Consolidated Financial Statements

FANCL CORPORATION
and Consolidated Subsidiaries

Year ended March 31, 2018
with Independent Auditor's Report

FANCL CORPORATION and Consolidated Subsidiaries

Consolidated Balance Sheet

	March 31, 2018	2017	2018
	(Millions of yen)		(Thousands of U.S. dollars) (Note 3)
Assets			
Current assets:			
Cash and bank deposits *(Notes 4 and 14)*	¥36,641	¥31,609	$344,894
Notes and accounts receivable *(Note 4)*	13,791	11,101	129,810
Merchandise and products	4,109	3,833	38,685
Work in progress	21	23	204
Raw materials and supplies	4,169	3,763	39,247
Deferred tax assets *(Note 7)*	1,633	1,598	15,375
Others	965	1,675	9,085
Less: Allowance for doubtful accounts *(Note 4)*	(155)	(79)	(1,465)
Total current assets	61,176	53,526	575,836
Fixed assets:			
Tangible fixed assets *(Notes 10, 11 and 15)*:			
Buildings and structures	27,402	27,156	257,929
Less: Accumulated depreciation and accumulated impairment loss	(15,665)	(14,985)	(147,457)
Buildings and structures (net)	11,736	12,170	110,472
Machinery, vehicles, tools, furniture and fixtures	16,746	16,433	157,624
Less: Accumulated depreciation and accumulated impairment loss	(13,920)	(13,306)	(131,028)
Machinery and transport equipment (net)	2,825	3,126	26,596
Land	11,607	11,607	109,254
Leased assets	301	268	2,836
Less: Accumulated depreciation and accumulated impairment loss	(170)	(148)	(1,602)
Leased assets (net)	131	119	1,234
Construction in progress	302	25	2,847
Total tangible fixed assets, net	26,603	27,049	250,406
Intangible fixed assets:			
Others	2,465	2,045	23,205
Total intangible assets	2,465	2,045	23,205
Investments and other assets:			
Investment securities *(Notes 4 and 5)*	126	128	1,194
Long-term loans	205	305	1,929
Long-term prepaid expense	87	106	828
Lease and guarantee deposits *(Note 4)*	1,137	1,173	10,711
Deferred tax assets *(Note 7)*	444	1,183	4,185
Others	158	183	1,490
Less: Allowance for doubtful accounts	(26)	(24)	(247)
Total investments and other assets	2,134	3,056	20,091
Total fixed assets	31,203	32,151	293,704
Total assets	¥92,380	¥85,677	$ 869,541

	March 31,		
	2018	2017	2018
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 3)*
Liabilities and net assets			
Current liabilities:			
Notes and accounts payable *(Note 4)*	¥3,025	¥2,307	$ 28,478
Accrued liabilities	6,146	4,082	57,856
Accrued income taxes	1,230	1,088	11,585
Allowance for bonuses	1,343	1,030	12,641
Allowance for point program	1,576	1,617	14,834
Others	2,101	1,184	19,786
Total current liabilities	15,424	11,310	145,183
Long-term liabilities:			
Lease obligations	63	62	599
Liability for retirement benefits *(Note 8)*	703	1,303	6,622
Asset retirement obligations	409	416	3,851
Others	182	182	1,716
Total long-term liabilities	1,358	1,965	12,788
Total liabilities	16,782	13,275	157,972
Net assets *(Notes 6 and 13)*:			
Shareholders' equity *(Note 6)*:			
Common stock:			
Authorized – 233,838,000 shares in 2018 and 2017			
Issued – 65,176,600 shares in 2018 and 2017	10,795	10,795	101,611
Capital surplus	11,706	11,706	110,186
Retained earnings	54,796	52,339	515,782
Less: Treasury stock 1,610,007 shares in 2018 and 2,134,384 shares in 2017	(2,338)	(3,170)	(22,014)
Total shareholders' equity	74,959	71,670	705,565
Accumulated other comprehensive income *(Note 18)*:			
Foreign currency translation adjustment	89	119	840
Retirement benefit liability adjustments	(243)	(159)	(2,291)
Total accumulated other comprehensive income	(154)	(39)	(1,450)
Share subscription rights	791	771	7,454
Total net assets	75,597	72,402	711,568
Total liabilities and net assets	¥92,380	¥85,677	$869,541

See notes to consolidated financial statements.

FANCL CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Income

	Year ended March 31,		
	2018	2017	2018
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 3)*
Net sales *(Note 16)*	¥109,019	¥96,305	$1,026,166
Cost of sales	31,588	28,495	297,331
Gross profit	77,431	67,810	728,835
Selling, general and administrative expenses *(Note 9)*	68,983	65,565	649,315
Operating income	8,448	2,244	79,519
Other income (expenses):			
Interest and dividend income	4	5	46
Rent income	103	103	970
Foreign exchange gains (loss)	27	(27)	254
Compensation income	21	22	203
Gain on sale of investment securities	—	4,440	—
Loss on retirement of fixed assets	(68)	(38)	(648)
Loss on impairment of fixed assets *(Note 11)*	(6)	(914)	(63)
Loss on closing of stores	(124)	(44)	(1,172)
Others, net	57	56	538
Profit (loss) before income taxes	8,440	5,826	79,445
Income taxes *(Note 7)*:			
Current	1,509	1,260	14,206
Deferred	739	(581)	6,958
	2,248	679	21,165
Profit (loss)	6,191	5,146	58,280
Profit (loss) attributable to owners of parent	¥6,191	¥ 5,146	$ 58,280

See notes to consolidated financial statements.

