payments:			
Due within one year	¥ –	¥0	$ –
Due after one year	–	–	–
	–	0	–
Accumulated loss on impairment	¥ –	¥6	$ –

Lease payments, reversal of accumulated loss on impairment of leased assets, accumulated depreciation and interest payments for the years ended March 31, 2014 and 2013 were as follows:

	2014	2013	2014
	(Millions of yen)		*(Thousands of U.S. dollars)*
Lease payments	¥ 6	¥191	$55
Reversal of accumulated loss on impairment of leased assets	6	36	57
Accumulated depreciation	5	106	45
Interest payments	0	4	0

The methods for calculating total depreciation and interest are as follows:

Calculation of total depreciation:

Depreciation of the leased assets has been calculated by the straight-line method over the respective lease terms assuming a nil residual value.

Calculation of interest:

Interest is calculated as the difference between total lease expenses and the acquisition cost of the leased asset. Interest is allocated to each period with the interest method.

10. Loss on Impairment of Fixed Assets

Loss on impairment of fixed assets for the years ended March 31, 2014 and 2013 consisted of the following:

For the year ended March 31, 2014

Used for	Type of assets	Amount *(Millions of yen)*	Amount *(Thousands of U.S. dollars)*	Location
Store equipment	Buildings and structures	¥ 9	$ 85	Kanto Area
	Tools and equipment	1	12	
	Buildings and structures	2	24	Kinki Area
	Tools and equipment	0	2	
	Buildings and structures*	75	732	Singapore
	Software*	0	1	
Warehouse equipment	Buildings and structures	27	262	Kagawa Prefecture
	Land	25	246	
Factory equipment	Buildings and structures	111	1,082	Kagawa Prefecture
	Land	14	132	
Total		¥265	$ 2,579	

* These are included in loss on withdrawal of operations.

Outline of impairment loss recognition

(1) For store equipment, the Company wrote down the book values of such equipment to the recoverable value of these assets, after deciding to close stores or renovate stores and dispose of unneeded assets. This reduction in value of ¥88 million ($856 thousands) was booked as an impairment loss in other expenses.

(2) For warehouse equipment, the Company wrote down the book values of such equipment to the recoverable value of these assets, due to a drop in current market prices. This reduction in value of ¥52 million ($508 thousands) was booked as an impairment loss in other expenses.

(3) For factory equipment, the Company wrote down the book values of such equipment to the recoverable value of these assets, due to a drop in current market prices. This reduction in value of ¥125 million ($1,214 thousands) was booked as an impairment loss in other expenses.

Grouping method:

The FANCL Group primarily groups assets by type of operation. Idle assets are grouped by facility.

Method for calculating recoverable value

(1) The recoverable value of store equipment is calculated as the net sale value. Assets other than those that can be diverted are unlikely to be sold and have a value of zero.

(2) The recoverable value of warehouse equipment is calculated as the net sale value considering market price based on real-estate appraisal.

(3) The recoverable value of factory equipment is calculated as the net sale value considering market price based on real-estate appraisal.

For the year ended March 31, 2013

Used for	Type of assets	Amount (Millions of yen)	Amount (Thousands of U.S. dollars)	Place
Store equipment	Building and structures	¥215	$2,284	Kanto Area
	Tools and equipment	14	150	
	Software	81	866	
	Long-term prepaid expenses	1	13	
	Building and structures	8	87	Chubu Area
	Tools and equipment	0	1	
	Building and structures	31	330	Kinki Area
	Tools and equipment	3	29	
	Building and structures	4	46	Other Area
	Tools and equipment	0	2	
Cosmetics business	Goodwill	227	2,416	NICOSTAR BEAUTECH Co., Ltd.
Total		¥585	$6,225	

Outline of impairment loss recognition

(1) For store equipment, the Company wrote down the book values of such equipment to the recoverable value of these assets, after deciding to close stores or renovate stores and dispose of unneeded assets. This reduction in value of ¥358 million was booked as an impairment loss in other expenses.

(2) For goodwill associated with the acquisition of shares of CHALONE INC. (following the merger and absorption of CHALONE INC. by consolidated subsidiary NICOSTAR BEAUTECH Co., Ltd. on March 1, 2011), the Company has booked ¥227 million as an impairment loss in other expenses, as it no longer expects to generate profits as initially planned.

Grouping method:

The Group primarily groups assets by type of operation. Idle assets are grouped by facility.

Method for calculating recoverable value

(1) The recoverable value of store equipment is calculated as the net sale value. Assets other than those that can be diverted are unlikely to be sold and have a value of zero.

(2) The recoverable value of goodwill is calculated based on future business plans.

11. Loss on Business Withdrawal

The loss accompanying the decisions to withdraw from retail operations in Taiwan and Singapore, and liquidate a subsidiary in Taiwan during the year ended March 31, 2014 consisted of the following:

	2014 (Millions of yen)	2013 (Millions of yen)	2014 (Thousands of U.S. dollars)
(Singapore)			
Loss on impairment	¥ 75	—	$ 733
Allowance for loss on business withdrawal			
Penalties for store closings	163	—	1,587
Other	50	—	482
Others	2	—	20
(Taiwan)			
Write-downs of stock of affiliate	20	—	195
Bad debt loss	442	—	4,290
Total	¥752	—	$7,307

12. Stock Option Plans

Information on Stock Option-related Expenses and for the Year ended March 31, 2014

Stock option expenses of ¥149 million ($1,447 thousand) and ¥135 million were recorded in selling, general and administrative expenses for the years ended March 31, 2014 and 2013, respectively.

Stock option-related gains due to expiration

A gain on reversal of stock options to shares of ¥3 million ($26 thousand) was recorded for the year ended March 31, 2014.

At March 31, 2014, the Company had the following stock option plans, which were approved by the Board of Directors.

