FANCL Corporation

Consolidated Financial Statements for the Fiscal Year Ended March 31, 2015

This document has been translated from the original Japanese as a guide for non-Japanese investors. It contains forward-looking statements based on a number of assumptions and beliefs made by management in light of information currently available. Actual financial results may differ materially depending on a number of factors, including changing economic conditions, legislative and regulatory developments, delay in new product launches, and pricing and product initiatives of competitors.

SUMMARY OF FINANCIAL STATEMENTS (consolidated)

Results for the Fiscal Year Ended March 31, 2015

FANCL CORPORATION **May 11, 2015**

www.fancl.co.jp

Stock exchange listings: Tokyo 1st section, code number 4921

Contact: Kazuyuki Shimada
Executive Managing Director and General Manager of Group Support Center
Telephone: +81-45-226-1200

President, Representative Director: Kazuyoshi Miyajima
Scheduled date for regular shareholders' meeting: June 20, 2015
Scheduled date for submission of the financial report: June 22, 2015
Scheduled date for distribution of dividends: June 22, 2015
Appendix materials prepared to accompany this report: Yes
Investor conference call: Yes (For investors and analysts)

1. Consolidated results for the fiscal year April 1, 2014 to March 31, 2015

(1) Sales and Income

Millions of yen, rounded down

	FY ended March 31, 2015		FY ended March 31, 2014	
		Change (%)		Change (%)
Net sales	77,632	(4.3)	81,118	(2.0)
Operating income	4,001	1.5	3,943	2.2
Ordinary income	4,283	0.5	4,262	(3.7)
Net income	2,301	71.3	1,343	--
Net income per share (¥)	36.11		21.03	
Fully diluted earnings per share (¥)	35.76		20.91	
Return on equity	3.2%		1.8%	
Ratio of ordinary income to total capital	5.0%		4.9%	
Ratio of operating income to net sales	5.2%		4.9%	

Note: Percentage figures for sales, operating income, etc. represent changes compared to the previous fiscal year.

Comprehensive income: FY to March 31, 2015: ¥2,309 million (72.1%) FY to March 31, 2014: ¥1,342 million (--%)

Gain from investments in subsidiaries and affiliates accounted for by the equity method:

FY to March 31, 2015: -- million FY to March 31, 2014: -- million

(2) Consolidated Financial Position

Millions of yen, rounded down

	As of March 31, 2015	As of March 31, 2014
Total assets	85,311	85,800
Shareholders' equity	73,214	72,154
Equity ratio (%)	85.1%	83.5%
Shareholders' equity per share (¥)	¥1,134.49	¥1,127.32

Shareholders' equity: FY to March 31, 2015: 72,634 million FY ended March 2014: ¥71,645 million

(3) Cash Flows

Millions of yen, rounded down

	FY ended March 31, 2015	FY ended March 31, 2014
Net cash provided by operating activities	5,946	6,595
Net cash used in investing activities	(5,972)	1,402
Net cash used in financing activities	(1,820)	(3,956)
Cash and cash equivalents at end of year	30,659	32,377

2. Dividends

	Fiscal year ended March 31, 2014	Fiscal year ended March 31, 2015	Fiscal year ending March 31, 2016 (forecast)
Interim dividend per share (¥)	17.00	17.00	17.00
Year-end dividend per share (¥)	17.00	17.00	17.00
Annual dividend per share (¥)	34.00	34.00	34.00
Total dividend payment *(millions of yen)*	2,183	2,170	
Consolidated dividend payout ratio (%)	161.7%	94.2%	241.9%
Dividend to net assets ratio (%)	3.0%	3.0%	

3. Consolidated forecasts for the fiscal year ending March 31, 2016 (April 1, 2015 to March 31, 2016)

Millions of yen

	Interim period ending September 30, 2015		FY Ending March 31, 2016	
		Change %		Change %
Net sales	40,800	11.7	90,000	15.9
Operating income	(1,800)	--	1,500	(62.5)
Ordinary income	(1,750)	--	1,650	(61.5)
Profit (loss) attributable to owners of parent	(1,200)	--	900	(60.9)
Net income per share (¥)	(18.74)		14.06	

Percentage figures for sales, operating income, etc. represent changes compared to the previous fiscal year.

4. Other

1) Transfer of key subsidiaries during the period (transfers of certain subsidiaries resulting in changes in the scope of consolidation): Yes

Newly consolidated: 2 companies

FANCL COSMETICS CORPORATION

FANCL HEALTH SCIENCE CORPORATION

2) Changes in accounting methods, procedures and presentation in the making of these financial statements

1. Changes following revisions to accounting standards: Yes
2. Other changes: None
3. Changes in accounting estimates: None
4. Restatements: None

Note: For more information, see page 24, "(5) Notes to the Consolidated Financial Statements, Changes in accounting polices".