FANCL CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income

	Year ended March 31,		
	2018	**2017**	**2018**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 3)*
Profit (loss)	¥6,191	¥5,146	$ 58,280
Other comprehensive income *(Note 18)*			
Foreign currency translation adjustment	(30)	(26)	(288)
Retirement benefit liability adjustments	(84)	7	(794)
Total other comprehensive income (loss)	(115)	(18)	(1,083)
Comprehensive income	¥6,076	¥5,128	$ 57,196
(Breakdown)			
Comprehensive income attributable to owners of parent	¥6,076	¥5,128	$ 57,196
Comprehensive income attributable to non-controlling interests	–	–	–

See notes to consolidated financial statements.

FANCL CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Changes in Net Assets

For the years ended March 31, 2018 and 2017

	Shareholders' equity						Accumulated other comprehensive income				
	Common stock										
	Number of shares	Amount	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Translation adjustments	Retirement benefit liability adjustments	Total accumulated other comprehensive income	Share subscription rights	Total net assets
	(Thousands)					*(Millions of yen)*					
April 1, 2016	65,176	¥10,795	¥11,706	¥50,134	¥(3,706)	¥68,930	¥ 146	¥(166)	¥(20)	¥729	¥69,639
Dividends of surplus	–	–	–	(2,889)	–	(2,889)	–	–	–	–	(2,889)
Profit (loss)	–	–	–	5,146	–	5,146	–	–	–	–	5,146
Purchase of treasury stock	–	–	–	–	(1)	(1)	–	–	–	–	(1)
Disposal of treasury stock	–	–	–	(52)	537	484	–	–	–	–	484
Other net changes during the year	–	–	–	–	–	–	(26)	7	(18)	41	22
Total changes during the year	–	–	–	2,204	535	2,739	(26)	7	(18)	41	2762
April 1, 2017	65,176	10,795	11,706	52,339	(3,170)	71,670	119	(159)	(39)	771	72,402
Dividends of surplus	–	–	–	(3,667)	–	(3,667)	–	–	–	–	(3,667)
Profit (loss)	–	–	–	6,191	–	6,191	–	–	–	–	6,191
Purchase of treasury stock	–	–	–	–	(5)	(5)	–	–	–	–	(5)
Disposal of treasury stock	–	–	–	(67)	837	770	–	–	–	–	770
Other net changes during the year	–	–	–	–	–	–	(30)	(84)	(115)	20	(94)
Total changes during the year	–	–	–	2,457	832	3,289	(30)	(84)	(115)	20	3,195
March 31, 2018	65,176	¥10,795	¥11,706	¥54,796	¥(2,338)	¥74,959	¥89	¥(243)	¥(154)	¥791	¥75,597

	Shareholders' equity						Accumulated other comprehensive income				
	Capital stock										
	Number of shares	Amount	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Translation adjustments	Retirement benefit liability adjustment	Total accumulated other comprehensive income	Share subscription rights	Total net assets
	(Thousands)					*(Thousands of US dollars)*					
April 1, 2017	65,176	$101,611	$110,186	$492,653	$(29,846)	$674,604	$1,129	$(1,496)	$(367)	$7,257	$681,494
Dividends of surplus	–	–	–	(34,518)	–	(34,518)	–	–	0	–	(34,518)
Profit (loss)	–	–	–	58,280	–	58,280	–	–	0	–	58,280
Purchase of treasury stock	–	–	–	–	(49)	(49)	–	–	0	–	(49)
Disposal of treasury stock	–	–	–	(632)	7,881	7,249	–	–	0	–	7,249
Other net changes during the year	–	–	–	–	–	–	(288)	(794)	(1,083)	196	(887)
Total changes during the year	–	–	–	23,129	7,831	30,960	(288)	(794)	(1,083)	196	(30,073)
March 31, 2018	65,176	$101,611	$110,186	$515,782	$(22014)	$705,565	$840	$(2,291)	$(1,450)	$7,454	$711,568

See notes to consolidated financial statements.

FANCL CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Cash Flows

	2018	2017	2018
	Year ended March 31,		
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 3)*
Cash flows from operating activities:			
Profit (loss) before income taxes	¥ 8,440	¥ 5,826	$ 79,445
Depreciation	2,826	3,185	26,602
Impairment loss	6	914	63
Stock compensation expense	164	126	1,546
Increase (decrease) in allowance for doubtful accounts	77	27	731
Increase (decrease) in allowance for bonuses	312	(44)	2,942
Increase (decrease) in allowance for point program	(41)	110	(385)
Increase (decrease) in liability for retirement benefits	(721)	(9)	(6,794)
Interest and dividend income	(4)	(5)	(46)
Loss (gain) on foreign exchange	(17)	48	(163)
Loss (gain) on sales of investment securities	–	(4,440)	–
Loss (gain) on sales of fixed assets	0	(0)	4
Loss on retirement of fixed assets	68	38	648
Loss on closing of stores	124	44	1,172
Gain on reversal of subscription rights to shares	(3)	(37)	(35)
Decrease (increase) in accounts receivable	(2,699)	(1,122)	(25,413)
Decrease (increase) in inventories	(694)	(270)	(6,539)
Decrease (increase) in other current assets	136	440	1,284
Decrease (increase) in other fixed assets	(34)	9	(321)
Decrease (increase) in accounts payable	721	(239)	6,791
Increase (decrease) in other current liabilities	2,522	(644)	23,745
Increase (decrease) in other fixed liabilities	(0)	1	(0)
Others	(140)	(80)	(1,322)
Sub-total	11,044	3,877	103,954
Interest and dividends received	4	5	46
Income taxes paid	(1,185)	(1,890)	(11,163)
Income taxes refund	668	201	6,295
Net cash provided by (used in) operating activities	10,531	2,192	99,133
Cash flows from investing activities			
Payment for purchase of tangible fixed assets	(1,489)	(3,586)	(14,018)
Proceeds from sales of tangible fixed assets	6	79	59
Payment for purchase of intangible fixed assets	(986)	(488)	(9,288)
Proceeds from sales and redemption of investment securities	–	9,785	–
Proceeds from liquidation of a subsidiary	–	183	–
Payments for loans	–	(5)	–
Other payments	(147)	(117)	(1,384)
Other proceeds	224	126	2,110
Net cash provided by (used in) investing activities	(2,392)	5,976	(22,521)