Date of approval by the Board of Directors	November 15, 2006	November 12, 2007	November 14, 2008	November 12, 2009	November 15, 2010	September 12, 2011	November 14, 2011
Grantees	9 directors and 9 executive officers	11 directors and 5 executive officers	9 directors and 3 executive officers	7 directors and 3 executive officers	7 directors and 5 executive officers	2,519 employees of the Company and subsidiaries	7 directors and 5 executive officers
Type of shares with warrants granted	Common stock	Common stock	Common stock	Common stock	Common stock	Common stock	Common stock
Number of shares with warrants granted	62,800 shares	90,700 shares	78,200 shares	44,900 shares	73,300 shares	928,000 shares	90,500 shares
Option price per warrant	¥1	¥1	¥1	¥1	¥1	¥1,098	¥1
Exercise period	December 2, 2006 – December 1, 2036	December 4, 2007 – December 3, 2037	December 2, 2008 – December 1, 2038	December 2, 2009 – December 1, 2039	December 2, 2010 – December 1, 2040	September 13, 2013 – September 12, 2016	December 2, 2011 – December 1, 2041

Date of approval by shareholders or the Board of Directors	September 13, 2012	November 12, 2012	November 14, 2013	January 15, 2014
Grantees	9 directors and 5 executive officers of the Company, and 7 directors of subsidiaries	7 directors and 5 executive officers	10 directors and 10 executive officers	2,606 employees of the Company and subsidiaries
Type of shares with warrants granted	Common stock	Common stock	Common stock	Common stock
Number of shares with warrants granted	147,000 shares	116,300 shares	120,100 shares	1,442,900 shares
Option price per warrant	¥907	¥1	¥1	¥1,223
Exercise period	September 14, 2014 – September 13, 2017	December 4, 2012 – December 3, 2042	December 3, 2013 – December 2, 2043	January 16, 2016 – January 15, 2019

Fair value as of the grant date for the thirteenth stock options, approved at the meeting of the Board of Directors held on November 14, 2013, during the year ended March 31, 2014 was estimated using the Black-Scholes model with the following assumptions.

	Thirteenth stock options, 2013
Expected volatility (Note 1)	21.73%
Expected life (Note 2)	8 years
Expected dividend (Note 3)	34.00 yen
Risk-free rate (Note 4)	0.47%

Notes:

1. The expected volatility is estimated by taking into account the entire stock market, the characteristics of the Company's stock and the fair value of the stock options over eight years from November 2005 to November 2013 corresponding to the expected life of the option.

2. The expected life of the option is estimated by the assumption that the options are exercised at retirement of the grantee expected based on internal regulations.

3. This is based on the Company's dividend for the year ended March 31, 2013.

4. Risk-free interest rate is the yield on Japanese government bonds for a period that corresponds to the expected life of the option.

Fair value as of the grant date for the fourteenth stock options, approved at the meeting of the Board of Directors held on January 15, 2014, during the year ended March 31, 2014 was estimated using the Black-Scholes model with the following assumptions.

	Fourteenth stock options, 2014
Expected volatility (Note 1)	18.94%
Expected life (Note 2)	3.40 years
Expected dividend (Note 3)	34.00 yen
Risk-free rate (Note 4)	0.115%

Notes:

1. The expected volatility is estimated by taking into account the entire stock market, the characteristics of the Company's stock and the fair value of the stock options, over 3.40 years October 4, 2010 to February 24, 2014 corresponding to the expected life of the optoin.

2. Because there is not enough data to make a reasonable estimation, the expected life of the option is based on the assumption that the options are exercised in the middle of exercise period.

3. This is based on the Company's dividend for the year ended March 31, 2013.

4. Risk-free interest rate is the yield on Japanese government bonds for period that corresponds to the expected life of the option.

13. Contingent Liabilities

For the year ended March 31, 2014

Contingent liabilities amounted to ¥1,521 million ($14,777 thousand) and represented guarantees of borrowings from Shoko Chukin Bank incurred by the 14 industrial corporations (including FANCL B&H CORPORATION) which are members of the Nagareyama Industrial Cooperative Association (the "Association") for the purpose of financing their purchases of manufacturing and other facilities located in the Nagareyama City area. FANCL B&H CORPORATION has guaranteed such borrowings jointly and severally with the other 13 members of the Association.

The guarantees stated above, land of ¥592 million ($5,750 thousand) and plant of ¥1,274 million ($12,374 thousand) located in the Nagareyama area were pledged as collateral for the above borrowings as of March 31, 2014.

For the year ended March 31, 2013

Contingent liabilities amounted to ¥1,528 million and represented guarantees of borrowings from Shoko Chukin Bank incurred by the 16 industrial corporations (including FANCL B&H CORPORATION) which are members of the Nagareyama Industrial Cooperative Association (the "Association") for the purpose of financing their purchases of manufacturing and other facilities located in the Nagareyama City area. FANCL B&H CORPORATION has guaranteed such borrowings jointly and severally with the other 15 members of the Association.

Land of ¥592 million and plant of ¥1,328 million located in the Nagareyama area were pledged as collateral for the above borrowings as of March 31, 2013.

14. Amounts per Share

Basic net income per share is computed based on the net income available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during each year. Diluted net income per share is computed based on the net income available for distribution to the shareholders of common stock and the weighted-average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock to be issued upon the exercise of warrants and stock subscription rights. Net assets per share are computed based on the net assets and the number of shares of common stock outstanding at the year end (excluding share warrants).