3) Number of shares outstanding (ordinary shares)

1. Number of shares outstanding (including treasury shares):
   As of March 31, 2015: 65,176,600
   As of March 31, 2014: 65,176,600
2. Number of treasury shares:
   As of March 31, 2015: 1,152,357
   As of March 31, 2014: 1,622,701
3. Average number of shares during the period:
   FY to March 31, 2015: 63,735,262
   FY to March 31, 2014: 63,889,478

Reference: Outline of Non-consolidated Financial Results

1. Non-consolidated operating results for the fiscal year ended March 31, 2015

1) Non-consolidated Operating Results

Millions of yen, rounded down

	FY ended March 31, 2015		FY ended March 31, 2014	
		(% change)		(% change)
Sales	28,628	(57.9)	67,957	(1.7)
Operating income	1,735	(40.4)	2,909	29.0
Ordinary income	2,023	(81.4)	10,869	242.8
Net income	1,232	(86.2)	8.945	--
Earnings per share (¥)	19.34		140.02	
Fully diluted earnings per share (¥)	19.15		139.20	

Percentage figures for sales, operating income, etc. represent changes compared to the previous fiscal year.

2) Non-Consolidated financial position

	As of March 31, 2015	As of March 31, 2014
Total assets *(millions of yen)*	74,917	70,713
Net assets *(millions of yen)*	60,618	60,737
Equity ratio (%)	80.1%	85.2%
Net assets per share (¥)	¥937.75	¥947.68

Reference: Shareholders' equity:

FY ended March 2015: ¥60,038 million

FY ended March 2014: ¥60,228 million

Note: The significant change in non-consolidated results between the fiscal year ended March 31, 2015 and 2014, is mainly due to the Company's shift to a holding company structure as of April 1, 2014, as part of which it split off the cosmetics division and health foods division (a simple incorporation-type company split) and incorporated them as new wholly-owned subsidiaries, FANCL COSMETICS CORPORATION and FANCL HEALTH SCIENCE CORPORATION.

Disclosure of status of quarterly report review procedures

At time of disclosure of this quarterly financial report the review procedures for quarterly securities reports as stipulated under the Financial Instruments and Exchange Law had been completed.

Appropriate use of financial forecasts

Forecasts, etc., recorded in this document include forward-looking statements that are based on management's estimates, assumptions and projections at the time of publication. A number of factors could cause actual results to differ materially from expectations. For further detail, please see Page 7: 1. Operating Results, Section 3, Forecasts for the fiscal year ending March 31, 2016.

Contents

1. Consolidated Operating Results and Financial Position 6
(1) Summary of Business Performance………………………………………………………….………… 6
(2) Summary of Consolidated Financial Position……………………………………………………… 8
(3) Policy Regarding Allocation of Earnings and Proposed Dividends……………….………… 9

2. Management Policy 10
(1) Basic Management Policy……………………………………..…………………………… 10
(2) Management Targets and the Medium-Term Management Strategy and Key Issues………… 10

3. Basic Rational on Selection of Accounting Standards 14

4. Consolidated Financial Statements 15
(1) Consolidated Balance Sheet………………………………………………………………… 15
(2) Consolidated statement of income and Consolidated statement of comprehensive income… 17
Consolidated Statement of Income……………………………..…………………………… 17
Consolidated Statement of Comprehensive Income……………..……………………………… 19
(3) Changes in Shareholders' Equity During the Period……………………………………….. … 20
(4) Consolidated Statement of Cash Flows…………………………………………………………… 22
(5) Notes to the Consolidated Financial Statements………………………………………………… 24
Items related to a going concern………………………………………………………………… 24
Significant items for the Preparation of Consolidated Financial Statements…………………… 24
Changes in Accounting Policies……………………………………………………..………… 24
Segment Information…………………………………………………………………………… 25
Per Share Information………………………………………………………………………… 28
Important information after the preparation of this report………………………………………… 28

1. Consolidated operating results and financial position

1) Summary of Business Performance (consolidated)

(All comparisons are with the previous fiscal year, unless stated otherwise.)

In the consolidated financial period under review, Japan’s economy remained weak overall due to the prolonged effects of the consumption tax hike, leading to a drop in consumer spending and housing investments. In the second half of the year however, Japan’s economy shifted towards a recovery, as consumer spending picked up due to improvements in employment and salaries and the fall in oil prices, in addition to improvements in exports mainly to the United States, and an increase in capital expenditure against a backdrop of improvements in corporate results.

Amid a reaction to the consumption tax hike, net sales for the consolidated financial period under review decreased 4.3% to ¥77,632 million, due to a decline in sales in the nutritional supplements business and others, and despite securing sales in the Cosmetics Business in line with the previous year. Operating income increased 1.5% to ¥4,001 million despite a decline in sales, due to an improvement in the gross profit margin and our efforts to reduce fixed costs. Ordinary income increased 0.5% to ¥4,283 million. Net income rose 71.3% to ¥2,301 million.

Segment results are as follows:

2) Status of operations

(1) Cosmetics Business

Sales

Cosmetics sales decreased 0.1% compared to the previous year, to ¥47,471 million.