FANCL CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Cash Flows (continued)

	Year ended March 31,		
	2018	2017	2018
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 3)*
Cash flows from financing activities			
Proceeds from disposal of treasury stock	630	432	5,934
Payment for purchase of treasury stock	(5)	(1)	(50)
Cash dividends paid	(3,661)	(2,884)	(34,461)
Others	(90)	(98)	(849)
Net cash provided by (used in) financing activities	(3,126)	(2,552)	(29,425)
Effect of exchange rate changes on cash and cash equivalents	18	(47)	176
Net increase in cash and cash equivalents	5,031	5,568	47,361
Cash and cash equivalents at beginning of the year	31,609	26,040	297,532
Cash and cash equivalents at end of the year	¥36,641	¥31,609	$344,894

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

FANCL CORPORATION and Consolidated Subsidiaries

For the years ended March 31, 2018 and 2017

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 subsidiaries maintain their books 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.

The amounts indicated in millions of yen are rounded down by omitting figures less than one million. Totals may therefore not add up exactly because of this rounding.

(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 six consolidated subsidiaries, namely ATTENIR CORPORATION, FANCL ASIA (PTE) LTD, FANCL B&H CORPORATION, FANCL INTERNATIONAL, INC., boscia, LLC and NICOSTAR BEAUTECH Co., Ltd.

As of April 1, 2017, we merged FANCL COSMETICS CORPORATION, and FANCL HEALTH SCIENCE CORPORATION, wholly owned subsidiaries of the Company, to the Company.

FANCL ASIA (PTE) LTD, FANCL INTERNATIONAL, INC. and boscia, LLC are consolidated using their financial statements as of their respective fiscal year end, which falls on December 31, and necessary adjustments are made to their financial statements to reflect any significant transactions from January 1 to March 31.

1. Summary of Significant Accounting Policies (continued)

(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 14.

(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.

(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. Inventories are stated principally at the lower of cost or market.

(g) Depreciation and amortization

Depreciation expenses are calculated by the methods under the Corporation Tax Law as follows:

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

Provided, however, that the straight-line method is adopted for building fixtures and structures acquired on or after April 1, 2016.

1. Summary of Significant Accounting Policies (continued)

(g) Depreciation and amortization (continued)

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

Buildings and structures	2 – 50 years
Machinery, vehicles	2 – 22 years
Tools, furniture and fixtures	2 – 20 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.

(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.

1. Summary of Significant Accounting Policies (continued)

(m) 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 benefit formula basis 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 working life.

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.

(n) 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.

(o) Derivatives

Derivative financial instruments are stated at fair value.

2. Accounting standard and guidance not yet adopted

Accounting Standard and Implementation Guidance on Revenue Recognition
On March 30, 2018, the ASBJ issued "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29) and "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30).

(1) Overview
This is a comprehensive accounting standard for revenue recognition. Specifically, the accounting standard establishes the following five-step model that will apply to revenue from customers:
1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

(2) Scheduled date of adoption
The Company expects to adopt the accounting standard and implementation guidance from the beginning of the fiscal year ending March 31, 2022.

(3) Impact of the adoption of accounting standard and implementation guidance
The Company is currently evaluating the effect of the adoption of this accounting standard and implementation guidance on its consolidated financial statements.

3. U.S. Dollar Amounts

For the convenience of the reader, the accompanying consolidated financial statements with respect to the year ended March 31, 2018 have been presented in U.S. dollars by translating all yen amounts at ¥106.24 = U.S.$1.00, the exchange rate prevailing on March 31, 2018. 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.

4. 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 current fiscal year.

(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.

4. **Financial Instruments (continued)**

(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, 2018

	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
	(Millions of yen)			*(Thousands of U.S. dollars)*		
(1) Cash and bank deposits	¥36,641	¥36,641	¥ –	$344,894	$344,894	$ –
(2) Notes and accounts receivable	13,635	13,635	–	128,344	128,344	–
Total assets	50,276	50,276	–	473,238	473,238	–
(1) Notes and accounts payable	3,025	3,025	–	28,478	28,478	–
(2) Accrued liabilities	6,146	6,146	–	57,856	57,856	–
Total liabilities	¥ 9,172	¥ 9,172	¥ –	$ 86,335	$ 86,335	$ –

As of March 31, 2017

	Carrying value	Fair value	Difference
	(Millions of yen)		
(1) Cash and bank deposits	¥31,609	¥31,609	¥ –
(2) Notes and accounts receivable	11,021	11,021	–
Total assets	42,631	42,631	–
(1) Notes and accounts payable	2,307	2,307	–
(2) Accrued liabilities	4,082	4,082	–
Total liabilities	¥ 6,389	¥ 6,389	¥ –

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.

Liabilities

(1) Notes and accounts payable and (2) Accrued liabilities
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.