	2014	**2013**	**2014**
	(Yen)		*(U.S. dollars)*
Net income (loss):			
– Basic	¥ 21.03	¥ (33.81)	$ 0.20
– Diluted	20.91	–	0.20
Net assets	1,127.32	1,141.35	10.95

Note: The following represents the basis of computation of net income per share and diluted net income per share:

	2014	2013	2014
	(Millions of Yen)		*(Thousands of U.S. dollars)*
Net income per share			
Net income (loss)	¥ 1,344	¥ (2,194)	$ 13,057
Amount not attributable to common shareholders	–	–	–
Net income (loss) on common stock	1,344	(2,194)	13,057
Average number of shares of common stock outstanding during the period	63,889,478	64,886,796	63,889,478
Diluted net income per share			
Net income adjustment	–	–	–
Increase in shares of common stock mainly consists of:			
Share warrants	378,795	–	378,795
Residual securities not included in the calculation of diluted net income due to their anti-dilutive effects	Share warrants: One type (1,440,800 residual securities)	–	Share warrants: One type (1,440,800 residual securities)

15. Supplementary Cash Flow Information

The following table represents a reconciliation of cash and bank deposits in the accompanying consolidated balance sheets with cash and cash equivalents in the accompanying consolidated statements of cash flows at March 31, 2014 and 2013:

	2014	2013	2014
	(Millions of yen)		*(Thousands of U.S. dollars)*
Cash and bank deposits	¥20,374	¥18,721	$197,961
Marketable securities	12,003	13,359	116,626
Time deposits over three months	–	–	–
Marketable securities pledged as collateral for periods of more than three months	–	(3,852)	–
Cash and cash equivalents	¥32,337	¥28,228	$314,588

A break-down of the reduction in assets and liabilities due to the sale of shares of a subsidiary resulting in a change in scope of consolidation, and the payment for the business divestiture is as follows:

NEUES, CO., Ltd (As of June 30, 2014)

	(Millions of yen)	*(Thousands of U.S. dollars)*
Current assets	¥ 232	$ 2,251
Fixed assets	438	4,257
Current liabilities	(481)	(4,680)
Long-term liabilities	(44)	(426)
Loss on sale of shares and others	(137)	(1,330)
Sales amount of shares	7	72
Cash and cash equivalents	(109)	(1,056)
Payment for business divestiture	¥ (101)	$ (984)

16. Business Combinations

Transactions under common control

Absorption-type merger of production department of NICOSTAR BEAUTECH Co., Ltd.

(1) Overview of transaction

① The name and business to be merged:

Name: The production department of NICOSTAR BEAUTECH Co., Ltd. (Formerly, NICOSTAR BEAUTECH Co., Ltd.), consolidated subsidiary of the Company.

Business: Mainly manufacturing and selling OEM cosmetics.

② Date of the business combination: December 1, 2013

③ Legal form of the business combination:

An absorption-type merger with FANCL B&H CORPORATION as the surviving company and the former NICOSTAR BEAUTECH Co., Ltd. as the absorbed company. Both companies were of them are consolidated subsidiaries of the Company.

④ Name of the company following the business combination:

FANCL B&H CORPORATION, a consolidated subsidiary of the Company.

⑤ Other matters relating to the business combination:

The purpose of the business combination is to enhance the manufacturing function of the Group by integrating the manufacturing function of the former NICOSTAR BEAUTECH Co., Ltd. into FANCL B&H CORPORATION.

⑥ Overview of accounting treatment:

The transaction was accounted for as a transaction under control based on the “Accounting Standard for Business Combinations” ASBJ Statement No. 21 issued on December 26, 2008, and the “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” ASBJ Guidance No. 10 issued on December 26, 2008.

Absorption-type split of sales department of NICOSTAR BEAUTECH Co., Ltd.

(1) Overview of transaction

① The name and business to be split:

Name: The sales department of NICOSTAR BEAUTECH Co., Ltd. (“Formerly, NICOSTAR BEAUTECH Co., Ltd.”), a consolidated subsidiary of the Company.

Business: Mainly manufacturing and selling OEM cosmetics.

② Date of the business combination: December 1, 2013

③ Legal form of the business combination:

An absorption-type split with the former NICOSTAR BEAUTECH Co., Ltd. as the splitting company and NICOSTAR BEAUTECH Co., Ltd., established on October 1, 2013, as the succeeding company. Both companies were consolidated subsidiaries of the Company.

④ Name of the company following the business combination:

NICOSTAR BEAUTECH Co., Ltd., a consolidated subsidiary of the Company.

⑤ Other matters relating to the business combination:

The purpose of the business combination is to enhance the manufacturing function of the Group by splitting off the sales function of Former NICOSTAR BEAUTECH Co., Ltd. and with NICOSTAR BEAUTECH Co., Ltd. specializing in sales.

⑥ Overview of accounting treatment:

The transaction was accounted for as a transaction under control based on the “Accounting Standard for Business Combinations” ASBJ Statement No. 21 issued on December 26, 2008, and the “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” ASBJ Guidance No. 10 issued on December 26, 2008.

17. Asset Retirement Obligations

Information on asset retirement obligations

(1) Overview of asset retirement obligations

① Obligation to restore property to its original condition based on real estate lease agreements

The Group has the obligation to restore offices and stores used under real estate lease agreements to their original condition following termination of lease agreements.

② Pursuant to the Japanese Act on Ensuring the Implementation of Recovery and Destruction of Fluorocarbons Concerning Designated Products, the Construction Material Recycling Law, and the Law Concerning Special Measures Against PCB Waste

The Group has the legal obligation following retirement of offices and manufacturing facilities to undertake certain environmental management measures.

(2) Method for calculating amount of asset retirement obligations

As of March 31, 2014 (continued)

① Obligation to restore property to its original condition based on real estate lease agreements

The Group has estimated the usage period within the range from 2 to 36 years from the acquisition of property, and calculates the amounts of asset retirement obligations using the discount rates of 0.59 – 2.38%.