(Millions of yen)

	FY ended March 31, 2014		FY ended March 31, 2015		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
FANCL Cosmetics	38,473	80.9	39,507	83.2	2.7
ATTENIR Cosmetics	7,965	16.8	6,970	14.7	(12.5)
Others	1,087	2.3	992	2.1	(8.7)
Totals	47,525	100.0	47,471	100.0	(0.1)

	FY ended March 31, 2014		FY ended March 31, 2015		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Mail order sales	23,805	50.1	22,376	47.2	(6.0)
Retail store sales	16,405	34.5	16,949	35.7	3.3
Wholesales and others	1,741	3.7	3,146	6.6	80.6
Overseas sales	5,572	11.7	4,998	10.5	(10.3)
Totals	47,525	100.0	47,471	100.0	(0.1)

Sales of **FANCL cosmetics** increased 2.7% to ¥39,507 million, mainly due to the launch of wholesale sales of *Mild Cleansing Oil* and *Facial Washing Powder* to drugstores, as well as a renewal of makeup products and anti-aging serum.

Sales of **ATTENIR cosmetics** decreased 12.5% to ¥6,970 million despite the renewal of core products, which failed to stop a reduction in customer numbers.

Results by **sales channels**: mail order sales decreased 6.0% year on year to ¥22,376 million, retail store sales increased 3.3% to ¥16,949 million, wholesale sales increased 80.6% to ¥3,146 million, while overseas sales decreased 10.3% to ¥4,998 million.

Operating income

Operating income increased 19.2% to ¥5,557 million due to an improvement in the gross profit margin, in addition to a reduction in marketing expenses.

(2) Nutritional Supplements Business

Sales

Nutritional supplement sales decreased 8.3% year on year to ¥23,285 million.

(Millions of yen)

	FY ended March 31, 2014		FY ended March 31, 2015		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Mail order sales	10,355	40.8	9,361	40.2	(9.6)
Retail store sales	6,106	24.1	5,778	24.8	(5.4)
Wholesales and others	6,607	26.0	6,746	29.0	2.1
Overseas sales	2,316	9.1	1,398	6.0	(39.6)
Totals	25,386	100.0	23,285	100.0	(8.3)

Revenues from **product sales** decreased due to poor sales in other products, despite strong sales of newly launched dietary supplement *Calorie Limit for the Mature Aged* and middle-aged to elderly eye health supplement *Lutein & Blueberry Enkin*.

Results by **sales channels** were: mail order sales decreased 9.6% year on year to ¥9,361 million, retail store sales decreased 5.4% to ¥5,778 million, while wholesale sales increased 2.1% to ¥6,746 million and overseas sales decreased 39.6% to ¥1,398 million.

Operating income

An operating loss of ¥4 million was recorded (compared to operating income of ¥1,125 million in the previous year), due to a decline in sales and an increase in marketing expenses compared to the previous year.

(3) Other Businesses

Sales in Other businesses decreased 16.2% year on year to ¥6,876 million

(Millions of yen, rounded down)

	FY ended March 31, 2014	FY ended March 31, 2015	Change (%)
Hatsuga genmai business	2,830	2,372	(16.2)
Kale juice business	3,203	2,679	(16.3)
Other businesses	2,173	1,823	(16.1)
Totals	8,207	6,876	(16.2)

In the **Hatsuga genmai** (germinated brown rice) business, sales decreased 16.2% to ¥2,372 million.

In the **Kale juice** business, sales decreased 16.3% to ¥2,679 million.

Sales at **other businesses** decreased 16.1% to ¥1,823 million due to factors including the transfer of shares of consolidated subsidiary NEUES Co.,Ltd. a beauty salon operator, to an entity outside of the group.

Operating income

Operating income of ¥152 million was recorded for the fiscal year under review (compared to an operating loss of ¥4 million in the previous year), due to the sale of the beauty salon business, and improved profitability in the Hatsuga genmai business stemming from a drop in the price of genmai raw ingredients.

3. Forecasts for the fiscal year ending March 31, 2016

The economic environment in Japan is expected to maintain a gradual recovery trend as personal consumption picks up driven by improved employment and incomes together with the benefits effects of lower oil prices, and improving corporate profits lead to a rebound in capital expenditure.

Against this background, in fiscal 2016, the first year of its new medium-term business plan FANCL Group will pursue active investment aimed at realizing its growth strategy.

FANCL’s Cosmetics business plans to grow sales by strengthening its business in the facial cleansing category through active investment in marketing and promotion and in fiscal 2016 will consolidate FANCL INTERNATIONAL, INC., which handles sales of the boscia brand in the U.S.

FANCL’s Nutritional Supplements Business aims to grow sales by strengthening marketing and promotion of star candidate products and by expanding the number of outlets that handle its products in its distribution channels.

In other businesses, sales are expected to grow due to active investment in promotion of germinated brown rice and kale juice products.