4. Financial Instruments (continued)

2. Matters regarding fair values of financial instruments (continued)

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

Category	March 31, 2018	March 31, 2017	March 31, 2018
	Carrying value		
	(Millions of yen)		*(Thousands of U.S. dollars)*
Unlisted equity securities *	¥126	¥128	$1,194

* 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.

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

As of March 31, 2018

	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	¥36,618	¥ –	¥ –	¥ –	$344,674	$ –	$ –	$ –
Notes and accounts receivable	13,635	–	–	–	$128,344	–	–	–
Total	¥50,253	¥ –	¥ –	¥ –	$473,019	$ –	$ –	$ –

As of March 31, 2017

	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	¥31,586	¥ –	¥ –	¥ –
Notes and accounts receivable	11,021	–	–	–
Total	¥42,627	¥ –	¥ –	¥ –

5. Securities

(1) Investment securities sold during the fiscal years ended March 31, 2018 and 2017

	2018					
	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	¥ –	¥ –	¥ –	$ –	$ –	$ –

	2017		
	Proceeds from sales	Gross realized gains	Gross realized losses
	(Millions of yen)		
Stocks	¥9,800	¥4,440	¥ –

(2) Investments in unconsolidated subsidiaries and affiliates

Investments in unconsolidated subsidiaries and affiliates included in "investment securities" as of March 31, 2018 and 2017 amounted to ¥56 million ($533 thousand) and ¥57 million, respectively. Investments in unconsolidated subsidiaries and affiliates as of March 31, 2018 and 2017 also included investments in stock of jointly controlled companies in the amounts of ¥44 million ($415 thousand) and ¥69 million, respectively.

6. 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, 2018 and 2017, were as follows:

	2018	2017	2018
	(Yen)		(U.S. dollars)
Year-end	¥29.00	¥29.00	$0.27
Half-year	29.00	29.00	0.27

6. Shareholders' Equity (continued)

The effective dates of the distribution for year-end and half-year cash dividends, which were paid during the year ended March 31, 2018, were June 19, 2017 and December 5, 2017, respectively.

The cash dividends of retained earnings of the Company for the year ended March 31, 2018 approved at a meeting of the Board of Directors, which was held on April 26, 2018, were as follows:

	(Millions of yen)	*(Thousands of U.S. dollars)*
Cash dividends	¥1,843	$17,351
	(Yen)	*(U.S. dollars)*
Cash dividends per share	¥29.00	$0.27

7. Income Taxes

The significant components of deferred tax assets and liabilities at March 31, 2018 and 2017 were as follows:

	2018	2017	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Deferred tax assets:			
Current assets			
Accrued enterprise taxes	¥ 88	¥ 73	$ 836
Accrued special local corporation tax	19	16	187
Allowance for bonuses	416	322	3,923
Allowance for doubtful accounts	37	24	349
Allowance for point program	481	505	4,536
Loss on valuation of inventories	98	109	929
Unrealized gain and loss on inventories	29	33	277
Accrued business office taxes	12	11	113
Loss carryforwards	230	420	2,172
Asset retirement obligations	–	0	–
Others	496	372	4,671
Less: Valuation allowance	(278)	(284)	(2,622)
Set-off by deferred tax liabilities	–	(7)	–
Subtotal	1,633	1,598	15,375
Fixed assets			
Liability for retirement benefits (Note 8)	233	432	2,196
Retirement benefit trust	235	–	2,216
Long-term accrued amount payable	13	13	127
Allowance for doubtful accounts	8	5	75
Golf club membership	16	16	155
Loss on valuation of investment securities	18	18	171
Affiliate company equity	2	2	24
Loss carried forward	420	1,632	3,958
Impairment loss	402	440	3,791
Asset retirement obligations	120	122	1,135
Other	112	116	1,063
Valuation allowance	(778)	(1,264)	(7,329)
Set-off by deferred tax liabilities	(361)	(353)	(3,402)
Subtotal	444	1,183	4,185
Total deferred tax assets	2,078	2,782	19,560
Deferred tax liabilities:			
Current liabilities			
Income taxes receivable	–	(7)	–
Set-off by deferred tax assets	–	7	–
Subtotal	–	–	–
Long-term liabilities			
Unrealized intercompany profit on land	(232)	(232)	(2,184)
Net unrealized holding gain (loss) on other securities	(59)	(60)	(558)
Removal expenses associated with asset retirement obligations	(21)	(25)	(204)
Retained earnings of foreign consolidated subsidiaries	(31)	–	(294)
Other	(17)	(35)	(160)
Set-off by deferred tax assets	361	353	3,402
Subtotal	–	–	–
Total deferred tax liabilities	–	–	–
Net deferred tax assets	¥ 2,078	¥ 2,782	$ 19,560

7. Income Taxes (continued)

A reconciliation between the statutory tax rate and the effective tax rates as a percentage of profit before income taxes and non-controlling interests for the years ended March 31, 2018 and 2017 are summarized as follows:

	2018	2017
Statutory tax rate	30.81%	30.81%
Additions to (deductions from) income taxes resulting from:		
Permanent nondeductible differences, such as entertainment expenses	0.75	0.98
Inhabitants' per capita taxes	1.52	2.21
Permanent nontaxable differences, such as dividend income	(0.01)	(0.00)
Valuation allowance	(5.83)	(19.51)
Tax credits, such as for research and development expenses	(2.50)	(1.90)
Differences in effective tax rates among the Company and its consolidated subsidiaries	(0.29)	(0.73)
Effects of changes in income tax rates	0.13	0.18
Expired of Carry forward deficit	0.86	—
Retained earnings of foreign consolidated subsidiaries	0.37	—
Other	0.83	(0.37)
Effective tax rate	26.64%	11.67%