② Pursuant to the Act on Ensuring the Implementation of Recovery and Destruction of Fluorocarbons Concerning Designated Products, the Construction Material Recycling Law, and the Law Concerning Special Measures Against PCB Waste

The Company has estimated the usage period at 15 years from the acquisition of property, and, calculates the amounts of asset retirement obligations using the discount rates of 0.80 – 1.50%.

As of March 31, 2013 (continued)

① Obligation to restore property to its original condition based on real estate lease agreements

The Company has estimated the usage period within the range from 2 to 36 years from the acquisition of property, and calculates the amounts of asset retirement obligations using the discount rates of 0.70 – 2.38%.

② Pursuant to the Act on Ensuring the Implementation of Recovery and Destruction of Fluorocarbons Concerning Designated Products, the Construction Material Recycling Law, and the Law Concerning Special Measures Against PCB Waste

The Company has estimated the usage period at 15 years from the acquisition of property, and calculates the amounts of asset retirement obligations using the discount rates of 0.80 – 1.50%.

(3) Total changes in applicable asset retirement obligations during the years ended March 31, 2014 and 2013.

	2014	2013	2014
	(Millions of yen)		*(Thousands of U.S. dollars)*
Balance at beginning of year (see Note)	¥501	¥481	$4,869
Liabilities incurred due to the acquisition of tangible fixed assets	14	25	140
Accretion expense	7	11	70
Settlement	(37)	(15)	(362)
Increase due to revision (Note)	4	–	44
Decrease due to exclusion of subsidiary from consolidation	(34)	–	(328)
Balance at end of year	¥456	¥501	$4,432

Note: The increased amount ¥4 million was added to the asset retirement obligation amount as a result of the Company revising made to the estimate during the year ended March 31, 2014 of the costs of restoring stores to their original condition when vacating the properties and the usage period for the assets.

18. Segment Information

(a) Summary of reportable segments

Reportable segments of the Group are components for which discrete financial information is available and whose operating results are regularly reviewed by the Executive Committee to make decisions about resource allocation and to assess performance.

The Group manufactures and distributes cosmetics products and nutritional supplements in domestic and overseas markets under a comprehensive business strategy. The reportable segments are comprised of the cosmetics business, which produces original products and OEM products, and the nutritional supplements business.

(b) Accounting treatments of the sales, income (loss), assets, and other items for each reporting segment

The accounting treatments for reportable segments are substantially the same as those disclosed in the significant accounting policies in Note 1. Segment performance is evaluated based on operating income.

(c) Information by reportable segments

	Year ended March 31, 2014						
	Reportable segments						
	Cosmetics business	Nutritional supplements business	Sub total	Other businesses (*1)	Total	Adjustments and eliminations (*2)	Consolidated (*3)
				(Millions of yen)			
I. Sales, profits or losses and assets by reportable segments							
Sales to external customers	¥47,526	¥25,386	¥72,912	¥8,207	¥81,119	¥ –	¥81,119
Intersegment sales or transfers	–	–	–	–	–	–	–
Total sales	47,526	25,386	72,912	8,207	81,119	–	81,119
Segment profits (losses)	4,661	1,126	5,787	(4)	5,783	(1,839)	3,943
Segment assets	¥31,213	¥13,993	¥45,205	¥4,600	¥49,805	¥35,995	¥85,800
II. Other items							
Depreciation and amortization	¥ 1,844	¥ 774	¥ 2,618	¥ 222	¥ 2,840	¥ 97	¥ 2,937
Amortization of goodwill	–	–	–	–	–	–	–
Increase in tangible and intangible fixed assets	1,575	825	2,400	207	2,607	62	2,669

*1 Other businesses mainly consist of mail-order sales business of comfort undergarments, health equipment and lifestyle goods, germinated brown rice business, kale juice business and esthetic business.

*2 Not allocable operating expenses included under “Adjustments and eliminations” for the year ended March 31, 2014 amounted to ¥1,839 million and consisted of operating expenses incurred in the Administration Department of the Company. Corporate assets included under “Adjustments and eliminations” at March 31, 2014 amounted to ¥35,995 million and consisted principally of cash and cash equivalents, short-term investments, land and funds for long-term investments (investment securities and other) of the Company.

*3 Segment profits (losses) are adjusted for operating income (loss) as recorded in the consolidated financial statements.

	Year ended March 31, 2013						
	Reportable segments						
	Cosmetics business	Nutritional supplements business	Sub total	Other businesses (*1)	Total	Adjustments and eliminations (*2)	Consolidated (*3)
	(Millions of yen)						
I. Sales, profits or losses and assets by reportable segments							
Sales to external customers	¥46,721	¥26,601	¥73,322	¥9,485	¥82,807	¥ –	¥82,807
Intersegment sales or transfers	–	–	–	–	–	–	–
Total sales	46,721	26,601	73,322	9,485	82,807	–	82,807
Segment profits (losses)	3,889	1,963	5,851	(290)	5,561	(1,703)	3,859
Segment assets	¥35,514	¥15,883	¥51,396	¥7,117	¥58,513	¥28,336	¥86,849
II. Other items							
Depreciation and amortization	¥ 2,146	¥ 857	¥ 3,003	¥ 315	¥ 3,318	¥ 84	¥ 3,401
Amortization of goodwill	57	–	57	–	57	–	57
Increase in tangible and intangible fixed assets	1,698	986	2,684	272	2,956	36	2,991

*1 Other businesses mainly consist of mail-order sales business of comfort undergarments, health equipment and lifestyle goods, germinated brown rice business, kale juice business and esthetic business.

*2 Not allocable operating expenses included under "Adjustments and eliminations" for the year ended March 31, 2013 amounted to ¥1,703 million and consisted of operating expenses incurred in the Administration Department of the Company. Corporate assets included under "Adjustments and eliminations" at March 31, 2013 amounted to ¥28,336 million and consisted principally of cash and cash equivalents, short-term investments, land and funds for long-term investments (investment securities and other) of the Company.