In light of the above, in the year ending March 31, 2016 the Company forecasts an increase in sales of 15.9% to ¥90,000 million, a decline in operating income of 62.5% to ¥1,500 million, a decrease in ordinary income of 61.5% to ¥1,650 million, and a decline in net income of 60.9% to ¥900 million.

(2) Summary of Consolidated Financial Position

Assets, liabilities and net asset value

Assets decreased ¥488 million to ¥85,311 million, compared with the end of the previous consolidated financial period, primarily the result of a ¥3,024 million decrease in current assets and a ¥2,535 million increase in fixed assets. The decrease in current assets was largely the result of a ¥1,721 million decrease in cash in hand and bank deposits, a ¥1,689 million decrease in notes and accounts receivable, a ¥691 million decrease in other current assets due to a decrease in accrued corporation tax refunds, a ¥747 million increase in goods and products, and a ¥381 million increase in raw materials and supplies. The increase in fixed assets was largely due to a ¥2,809 million increase in buildings and structures, a ¥1,774 million increase in land, a ¥1,153 million decrease in investment securities, and a ¥438 million decrease in deposits and guarantee money.

Liabilities decreased ¥1,549 million to ¥12,096 million, compared with the end of the previous consolidated financial period, primarily the result of a ¥986 million decrease in current liabilities and a ¥562 million decrease in long-term liabilities. The main factors contributing to the decrease in current liabilities were a ¥1,359 million decrease in other current liabilities due to a decrease in deposits, a ¥443 million decrease in accounts payable, a ¥212 million decrease in allowance for loss on business withdrawal, and an increase of ¥1,337 million in income taxes payable. The main contributing factor to the decrease in long-term liabilities was a ¥516 million decrease in retirement benefit liabilities.

Net assets increased ¥1,060 million to ¥73,214 million, compared with the end of the previous consolidated financial period. The primary contributing factors were a ¥2,301 million increase in retained earnings due the recording of net income for the fiscal year, a ¥296 million increase in retained earnings due to a change in accounting policy for retirement benefits, a ¥555 million decrease in treasury stock resulting from the disposal of treasury stock associated with the exercise of stock acquisition rights, and a ¥2,162 million decrease in retained earnings due to dividend payments.

As a result, the shareholders’ equity ratio increased 1.6 percentage points from the end of the previous consolidated fiscal year to 85.1%.

Cash flow

Cash and cash equivalents ("funds") as of March 31, 2015 were ¥30,659 million, ¥1,717 million lower than at the end of the previous consolidated fiscal year. The main contributing factors to cash flows during the consolidated fiscal year ended March 31, 2015 are as follows:

<u>Cash flows from operating activities</u>

Cash flow generated from operating activities during the period under review was ¥5,946 million, compared with ¥6,595 million in the previous consolidated fiscal year. The primary factors responsible included net income before income taxes of ¥4,083 million, an increase of depreciation expenses of ¥2,973 million, and a decrease of ¥1,117 in inventory assets.

<u>Cash flows from investing activities</u>

Cash flow generated from investing activities during the period under review was ¥5,972 million, compared with an inflow of ¥1,402 million in the previous consolidated fiscal year. This was largely the result of outgoings such as ¥6,724 million for the acquisition of tangible fixed assets, and inflows including ¥1,000 million in income from the sale and redemption of marketable securities.

<u>Cash flows from financing activities</u>

Cash flow used in financing activities during the period under review was ¥1,820 million, compared with an outflow of ¥3,956 million in the previous consolidated fiscal year. This was primarily the result of ¥2,158 million in dividend payments.

Trends in Cash Flow-related Indices

	FY ended March 31, 2011	FY ended March 31, 2012	FY ended March 31, 2013	FY ended March 31, 2014	FY ended March 31, 2015
Equity ratio (%)	83.2	85.5	85.3	83.5	85.1
Equity ratio based on market price (%)	80.5	78.8	76.7	90.8	115.0

Notes:
Equity ratio: Shareholders’ equity /Total assets
Equity ratio based on market price: Market capitalization/Total assets

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) Policy Regarding Allocation of Earnings and Proposed Dividends

FANCL recognizes that ensuring shareholders obtain a fair return on their investment is a key management responsibility. Our basic policy for allocation of earnings is as follows:

Dividends	Maintain a dividend payout ratio of at least 40% of consolidated net income
Acquisition of treasury shares	Flexibly consider the acquisition of treasury shares with the aim of improving the capital efficiency ratio, while taking into account trends in the share price and future capital funding requirements
Cancellation of treasury shares	Treasury shares in excess of approximately 10% of the total number of outstanding shares will be cancelled

As determined by the Board of Directors, FANCL will pay dividends from retained earnings using September 30 of each year as the record date for payment of the interim dividend. Further, FANCL will pay dividends twice annually—an interim and year-end dividend—from retained earnings.

Based on the above, dividends for the fiscal year ended March 31, 2015 will be ¥34.00 per share representing a dividend per share of ¥17.00 for both interim and year-end dividends.

For the fiscal year ending March 31, 2016, we forecast an annual dividend of ¥34.00 per share representing a dividend per share of ¥17.00 for both interim and year-end dividends.