8. Retirement Benefits

The Company and its consolidated subsidiaries mainly adopt a defined benefit corporate pension plan and a lump sum retirement allowance plan to cover employee retirement benefits.
In the defined benefit corporate pension plan and the retirement lump sum payment plan, lump-sum payment or annuity based on salary and service period is paid. For defined benefit corporate pension plans and lump sum retirement plans owned by certain consolidated subsidiaries, liabilities related to retirement benefits and retirement benefit expenses are calculated using the simplified method. A retirement benefit trust has been set up in certain retirement lump-sum payment plans.
In addition to the above system, the Company had joined the Yokohama Municipal Industrial Welfare Pension Fund, but on May 25, 2017, it was approved by the Minister of Health, Labor and Welfare and dissolved. As a result of the dissolution procedure of the fund being commenced, the income generated is recorded as a gain on transition to the retirement benefit plan.
Since this fund is a system that cannot rationally calculate the amount of pension assets corresponding to its contributions, it is accounted for in the previous consolidated fiscal year in the same way as the defined contribution plan.

Defined benefit pension plans and lump-sum retirement payment plans

The changes in the retirement benefit obligation during the year ended March 31, 2018 and 2017 are as follows (excluding plans for which the simplified method is applied):

	March 31,		
	2018	2017	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Retirement benefit obligation at the beginning of fiscal year	¥2,428	¥2,298	$22,855
Service cost	310	233	2,922
Interest cost	4	3	39
Actuarial loss	131	22	1,235
Retirement benefit paid	(84)	(127)	(795)
Accruals by the pension fund dissolution	623	−	5,872
Other	(0)	(2)	(7)
Retirement benefit obligation at the end of fiscal year	¥3,412	¥2,428	$32,122

8. Retirement Benefits (continued)

The changes in plan assets during the year ended March 31, 2018 and 2017 are as follows (excluding plans for which the simplified method is applied):

	March 31,		
	2018	2017	2018
	(Millions of yen)		(Thousands of U.S. dollars)
Plan assets at the beginning of fiscal year	¥1,521	¥1,380	$14,318
Expected return on plan assets	72	41	680
Actuarial loss	(60)	8	(564)
Contributions by the Company	1,001	172	9,423
Retirement benefit paid	(51)	(78)	(485)
Accruals by the pension fund dissolution	608	–	5,723
Other	(3)	(3)	(29)
Plan assets at the end of fiscal year	¥3,087	¥1,521	$29,065

Defined benefit pension plans and lump-sum retirement payment plans (continued)

The changes in the retirement benefit obligation of consolidated subsidiaries which adopt the simplified method during the year ended March 31, 2018 and 2017 are as follows:

	March 31,		
	2018	2017	2018
	(Millions of yen)		(Thousands of U.S. dollars)
Retirement benefit obligation the beginning of fiscal year	¥396	¥406	$3,730
Retirement benefit expense	101	63	952
Retirement benefit paid	(15)	(24)	(150)
Contribution to the plans	(84)	(53)	(795)
Accruals by the pension fund dissolution	(21)	–	(201)
Other	2	4	27
Retirement benefit obligation at the end of fiscal year	¥378	¥396	$3,564

8. Retirement Benefits (continued)

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2018 and 2017 for the Company's and the consolidated subsidiaries' defined benefit plans:

	March 31,		
	2018	2017	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Funded retirement benefit obligation	¥ 4,613	¥ 3,294	$ 43,425
Plan assets at fair value	(3,909)	2,052	(36,803)
	703	1,241	6,622
Unfunded retirement benefit obligation	—	61	—
Net liability for retirement benefits in the balance sheet	703	1,303	6,622
Liability for retirement benefits	703	1,303	6,622
Net liability for retirement benefits in the balance sheet	¥ 703	¥ 1,303	$ 6,622

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

Defined benefit pension plans and lump-sum retirement payment plans (continued)

The components of retirement benefit expense for the year ended March 31, 2018 and 2017 are as follows:

	March 31,		
	2018	2017	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Service cost	¥310	¥233	$2,922
Interest cost	4	3	39
Expected return on plan assets	(72)	(41)	(680)
Amortization of actuarial loss	69	26	652
Retirement benefit expense calculated by the simplified method	101	63	952
Other	(2)	—	(27)
Retirement benefit expense	¥410	¥284	$3,859

8. Retirement Benefits (continued)

The components of retirement benefits liability adjustments included in other comprehensive income (before tax effect) for the year ended of March 31, 2018 and 2017 are as follows:

	March 31,		
	2018	2017	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Actuarial gain and loss	121	(11)	1,148
Total	¥121	¥(11)	$1,148

Unrecognized prior service cost and unrecognized actuarial loss included in accumulated other comprehensive income (before tax effect) as of March 31, 2018 and 2017 are as follows:

	March 31,		
	2018	2017	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Unrecognized actuarial loss	350	228	3,300
Total	¥350	¥228	$3,300

Defined benefit pension plans and lump-sum retirement payment plans (continued)

The fair values of plan assets, by major category, as a percentage of total plan assets as of March 31, 2018 and 2017 are as follows:

	March 31,	
	2018	2017
General accounts at life insurance companies	21%	49%
Bonds	22%	23%
Stocks	16%	21%
Short-term deposits	8%	5%
Other	33%	2%
Total	100%	100%

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

8. Retirement Benefits (continued)

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, 2018 and 2017 were as follows:

	March 31,	
	2018	2017
Discount rates	0.14%	0.14%
Expected rates of return on plan assets	3.00%	3.00%

Note: The Company and subsidiaries calculate retirement benefit obligation based on "point-based benefits system." Accordingly, expected rates of salary increases are not used.