*3 Segment profits (losses) are adjusted for operating income (loss) as recorded in the consolidated financial statements.

	Year ended March 31, 2014						
	Reportable segments						
	Cosmetics business	Nutritional supplements business	Sub total	Other businesses (*1)	Total	Adjustments and eliminations (*2)	Consolidated (*3)
	(Thousands of U.S. dollars)						
I. Sales, profits or losses and assets by reportable segments							
Sales to external customers	$461,773	$246,659	$708,431	$79,743	$788,174	$ –	$788,174
Intersegment sales or transfers	–	–	–	–	–	–	–
Total sales	461,773	246,659	708,431	79,743	788,174	–	788,174
Segment profits (losses)	45,291	10,939	56,229	(43)	56,187	(17,872)	38,315
Segment assets	$303,270	$135,959	$439,229	$44,690	$483,919	$349,740	$833,659
II. Other items							
Depreciation and amortization	$ 17,920	$ 7,518	$ 25,438	$ 2,159	$ 27,597	$ 944	$ 28,541
Amortization of goodwill	–	–	–	–	–	–	–
Increase in property, plant and equipment and intangible fixed assets	15,305	8,016	23,321	2,014	25,334	601	25,935

*1 Other businesses mainly consist of mail-order sales business of comfort undergarments, health equipment and lifestyle goods, germinated brown rice business, kale juice business and esthetic business.

*2 Not allocable operating expenses included under “Adjustments and eliminations” for the year ended March 31, 2014 amounted to $17,872 thousand and consisted of operating expenses incurred in the Administration Department of the Company. Corporate assets included under “Adjustments and eliminations” at March 31, 2014 amounted to $349,740 thousand and consisted principally of cash and cash equivalents, short-term investments, land and funds for long-term investments (investment securities and other) of the Company.

*3 Segment profits (losses) are adjusted for operating income (loss) as recorded in the consolidated financial statements.

Related Information

For the year ended March 31, 2014

1. Information by product and service

   Information is not shown as the same information is disclosed in segment information.

2. Segment information by location

   (1) Net sales
   The net sales in Japan accounted for over 90% of the total consolidated net sales, and therefore the net sales by location has been omitted.

   (2) Tangible fixed assets
   Tangible fixed assets held in Japan accounted for over 90% of the total consolidated balance sheet, and therefore the tangible fixed assets by location has been omitted.

3. Information by major customer

   Of total sales to external customers, no customer accounts for more than 10% of net sales in the consolidated statements of income, and therefore this section has been omitted.

For the year ended March 31, 2013

1. Information for each product and service

   Information is not shown as the same information is disclosed in segment information.

2. Segment information by location

   (1) Net sales (Millions of yen)

Japan	Asia	Other	Total
74,299	8,489	18	82,807

Note: Sales are based on the location of customers and are classified according to country or region.

   (2) Tangible fixed assets
   Tangible fixed assets held in Japan accounted for over 90% of the total consolidated balance sheet, and therefore the tangible fixed assets by location has been omitted.

3. Information by major customer

   Of total sales to external customers, no customer accounts for more than 10% of net sales in the consolidated statements of income, and therefore this section has been omitted.

(d) Information related to impairment loss on fixed assets by reportable segments

	Cosmetics business	Nutritional supplements business	Total	Other businesses	Adjustments and eliminations	Consolidated
			(Millions of yen)			
Impairment loss for the year ended March 31, 2014*[1]	¥ 90	¥ 44	¥134	¥131	–	¥265
Impairment loss for the year ended March 31, 2013*[2]	¥362	¥158	¥520	¥ 65	–	¥585

	Cosmetics business	Nutritional supplements business	Total	Other businesses (*1)	Adjustments and eliminations	Consolidated
			(Thousands of U.S. dollars)			
Impairment loss for the year ended March 31, 2014	$877	$427	$1,304	$1,275	–	$2,579

*[1] Other businesses mainly consist of the germinated brown rice business and kale juice business.
*[2] Other businesses mainly consist of the germinated brown rice business, kale juice business and esthetic business.

19. Related Party Transactions

(1) The Company's transactions with the directors of Company and related parties for the years ended March 31, 2014 and 2013 were principally summarized as follows:

Name of related party	Detail of transaction	Year ended March 31, 2014	2013	2014
		(Millions of yen)		*(Thousands of U.S. dollars)*
Yukio Ikemori	Payments of advisor remuneration *[5]	¥ 13	¥13	$ 121
Yoshifumi Narimatsu	Payments of advisor remuneration *[5]	25	–	243
	Exercise of share warrants *[6]	128	–	1,245
Kenji Ikemori*[2]	Remuneration for Honorary Chairman*[5]	–	36	–
Keiai Corporation *[1]	Payments of lease deposits *[7]	30	–	289
	Payments of rents *[7]	46	–	443
KENKOIN MEDICAL CORPORATION *[3]	Commissions earned *[8]	54	–	522
	Payments of remuneration *[8]	60	20	587
I'foret Co., Ltd. *[4]	Sale of products *[8]	11	–	111
	Service revenue *[8]	11		109
	Commissions earned *[8]	20	–	190

In the table above, the amount of transactions does not include consumption taxes.