FANCL will conform to consolidated dividend regulations.

2. Management Policy

(1) Basic Management Policy

Management policy for the Group operations is aimed at building a structure through which we will strive to eliminate the negatives in health and beauty. Today, “dissatisfaction” and “safety concerns” are just some of the negative factors in society. The FANCL Group companies are fully focused on creating new markets and value by eliminating such negatives. Looking forward, we believe that a policy that endeavors to eliminate the negative factors will lead to increased corporate value and long-term profitability for our shareholders.

(2) Management Targets and the Medium-Term Management Strategy and Key Issues

Since its establishment, the FANCL Group has operated under a philosophy of building a system to eliminate negatives in the consumer experience, and has continued to challenge common industry practice with its preservative-free cosmetics, nutritional supplements, *Hatsuga Genmai* (germinated brown rice) and Kale Juice businesses.

Since the return of company founder Kenji Ikemori as Chairman in January 2013, the company has focused on returning to its customer-focused roots while reforming the business structure through withdrawal from unprofitable operations, strengthening the wholesale channel, developing new store types in the retail network channel, shifting to a holding company structure, and other such measures.

Despite consumer reaction to the increase in consumption tax in 2014, these management initiatives are starting to show results, with sales of FANCL cosmetics growing and a bottoming out of sales in the nutritional supplements business.

FANCL group is now building on these results with the start of a new medium-term plan (FY2016 to FY2018) aimed at achieving a higher level of growth, and is investing aggressively in marketing to achieve the Company’s growth strategy.

Basic Approach

Make strategic investments in advertising and carry out a growth strategy with the aim of doubling sales in the 5 years from FY2016

Reinforce the business foundation and invest strategically to grow sales

1. Grow sales through strategic investment
   - In the Beauty and Health business, invest in advertising at levels significantly higher than usual to achieve higher brand awareness and sales
   - Maximize advertising effects by improving the store network, investing aggressively to create a network of 350 directly managed while working to expand wholesale sales channels
   - Grow sales by using heavily marketed star products to stimulate consumer purchases of complementary items

2. Reinforce business foundation
   - Improve the capacity utilization of existing manufacturing equipment, and work to improve productivity and

reduce unit costs

- Make full use of the second R&D facility opening in FY2017 to strengthen R&D and increase the speed of product development

Business Strategy

1. **Beauty business strategy**

Reinforce the value of Mutenka anti-stress science as FANCL cosmetic's unique customer proposition, establishing a differentiated market position to grow customer numbers and raise brand loyalty

<Product strategy>

- Strengthen the facial cleansing product lineup and functionality to grow the customer base
- Progressively renew skin care products, appealing to customers who identify with the FANCL Mutenka philosophy
- Develop products and services for the promising anti-aging market that appeal to mature customers
- Enter new areas and create additional customer contacts points by drawing on FANCL's proprietary Skin Biomarker Analysis technology to develop personal skin care and other such services, while fostering FANCL's characteristic brands and technical capabilities

<Marketing strategy>

- Run concentrated campaigns promoting product features to increase penetration of wholesale store networks, increase per-store sales and capture new customers in direct marketing channels
- Develop new communication approaches through web and magazine media, appealing to the Mutenka value and brand philosophy to increase brand loyalty

<ATTENIR>

- Build the business by developing further products that reflect the ATTENIR brand founding values of quality, value and tastefulness and brand statement of "generous is beauty"
- Restore sales growth by implementing large-scale campaigns and renewing core products
- Build the customer base by pursuing a new communication channel centered on internet media, and increase customer loyalty to achieve growth in new customers and a stronger repeat rate with existing customers.

2. **Health business strategy**

Aim to be a leading health support company in Japan, in the pursuit of lifelong health and the realization of "Good Aging".

<Product strategy>

- Expand sales to middle-aged and senior customers with the development of highly differentiated products, developing business in the mature customer market
- Follow on from *Calorie Limit* and *Calorie Limit for the Mature Aged* by fostering additional star products
- Respond to new functional food labeling regulations introduced in April 2015 and strengthen sales of functional foods by drawing on FANCL's proprietary research outcomes
- Use FANCL's advanced Inner Body Effectiveness Design technology, to pursue the development of products

that are highly effective within the body

- Grow sales in the wholesale channel through the development of exclusive wholesale products and other such measures

< Marketing strategy>

- Encourage the cross-selling of other products using our star products as leads, and maximally leverage the strengths of the full product line-up with the aim of increasing sales.
- Expand sales of health foods by increasing the number of wholesale channel stores handling our products and in FANCL's store sales channel renewing or opening more hybrid shops that have a high proportion of health food sales
- Improve specialized training for store and telephone sales staff and deploy employees with specialized knowledge
- Fully launch the preventative health domain, using genetic analysis and other such technologies, by establishing mail order sales and offering services (health promotion programs) to corporations and associations.