9. Research and Development Expenses

Research and development expenses charged to income for the years ended March 31, 2018 and 2017 were as follows:

	2018	2017	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Research and development expenses	¥3,112	¥3,277	$29,295

10. Leases

Non-ownership-transfer finance lease transaction as lessee

(1) Type of assets
Tangible assets: Office equipment such as personal computer, copy multifunction machine
Intangible assets: Not applicable.

(2) The method of depreciation
Leased assets are depreciated by straight-line method over the lease period.

Operating lease transaction

Not applicable

11. Loss on Impairment of Fixed Assets

Loss on impairment of fixed assets for the years ended March 31, 2018 and 2017 consisted of the following:

For the year ended March 31, 2018

Used for	Type of assets	Amount		Place
		(Millions of yen)	*(Thousands of U.S. dollars)*	
Store equipment	Building and structures	¥ 6	$ 63	Kanto Area
	Tools and equipment	0	0	
Total		¥ 6	$ 63	

Outline of impairment loss recognition:

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 ¥6 million was booked as an impairment loss in other expenses.

Grouping method:

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

Method for calculating recoverable value:

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.

11. Loss on Impairment of Fixed Assets (continued)

For the year ended March 31, 2017

Used for	Type of assets	Amount (Millions of yen)	Place
Store equipment	Building and structures Tools and equipment	¥ 4 0	Kanto Area
holding company system	Software	108	Kanto Area
Factory and warehouse equipment	Building Land	28 30	Shikoku Area
Factory equipment	Building and structures Mechanical equipment and vehicles Tools and equipment Software Land	348 90 3 0 297	Chubu Area
Total		¥914	

Outline of impairment loss recognition:

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 unnecessary assets. This reduction in value of ¥5 million was booked as an impairment loss in other expenses.

The recoverable value of holding company system is calculated as the net sale value. Assets are unlikely to be sold and have a value of zero.

For the Kagawa factory and warehouse facilities, since the decision to sell was made, the carrying amount of the asset was reduced to the recoverable value, and the amount of reduction of ¥59 million yen was recorded as loss on impairment of fix assets and included in other expenses.

For Nagano factory facilities, because it was judged that it is difficult to recover the investment amount due to a decline in profitability, the book value of the corresponding asset is reduced to the recoverable value, and the decrease of ¥740 million yen is recorded as loss on impairment of fix assets and included in other expenses.

Grouping method:

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

Method for calculating recoverable value:

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.

The recoverable value of the holding company system is calculated as the net sale value. It’s unlikely to be sold and have a value of zero.

The recoverable value of Kagawa factory and warehouse facilities are calculated based on the sales contract value.

The recoverable value of Nagano factory facilities, the land is calculated based on the property tax assessment value, and there is no plan to sell anything except land and have a value of zero.

12. Stock Option Plans

Stock Option-related Expenses:

Stock option expenses of ¥164 million ($1,546 thousand) and ¥126 million were recorded in selling, general and administrative expenses for the years ended March 31, 2018 and 2017, respectively.

At March 31, 2018, 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	October 30, 2014	October 29, 2015	October 28, 2016
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	10 directors and 5 executive officers of the Company, and 3 directors of subsidiaries	10 directors and 9 executive officers of the Company, and 9 directors of subsidiaries	10 directors and 9 executive officers of the Company, and 7 directors of subsidiaries
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	147,000 shares	116,300 shares	120,100 shares	1,442,900 shares	78,400 shares	84,800 shares	91,200 shares
Option price per warrant	¥907	¥1	¥1	¥1,223	¥1	¥1	¥1
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	December 12, 2014 – December 1, 2044	December 2, 2015 – December 1, 2045	December 2, 2016– December 1, 2046

Date of approval by shareholders or the Board of Directors	October 30. 2017
Grantees	10 directors and 11 executive officers of the Company, and 4 Directors of subsidiaries
Type of shares with warrants granted	Common stock
Number of shares with warrants granted	53,300 shares
Option price per warrant	¥1
Exercise period	December 2, 2017– December 1, 2047

12. Stock Option Plans (continued)

Fair value as of the grant date for the eighteenth stock options, approved at the meeting of the Board of Directors held on October 30, 2017, during the year ended March 31, 2018 was estimated using the Black-Scholes model with the following assumptions.

	Eighteenth stock options, 2017
Expected volatility (*1)	30.01%
Expected life (*2)	6 years
Expected dividend (*3)	34.00 yen
Risk-free rate (*4)	(0.08)%

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 six years from December 2011 to December 2017 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, 2017.

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

13. Amounts per Share

Basic profit (loss) attributable to owners of parent per share is computed based on the profit (loss) attributable to owners of parent available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during each year. Diluted profit (loss) attributable to owners of parent per share is computed based on the profit (loss) attributable to owners of parent 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).