Transaction terms and conditions, and, policies for determining transaction terms and conditions

*[1] Mr. Kenji Ikemori, a director and major shareholder of the Company, and Mr. Tsuyoshi Tatai, a director of the company, hold all the voting rights of Keiai Corporation.
*[2] Mr. Kenji Ikemori assumed the post of Chairman and Executive Director of the Company on April 1, 2013, after the fiscal year-end, and was appointed as Chairman and Representative Director of the Company on June 15, 2013.
*[3] The foundation was established by the donation provided completely by Mr. Kenji Ikemori, a director and major shareholder of the Company. Mr. Ikemori serves as one of the directors of the foundation.
*[4] Mr. Kenji Ikemori, a director and major shareholder of the Company, and Tsuyoshi Tatai, a director of the Company, hold all the voting rights of I'foret Co., Ltd.
*[5] Remuneration is determined in accordance with the internal rules of the Company.
*[6] The exercise of share warrants during the fiscal year ended March 31,2014, which were issued based on the Japanese Companies Act, Article 236, 238 and 240(1), are presented. Transaction amounts are presented by multiplying the number of stocks granted by exercising the rights and unit price of treasury stock when exercised.
*[7] The terms of rents are determined by negotiation based on market-price.
*[8] The terms of these transactions are determined by periodical negotiation.

(2) Transactions between the consolidated subsidiaries of the Company and the related parties for the years ended March 31, 2014 and 2013 were principally summarized as follows:

Name of related party	Detail of transaction	Year ended March 31, 2014	2013	2014
		(Millions of yen)		(Thousands of U.S. dollars)
Nagareyama Industrial Cooperative Association	Debt guarantees *[3,4]	¥ 1,521	¥1,528	$14,777
I'foret Co., Ltd *[1]	Sale of products *[2]	189	60	1,841
	Purchase of material*[2]	13	–	130

In the table above, the amount of transactions does not include consumption taxes.

Transaction terms and conditions, and, policies for determining transaction terms and conditions

*[1] Mr. Kenji Ikemori, a director and major shareholder of the Company, and Tsuyoshi Tatai, a director of the Company, totally has all voting rights of I'foret Co., Ltd.

*[2] Terms of these transactions are same as the terms of third party transactions.

*[3] The Company has guaranteed the borrowings of Nagareyama Industrial Cooperative Association (the "Association") from the Shoko Chukin Bank, Ltd. jointly and severally with the other 13 members of the Association.

*[4] As part of cooperative business management of plants, etc. implemented by the Association, collateral has been provided by the Company for the borrowing of the Association.

(3) Balances of related party transactions at year end were principally summarized as follows:

Name of related party	Description	Year ended March 31, 2014	2013	2014
		(Millions of yen)		(Thousands of U.S. dollars)
Keiai Corporation	Lease deposits	¥30	¥ –	$289
I'foret Co., Ltd	Accounts receivable	28	25	271

In the table above, the amount of the balance includes consumption taxes.

20. Other Comprehensive Income

Reclassification adjustment and tax effect on components of other comprehensive income

	March 31, 2014	2013	2014
	(Millions of yen)		(Thousands of U.S. dollars)
Unrealized holding gain (loss) on securities			
Amount arising during the year	¥(2)	¥18	$(21)
Reclassification adjustment	–	–	–
Total before tax effect	(2)	18	(21)
Tax effect	1	(7)	5
Net unrealized holding gain (loss) on securities	¥(2)	¥11	$(16)
Total other comprehensive income (loss)	¥(2)	¥11	$(16)

21. Material Subsequent Events

(FANCL's transition to a holding company system following the splitting of the Company)

The Company made the transition to a holding company system by means of a company split (a simple incorporation-type company split) effective on April 1, 2014 through a resolution at the meeting of the Board of Directors held on May 14, 2013.

1. Objectives of the transition to a holding company system

(1) Strengthening operations and business implementation structures
FANCL switched to a holding company system in order to promote rapid decision making and business execution. To endorse this change, FANCL has clarified responsibilities for each business and sought to better understand the customers' perspective and operate under its own founding principles. In future, through a holding company system, FANCL will be able to raise the level of specialization and autonomy of each of its businesses, and strengthen corporate governance through the appropriate checks and balances.

(2) Strengthening the global nature of the group
FANCL is currently rebranding the cosmetics business and endeavoring to raise its corporate brand value. Looking ahead, however, the Company is aware that these initiatives must address the global market place, and in implementing these initiatives, the Company believes that a holding company system is the most appropriate for FANCL to implement rapid decision making and present policies that are optimal for the entire group.

2. Overview of the divestiture
FANCL Corporation's cosmetics division and health foods division will be split from the Company (a simple incorporation-type company split) and incorporated as new companies, "FANCL COSMETICS CORPORATION" and "FANCL HEALTH SCIENCE CORPORATION", respectively. In addition, FANCL Corporation shall bear responsibility for the manufacturing and sale of "FANCL" brand products, as a company licensed under the Pharmaceutical Affairs Act, and shall also be responsible, as a listed company, for supervising the business of the FANCL Group. Furthermore, as overseas business is an important management issue, FANCL Corporation will retain the management of these operations within a holding company for the time being.

3. Summary of new companies

(1) Company name	FANCL COSMETICS CORPORATION (Cosmetics business company)	FANCL HEALTH SCIENCE CORPORATION (Health foods business company)
(2) Business	Sale of cosmetics, etc.	Sale of health foods, etc.
(3) Head office	89-1 Yamashita-cho, Naka-ku, Yokohama, Japan	89-1 Yamashita-cho, Naka-ku, Yokohama, Japan
(4) Title/name of representative	President, Representative Director Minako Yamaoka	President, Representative Director Tsuyoshi Tatai
(5) Capital	¥500,000 thousand ($4,858 thousand)	¥500,000 thousand ($4,858 thousand)
(6) Total number of issued shares	10,000 shares	10,000 shares
(7) Fiscal year-end	March 31	March 31

Report of the Independent Auditor

The Board of Directors
FANCL CORPORATION

We have audited the accompanying consolidated financial statements of FANCL CORPORATION and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2014, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of FANCL CORPORATION and its consolidated subsidiaries as at March 31, 2014, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 2.