<u>Strategy for each sales channel</u>

In domestic channels, reinforce the sales organization to optimize the effectiveness of investment in marketing.

1. Directly managed store sales

- Create an environment that makes it easy for customers to purchase products, approximately doubling the network to 350 stores
- Strengthen area marketing, using marketing channels matched to different regions to increase regbrand awareness and attract customers to directly managed stores

2. Wholesale sales

- Expand the number of stores handling our products through advertising-linked promotional campaigns, exclusive products and other such initiatives

3. Internet sales

- Based on analysis of customer purchasing behaviors, conduct web-based marketing activities closely aligned with individual customers' preferred items to create an omni-channel environment

4. Overseas strategy

・Pursue significant growth by increasing the number of stores handling FANCL's botanical skin care brand *boscia* promoted by FANCL INTERNATIONAL, INC., newly consolidated as a group company in FY2016

<u>Reinforce business foundation</u>

1. Reduce unit costs

- Make maximal use of existing manufacturing equipment and increase productivity while working to reduce unit costs

2. Develop personnel

- Train the additional employees needed for the active expansion of the store network and develop people with the skills necessary for in-store sales and telephone sales, supporting higher customer satisfaction and loyalty.

3. Pursue R&D

- Strengthen basic and foundational research by positioning FANCL’s second R&D center, scheduled to open in FY2017, as an ‘innovation research center’ to research health food evidence and search for new materials for cosmetics and health foods

3. Basic Rationale on Selection of Accounting Standards

FANCL Group currently prepares consolidated financial accounts based on Japanese accounting standards, having considered such factors as suitability for year-on-year comparisons of results and the low need to procure funding from overseas markets.

The Group will continue to assess the situation domestically and abroad with regard to the adoption of International Financial Reporting Standards (IFRS) and will respond appropriately.

4. Consolidated Financial Statements

1) Consolidated Balance Sheet

Millions of yen, rounded down

	As of March 31, 2015	As of March 31, 2014
ASSETS		
I. Current assets:		
Cash and cash equivalents	18,652	20,374
Notes and accounts receivable	8,721	10,410
Marketable securities	12,006	12,003
Merchandise and products	3,030	2,283
Work in progress	21	31
Raw materials and supplies	3,034	2,652
Deferred tax assets	1,058	1,111
Others	1,475	2,167
Allowance for doubtful accounts	(49)	(58)
Total current assets	47,951	50,975
II. Fixed assets:		
Tangible fixed assets		
Buildings and structures	25,007	21,997
Accumulated depreciation and accumulated impairment loss	(13,896)	(13,696)
Buildings and structures (net)	11,111	8,301
Machinery and transport equipment	6,870	6,693
Accumulated depreciation and accumulated impairment loss	(5,938)	(5,678)
Machinery and transport equipment (net)	931	1,014
Furniture, tools and fixtures	7,111	7,410
Accumulated depreciation and accumulated impairment loss	(6,018)	(6,342)
Furniture, tools and fixtures (net)	1,092	1,067
Land	11,951	10,177
Lease assets	384	319
Accumulated depreciation and accumulated impairment loss	(228)	(137)
Lease assets (net)	155	181
Construction in progress	622	62
Total tangible fixed assets	25,865	20,804
Intangible fixed assets		
Other intangible fixed assets	2,980	3,420
Total intangible fixed assets	2,980	3,420
Investments and other assets		
Investments securities	6,087	7,241
Deposits and guarantee money	1,073	1,511
Long-term prepaid expense	104	118
Deferred tax assets	470	790
Others	803	1,379
Allowance for doubtful accounts	(24)	(441)
Total investments and other assets	8,514	10,599
Total fixed assets	37,360	34,824
Total assets	**85,311**	**85,800**

Consolidated Balance Sheet

Millions of yen, rounded down

	As of March 31, 2015	As of March 31, 2014
LIABILITIES		
I. Current liabilities:		
Notes and accounts payable	2,115	2,258
Lease obligations	82	84
Accrued liabilities	3,018	3,462
Accrued expenses	591	679
Accrued income taxes	1,612	274
Allowance for bonuses	966	1,051
Allowance for points	1,420	1,406
Allowance for loss on business withdrawal	--	212
Asset retirement obligations	--	2
Others	587	1,947
Total current liabilities	10,394	11,381
II. Long-term liabilities:		
Lease obligations	84	111
Allowance for directors' retirement bonuses	88	76
Retirement benefit liabilities	1,063	1,579
Asset retirement obligations	359	453
Others	106	43
Total long-term liabilities	1,702	2,265
Total liabilities	12,096	13,646
NET ASSETS		
Shareholders' equity:		
Common stock	10,795	10,795
Capital reserve	11,706	11,706
Retained earnings	51,468	51,043
Treasury stock	(1,362)	(1,917)
Total shareholders' equity	72,607	71,626
Valuation and translation gain		
Net unrealized holding gain on other securities	--	5
Total adjustments related to retirement benefits	27	14
Total valuation and translation gain	27	19
Share warrants	579	508
Total net assets	73,214	72,154
Total Liabilities and Net Assets	85,311	85,800