	2018	2017	2018
	(Yen)		*(U.S. dollars)*
Profit (loss) attributable to owners of parent:			
– Basic	¥ 97.66	¥ 81.92	$ 0.91
– Diluted	96.56	80.91	0.90
Net assets	1,176.80	1,137.14	11.07

Note: The following represents the basis of computation of profit (loss) attributable to owners of parent per share and diluted profit (loss) attributable to owners of parent per share:

	2018	2017	2018
	(Millions of Yen, except per share data)		*(Thousands of U.S. dollars, except per share data)*
Profit (loss) attributable to owners of Parent per share			
Profit (loss) attributable to owners of parent	¥ 6,191	¥ 5,146	$ 58,280
Amount not attributable to common shareholders	–	–	–
Net profit (loss) attributable to owners of parent on common stock	6,191	5,146	58,280
Average number of shares of common stock outstanding during the period	63,403,486	62,831,621	63,403,486
Diluted profit (loss) attributable to owners of parent per share			
Adjustment for profit (loss) attributable to owners of parent	–	–	–
Increase in shares of common stock mainly consists of:			
Share warrants	716,597	779,236	716,597
Residual securities not included in the calculation of diluted profit (loss) attributable to owners of parent due to their anti-dilutive effects	–	–	–

14. 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, 2018 and 2017:

	2018	2017	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Cash and bank deposits	¥36,641	¥31,609	$344,894
Cash and cash equivalents	¥36,641	¥31,609	$344,894

15. 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 and the Construction Material Recycling Law.

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, 2018

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 5 to 15 years from the acquisition of property, and calculates the amounts of asset retirement obligations using the discount rates of 0.00 – 3.33%.

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 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%.

15. Asset Retirement Obligations (continued)

Information on asset retirement obligations (continued)

As of March 31, 2017

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 5 to 15 years from the acquisition of property, and calculates the amounts of asset retirement obligations using the discount rates of 0.00 – 3.33%.

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 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, 2018 and 2017.

	2018	**2017**	**2018**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Balance at beginning of year	¥419	¥385	$3,944
Liabilities incurred due to the acquisition of tangible fixed assets	7	40	74
Accretion expense	1	1	10
Decrease due to extinguishment of obligation to restore	(18)	(6)	(170)
Others, net	0	(1)	(8)
Balance at end of year	¥409	¥419	$3,851

16. Segment Information

(a) Overview of reportable segments

The reportable segments of the Group consist of business components for which separate financial statements are available. The reportable segments are the subject of periodical review by board of directors’ meetings for the purpose of making decisions on the allocation of business resources and evaluating business performance.

The Group is engaged in a wide range of businesses focusing primarily on the manufacture and sale of cosmetics and nutritional supplements. Within the Company and its consolidated subsidiaries, there are some companies that do not manufacture a single product, but rather manufacture and sell multiple products. The Group pursues a business goal with such comprehensive and global strategy.

16. Segment Information (continued)

(a) Overview of reportable segments (continued)

Therefore, the Group is comprised of segments delineated by product based on the products handled, and the Group has three reportable segments, Cosmetics-related Business, Nutritional Supplement-related Business and Other Businesses.

Cosmetics-related Business consists of the manufacture and sale of cosmetics and supply for OEMs. Nutritional Supplement-related Business comprises the manufacture and sale of nutritional supplements. Other Businesses comprise of sundries, personnel effects, comfort undergarments, Hatsuga genmai (germinated brown rice), and kale juice.

(b) Accounting treatments of the sales, profit (loss), assets, and other items for each reportable 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, 2018					
	Reportable segments					
	Cosmetics -related business	Nutritional Supplements -related business	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	¥66,048	¥35,933	¥ 7,037	¥109,019	¥ –	¥109,019
Intersegment sales or transfers	–	–	–	–	–	–
Total sales	66,048	35,933	7,037	109,019	–	109,019
Segment profits (losses)	9,150	864	149	10,165	(1,717)	8,448
Segment assets	¥32,231	¥17,357	¥2,460	¥52,049	¥40,331	¥92,380
II. Other items						
Depreciation and amortization	¥ 1,377	¥ 899	¥ 133	¥ 2,409	¥ 370	¥ 2,780
Increase in tangible and intangible fixed assets	1,546	805	159	2,511	321	2,833

*1 Other businesses mainly consist of sundries, personnel effects, comfort undergarments, Hatsuga genmai (germinated brown rice), and Kale juice.

*2 Not allocable operating expenses included under "Adjustments and eliminations" amounted to ¥1,717 million and consisted of operating expenses incurred in the Administration Department of the Company. Corporate assets included under "Adjustments and eliminations" amounted to ¥40,331 million and consisted principally of cash and cash equivalents, land, buildings and investment securities of the Company.

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

16. Segment Information (continued)

(c) Information by reportable segments (continued)

	Year ended March 31, 2017					
	Reportable segments					
	Cosmetics -related business	Nutritional Supplements -related business	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	¥56,926	¥32,085	¥7,294	¥96,305,	¥ –	¥96,305
Intersegment sales or transfers	–	–	–	–	–	–
Total sales	56,926	32,085	7,294	96,305	–	96,305
Segment profits (losses)	5,253	(865)	(599)	3,788	(1,544)	2,244
Segment assets	¥33,267	¥17,206	¥3,544	¥54,018	¥31,659	¥85,677
II. Other items						
Depreciation and amortization	¥ 1,741	¥ 894	¥ 123	¥ 2,759	¥ 385	¥ 3,145
Increase in tangible and intangible fixed assets	1,433	2,200	101	3,735	422	4,158

*1 Other businesses mainly consist of sundries, personnel effects, comfort undergarments, Hatsuga genmai (germinated brown rice), and Kale juice.

*2 Not allocable operating expenses included under "Adjustments and eliminations" amounted to ¥1,544 million and consisted of operating expenses incurred in the Administration Department of the Company. Corporate assets included under "Adjustments and eliminations" amounted to ¥31,659 million and consisted principally of cash and cash equivalents, land, buildings and investment securities of the Company.