Ernst & Young Shin Nihon LLC

June 21, 2014
Tokyo, Japan

Corporate Data

History

1980s

1980	Apr.	FANCL Cosmetics founded, specializing in mail-order sales of cosmetics.
1981	Aug.	Incorporation of FANCL CORPORATION (FANCL).
1984	Apr.	FANCL Biken Corporation becomes a subsidiary; launches in-house cosmetics production.
	Sep.	Launch of ESPOIR communication magazine.
1989	Feb.	Incorporation of ATTENIR CORPORATION, begins sales of ATTENIR cosmetics, embodying the concepts of high performance, high quality, and affordable prices.

1990s

1991	Sep.	Completion of new FANCL Biken Corporation factory (current Chiba Factory) at Nagareyama Industrial Park, Chiba Prefecture.
1994	Feb.	Launch of mail-order sales of nutritional supplements.
1995	Mar.	Opening of antenna shop (current FANCL House Shizuoka Aoba-dori shop) in Shizuoka; FANCL begins expansion of directly operated shops.
1996	Oct.	Conclusion of agreement with Hong Kong sales agent; launches of sales of cosmetics and nutritional supplements in Hong Kong.
1997	Jul.	Establishment of FANCL INTERNATIONAL, INC. in Irvine, California, U.S.A.
1998	Nov.	Initial public offering as Japan Securities Dealers Association over-the-counter issue.
1999	Mar.	Establishment of the FANCL Research Institute in Totsuka-ku, Yokohama, a Cosmetics Research Center and Food Science Research Center integrated into a single facility.
	Jun.	Chiba factory certified as conforming to the ISO 9002 international quality assurance standard.
	Aug.	Establishment of the FANCL Dormer Corporation.
	Dec.	FANCL listed on First Section of the Tokyo Stock Exchange.

2000s

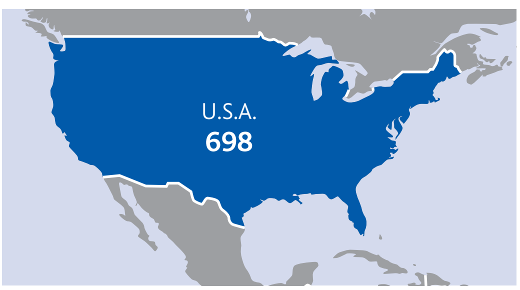
2000	Mar.	Establishment of FANCL ASIA (PTE) LTD. in Singapore.
	Aug.	Sales of FANCL Kale Juice begin at all Three-F convenience stores.
	Nov.	Entire FANCL Group certified as confirming to the ISO 9001 international quality management standard.
2001	Jun.	Establishment of FANCL TAIWAN Co., Ltd. in Taiwan.
2002	Apr.	Completed the construction of the Nagano germinated brown rice production factory, a major facility with a maximum production capacity of 80 tons/day.
	Oct.	FANCL B&H CORPORATION established to manage the manufacturing operations of the FANCL Group.
	Nov.	Entire FANCL Group certified as conforming to the ISO 14001 environmental management standard.
2003	Apr.	FANCL Ginza Square opens at Ginza 5-chome, one of the most fashionable and classy spots in central Tokyo.
	Sep.	Completed the construction of FANCL B&H CORPORATION Shiga Factory.
2004	Aug.	Launch of sales of cosmetics and nutritional supplements in Shanghai.
2005	Oct.	Acquisition of health-food GMP Compliance Certification by Yokohama Factory for FANCL B&H CORPORATION.
2008	Aug.	Opening of FANCL Kanto Distribution Center.

2010s

2012	Mar.	Rebranding of FANCL cosmetics business. The corporate logo and the brand statement of the Cosmetics Business are newly enacted. Released six lines of *Mutenka Skincare*.
2013	Mar.	Rebuilding of the health foods business. Developing FANCL HealthScience.
	Oct.	Reopening of refurbished FANCL Ginza Square.
2014	Mar.	Withdrawal from retail businesses in Taiwan and Singapore.
	Apr.	Transition to a holding company structure.

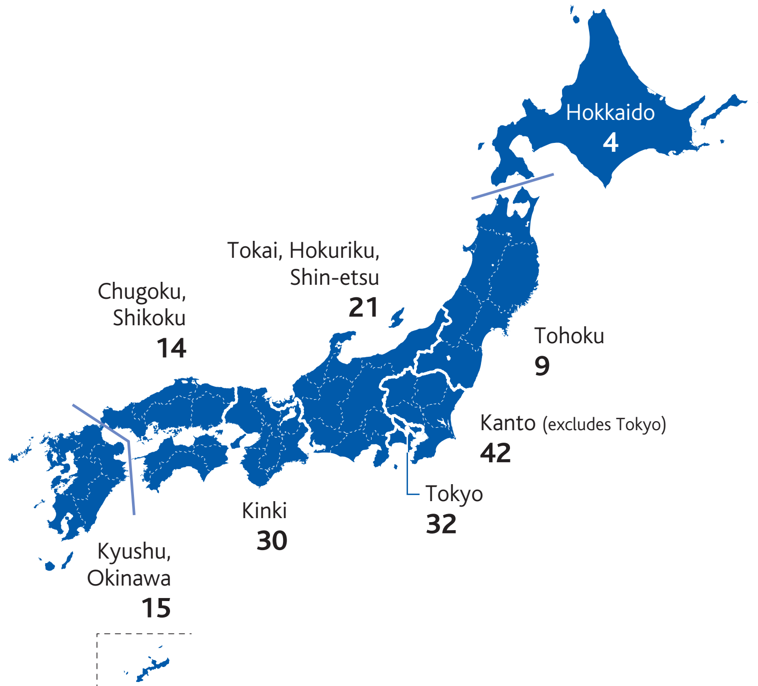
Network

Retail Stores (Global) (As of March 31, 2014)



*Stores offering boscia (brand for the U.S. market)

Retail Stores (Domestic) (As of March 31, 2014)



Consolidated Subsidiaries

(As of June 23, 2014)

FANCL COSMETICS CORPORATION

Head office	Naka-ku, Yokohama
Capital	¥500 million
Main business	Sales of “Mutenka” cosmetics, undergarments and other sundries

FANCL HEALTH SCIENCE CORPORATION

Head office	Naka-ku, Yokohama
Capital	¥500 million
Main business	Sales of nutritional supplements, kale juice and germinated brown rice

ATTENIR CORPORATION

Head office	Sakae-ku, Yokohama
Capital	¥150 million
Main business	Development and sales of reasonably priced, high-quality cosmetics

FANCL Hatsuga Genmai Co., Ltd.