2) Consolidated Statement of Income

Millions of yen, rounded down

	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2014
Net sales	77,632	81,118
Cost of sales	23,336	25,724
Gross profit	54,295	55,393
Selling, general and administrative expenses		
Sales promotion expenses	9,451	9,426
Packing and transport expenses	3,034	3,225
Advertising expenses	7,907	8,265
Sales commission fee	5,046	5,141
Communications expenses	1,616	1,628
Directors remuneration	603	540
Salaries and bonuses	8,972	9,032
Provision for accrued bonuses	825	874
Retirement benefit expenses	457	490
Provision for retirement benefits for directors and corporate auditors	20	22
Compulsory welfare expenses	1,259	1,221
Welfare expenses	312	285
Depreciation	2,145	2,120
Research and development expenses	933	734
Rent expenses	1,318	1,571
Provisions for allowance for bad debt	14	25
Other	6,374	6,844
Total selling, general and administrative expenses	50,294	51,450
Operating income	4,001	3,943
Non-operating income		
Interest income	18	58
Dividend income	1	1
Exchange gain	75	134
Compensation payments received	15	15
Investment income from anonymous associations	18	18
Refund of insurance premiums	0	1
Commissions earned	37	73
Other non-operating income	156	131
Total net operating income	324	435
Non-operating expenses		
Allowance for bad debts	0	0
Idle asset expense	12	79
Miscellaneous	30	36
Total net operating expenses	42	116
Ordinary income	4,283	4,262

2) Consolidated Statement of Income (continued)

Millions of yen, rounded down

	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2014
Extraordinary income		
Gain from sale of fixed assets	0	0
Gain on reversal of subscription warrants	5	2
Gain from sale of investment securities	21	--
Gain on reversal of asset retirement obligations	18	--
Gain on reversal of allowance for business withdrawal	122	--
Others	--	0
Total extraordinary income	168	2
Extraordinary expenses		
Loss on sale of fixed assets	--	14
Loss on retirement of fixed assets	107	257
Impairment loss	17	189
Loss on store closures	75	195
Litigation related loss	--	223
Loss on withdrawal of operations	--	752
Loss on sale of affiliate company equity	--	136
Loss on liquidation of subsidiaries and affiliates	--	153
Other extraordinary expenses	168	15
Total extraordinary expenses	368	1,939
Income before income taxes	4,083	2,326
Income taxes	1,574	877
Adjustment for income taxes	207	105
Total income before income taxes	1,781	982
Income before minority interests	2,301	1,343
Net income	**2,301**	**1,343**

Consolidated Statement of Comprehensive Income

Millions of yen, rounded down

	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2014
Income before minority interests	2,301	1,343
Other comprehensive income		
Net unrealized holding gain on other securities	(5)	(1)
Adjustments related to retirement benefits	13	--
Total other comprehensive income	8	(1)
Comprehensive income	2,309	1,342
(Breakdown)		
Comprehensive income attributable to owners of the parent company	2,309	1,342
Comprehensive income attributable to minor interests	--	--

3) Changes in Shareholders' Equity during the Period

April 1, 2014 to March 31, 2015 *Millions of yen, rounded down*

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	10,795	11,706	51,043	(1,917)	71,626
Cumulative effect of changes in accounting policy	--	--	296	--	296
Balance at beginning of current period reflecting changes in accounting policy	10,795	11,706	51,339	(1,917)	71,923
Changes of items during period					
Dividends of surplus	--	--	(2,162)	--	(2,162)
Net income	--	--	2,301	--	2,301
Purchase of treasury shares	--	--	--	(3)	(3)
Disposal of treasury shares	--	--	(10)	558	547
Net changes of items other than shareholders' equity	--	--	--	--	--
Total changes of items during period	--	--	128	555	683
Balance at end of current period	10,795	11,706	51,468	(1,362)	72,607

	Other comprehensive income			New share warrants	Total net assets
	Change in revaluation of marketable securities	Cumulative adjustments related to retirement benefits	Total other comprehensive income		
Balance at beginning of current period	5	14	19	508	72,154
Cumulative effect of changes in accounting policy	--	--	--	--	296
Balance at beginning of current period reflecting changes in accounting policy	5	14	19	508	72,450
Changes of items during period				--	
Dividends of surplus	--	--	--	--	(2,162)
Net income	--	--	--	--	2,301
Purchase of treasury shares	--	--	--	--	(3)
Disposal of treasury shares	--	--	--	--	547
Net changes of items other than shareholders' equity	(5)	13	8	71	79
Total changes of items during period	(5)	13	8	71	763
Balance at end of current period	--	27	27	579	73,214