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

	Year ended March 31, 2018					
	Reportable segments					
	Cosmetics -related business	Nutritional Supplements -related business	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	$621,694	$338,226	$ 66,244	$1,026,166	$ –	$1,026,166
Intersegment sales or transfers	–	–	–	–	–	–
Total sales	621,694	338,226	66,244	1,026,166	–	1,026,166
Segment profits (losses)	86,134	8,139	1,410	95,684	(16,165)	79,519
Segment assets	$303,388	$163,375	$ 23,155	$489,919	$379,626	$869,541
II. Other items						
Depreciation and amortization	$ 12,961	$ 8,463	$ 1,259	$ 22,684	$ 3,486	$ 26,170
Increase in property, plant and equipment and intangible fixed assets	14,556	7,580	1,504	23,641	3,028	26,669

*1 Other businesses mainly consist of sundries, personnel effects, comfort undergarments, Hatsuga genmai (germinated brown rice), and Kale juice.

*2 Not allocable operating expenses included under "Adjustments and eliminations" amounted to $16,165 thousand and consisted of operating expenses incurred in the Administration Department of the Company. Corporate assets included under "Adjustments and eliminations" amounted to $379,626 thousand and consisted principally of cash and cash equivalents, land, buildings and investment securities of the Company.

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

16. Segment Information (continued)

(c) Information by reportable segments (continued)

Related Information

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.

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

	Cosmetics -related business	Nutritional Supplements -related business	Other businesses (*1)	Total	Adjustments and eliminations	Consolidated
			(Millions of yen)			
Impairment loss for the year ended March 31, 2018 *1	¥ 4	¥ 2	¥ 0	¥ 6	¥–	¥ 6
Impairment loss for the year ended March 31, 2017	¥ 67	¥ 42	¥ 804	¥ 914	¥–	¥ 914

	Cosmetics business	Nutritional supplements business	Other businesses (*1)	Total	Adjustments and eliminations	Consolidated
			(Thousands of U.S. dollars)			
Impairment loss for the year ended March 31, 2018	$ 42	$ 20	$ 1	$ 63	$–	$ 63

*1 Other businesses mainly consist of sundries, personnel effects, comfort undergarments, Hatsuga genmai (germinated brown rice), and Kale juice.

17. Related Party Transactions

(1) The Company's transactions with the directors of Company and related parties for the years ended March 31, 2018 and 2017 were principally summarized as follows:

		Year ended March 31,		
Name of related party	Detail of transaction	2018	2017	2018
		(Millions of yen)		(Thousands of U.S. dollars)
Yukio Ikemori	Payments of advisor remuneration *3	¥12	¥12	$117
Keiai Corporation *1	Deposit security	–	1	–
	Payments of rents *4	44	43	414
PILLOWS Co., Ltd *2	Payments of rents *4	¥ 9	¥22	$ 87

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 are as follows:

*1 Mr. Kenji Ikemori, a director and major shareholder of the Company holds all the voting rights of this company.

*2 Close relatives of Mr. Kenji Ikemori, a director and major shareholder of the Company holds all the voting rights of this company.

*3 Advisor remuneration is determined in accordance with the internal rules of the Company.

*4 Terms of rents are determined by negotiation based on market-price.

(2) Transactions between the consolidated subsidiaries of the Company and the related parties for the years ended March 31, 2018 and 2017 were principally summarized as follows:

		Year ended March 31,		
Name of related party	Detail of transaction	2018	2017	2018
		(Millions of yen)		(Thousands of U.S. dollars)
I'foret Co., Ltd *1	Sale of products *2	¥76	¥57	$716

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 are as follows:

*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 this company.

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

18. Other Comprehensive Income

Reclassification adjustment and tax effect on components of other comprehensive income

	March 31,		
	2018	2017	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Foreign currency translation adjustment			
Amount arising during the year	¥ (30)	¥ (26)	$ (288)
Retirement benefits liability adjustments			
Amount arising during the year	(191)	(14)	(1,800)
Reclassification adjustment	69	26	652
Total before tax effect	(121)	11	(1,148)
Tax effect	37	(3)	353
Net Retirement benefits liability adjustments	(84)	7	(794)
Total other comprehensive income (loss)	¥(115)	¥ (18)	$(1,083)

19. Business Combinations

(1) Overview of transaction

① The name of acquired company:
“FANCL COSMETICS CORPORATION” and “FANCL HEALTH SCIENCE CORPORATION”

② The business of acquired company:
Cosmetics division and health foods division

③ Date of the business combination: April 1, 2017

④ Legal form of the business combination:
Absorption merger method with FANCL CORPORATION as surviving company, and “FANCL COSMETICS CORPORATION” and “FANCL HEALTH SCIENCE CORPORATION” dissolved.

⑤ Name of the company following the business combination:
“FANCL CORPORATION”

⑥ Other matters relating to the business combination:
This business combination aim to build a system to promote the medium-term management plan while making full use of the strengths of the corporate group against environmental change.

(2) Overview of accounting treatment:

The transaction was accounted for as a transaction under common control based on the “Accounting Standard for Business Combinations” ASBJ Statement No.21 issued on September 13, 2013, and the “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” ASBJ Guidance No.10 issued on September 13, 2013.

20. Material Subsequent Events

Not applicable.

Report of the Independent Auditor

Independent Auditor's Report

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, 2018, 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, 2018, 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 3.

Ernst & Young ShinNihon LLC

June 22, 2018
Tokyo, Japan

The above is an electronic representation of the items described in the original document of the audit report, and the original is stored by the Company.