Head office	Tomi-city, Nagano
Capital	¥96 million
Main business	Production of FANCL germinated brown rice

FANCL ASIA (PTE) LTD

Head office	Singapore
Capital	¥875 million
Main business	Administration of sales activities in the Asia/Pacific region

FANCL B&H CORPORATION

Head office	Sakae-ku, Yokohama
Capital	¥100 million
Main business	Management of the FANCL Group’s production divisions

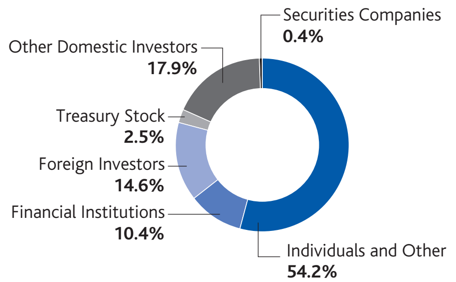
NICOSTAR BEAUTECH Co., Ltd.

Head office	Sakae-ku, Yokohama
Capital	¥10 million
Main business	Launch of cosmetics and quasi-drugs

Shareholder Information

Composition of Shareholders
(Percentage of ownership)

(As of March 31, 2014)



	2014	2013		2012	
	Mar.	Mar.	Sep.	Mar.	Sep.
Individuals and other	54.2	57.6	53.1	54.8	55.2
Financial institutions	10.4	9.7	11.2	9.5	9.6
Foreign investors	14.6	13.9	14.3	17.0	17.9
Treasury stock	2.5	0.4	2.5	0.5	0.5
Other domestic investors	17.9	17.9	18.2	17.9	15.8
Securities companies	0.4	0.4	0.8	0.4	1.0

Corporate Information
(As of March 31, 2014)

Head Office
89-1 Yamashita-cho, Naka-ku,
Yokohama,
Kanagawa-ken 231-8528, Japan
Tel: 81(45)226-1200

Established
August 1981

Common Stock Listing
Tokyo Stock Exchange, First Section
(Code: 4921)

Common Stock
Authorized Shares: 233,838,000
Outstanding Shares: 65,176,600

Paid-in Capital
¥10,795,161,280

Number of Shareholders
92,838

Number of Full-Time Employees
750

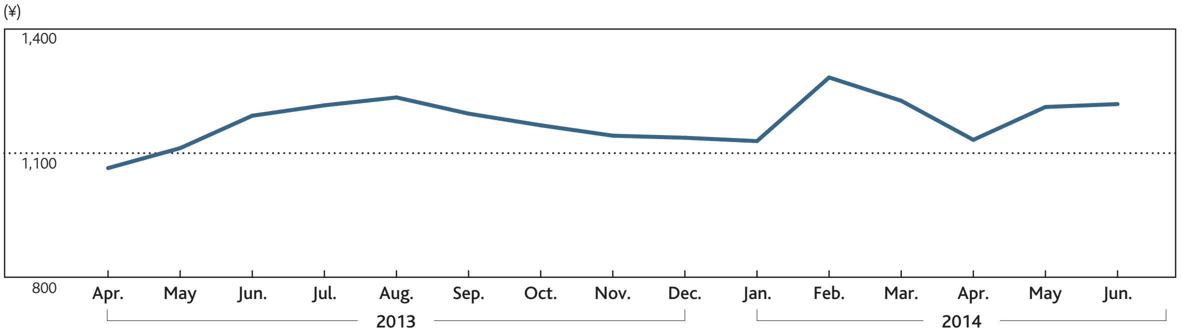
Transfer Agent and Registrar
Mitsubishi UFJ Trust and Banking
Corporation
1-4-5 Marunouchi, Chiyoda-ku,
Tokyo 100-8212, Japan
http://www.tr.mufg.jp/daikou/

Annual Meeting of Shareholders
Held in mid-June

Consolidated Subsidiaries
FANCL COSMETICS CORPORATION
FANCL HEALTH SCIENCE CORPORATION
ATTENIR CORPORATION
FANCL Hatsuga Genmai Co., Ltd.
FANCL ASIA (PTE) LTD
FANCL B&H CORPORATION
NICOSTAR BEAUTECH Co., Ltd.

Stock Price Information

Stock Performance
(¥)



Market Price Range per Share of Common Stock

	2013				2014
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	1st Quarter
High (¥)	1,280	1,343	1,220	1,304	1,277
Low (¥)	956	1,161	1,045	1,056	1,102

FANCL GROUP

FANCL Corporation

89-1 Yamashita-cho, Naka-ku, Yokohama,
Kanagawa-ken 231-8528, Japan
Head Office phone: 81(45)226-1200
http://www.fancl.jp/en/

On the Cover

The colored bands running around from the lower left represent FANCL CORPORATION and the three main businesses under its umbrella. Group companies carrying out their respective roles create a variety of innovations, which provide the driving force and growth in an expression of the 'New FANCL.'

VEGETABLE OIL INK

Waterless Printing. Naturally.

Printed in Japan
(08. 2014)