April 1, 2013 to March 31, 2014 *Millions of yen, rounded down*

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	10,795	11,706	51,906	(333)	74,074
Cumulative effect of changes in accounting policy	--	--	--	--	--
Balance at beginning of current period reflecting changes in accounting policy	10,795	11,706	51,906	(333)	74,074
Changes of items during period					
Dividends of surplus	--	--	(2,183)	--	(2,183)
Net income	--	--	1,343	--	1,343
Purchase of treasury shares	--	--	--	(1,720)	(1,720)
Disposal of treasury shares	--	--	(24)	136	112
Net changes of items other than shareholders' equity	--	--	--	--	--
Total changes of items during period	--	--	(863)	(1,584)	(2,447)
Balance at end of current period	10,795	11,706	51,043	(1,917)	71,626

	Other comprehensive income			New share warrants	Total net assets
	Change in other revaluation of marketable securities	Adjustments related to retirement benefits	Total other comprehensive income		
Balance at beginning of current period	6	--	6	461	74,542
Cumulative effect of changes in accounting policy	--	--	--	--	--
Balance at beginning of current period reflecting changes in accounting policy	6	--	6	461	74,542
Changes of items during period					
Dividends of surplus	--	--	--	--	(2,183)
Net income	--	--	--	--	1,343
Purchase of treasury shares	--	--	--	--	(1,720)
Disposal of treasury shares	--	--	--	--	112
Net changes of items other than shareholders' equity	(1)	14	12	46	59
Total changes of items during period	(1)	14	12	46	(2,388)
Balance at end of current period	5	14	19	508	72,154

4) Consolidated Statement of Cash Flows

Millions of yen, rounded down

	FY ended March 31, 2015	FY ended March 31, 2014
Cash flows from operating activities		
Income before income taxes	4,083	2,326
Depreciation	2,973	2,972
Impairment loss	17	189
Stock compensation expense	183	148
Increase (decrease) in allowance for doubtful accounts	(10)	(11)
Increase (decrease) in allowance for bonuses	(84)	127
Increase (decrease) in allowance for points	13	(27)
Increase (decrease) in retirement benefit related obligation	(42)	0
Increase (decrease) in allowance for directors retirement bonuses	11	22
Increase (decrease) in allowance for loss on business withdrawal	(212)	212
Interest and dividend income	(19)	(59)
Loss (gain) from foreign exchange	(123)	(116)
Loss (gain) on investments in anonymous association	(18)	(18)
Loss (gain) on sale of sale of affiliate company equity	--	136
Loss (gain) on valuation of investment securities	(21)	--
Loss (gain) from sale of fixed assets	(0)	13
Loss on disposal of fixed assets	107	257
Loss on store closures	75	195
Gain on reversal of subscription rights to shares	(5)	(2)
Litigation related loss	--	223
Loss on business withdrawal	--	139
Loss on liquidation of subsidiaries and affiliates	--	153
Decrease (increase) in accounts receivable	1,689	(419)
Decrease (increase) in inventories	(1,117)	1,060
Decrease (increase) in other current assets	(624)	12
Decrease (increase) in other fixed assets	110	45
Decrease (increase) in accounts payable	(143)	(100)
Increase (decrease) in other current liabilities	(635)	644
Increase (decrease) in other fixed liabilities	43	(3)
Others	(123)	(83)
Sub-total	6,124	8,039
Interest and dividends received	23	78
Dividends received from anonymous associations	18	18
Income taxes paid	(219)	(1,318)
Litigation related loss paid	--	(223)
Net cash provided by (used in) operating activities	**5,946**	**6,595**

Consolidated Statement of Cash Flows (continued)

Millions of yen, rounded down

	FY ended March 31, 2015	FY ended March 31, 2014
II. Cash flows from investing activities		
Proceeds from redemption and sale of marketable securities	--	3,861
Payment for purchase of tangible fixed assets	(6,724)	(1,571)
Proceeds from sale of tangible fixed assets	0	2
Payment for acquisition of intangible fixed assets	(888)	(868)
Proceeds from sale of intangible fixed assets	--	2
Proceeds from sale and redemption of investment securities	1,000	0
Payment for investment in affiliate company	--	(44)
Payments for acquisition of shares in affiliates	--	(8)
Payment for shares of subsidiary following changes to scope of consolidation	--	(101)
Proceeds from collection of loans	--	32
Other payments	(122)	(63)
Other proceeds	726	162
Net cash used in investing activities	(5,972)	1,402
III. Cash flows from financing activities		
Proceeds from disposal of treasury stock	441	13
Payment for purchase of treasury stock	(3)	(1,720)
Cash dividends paid	(2,158)	(2,179)
Others	(100)	(68)
Net cash used in financing activities	(1,820)	(3,956)
IV. Effect of exchange rate changes on cash and cash equivalents	129	107
V. Net increase in cash and cash equivalents	(1,717)	4,149
VI. Cash and cash equivalents at the beginning of the period	32,377	28,227
VII. Cash and cash equivalents at end of period	**30,659**	**32,377**

5) Notes to the Consolidated Financial Statements

Items related to a going concern

None

Significant items for the Preparation of Consolidated Financial Statements

Except for the items stated below, items are omitted for any information that did not change significantly in the period since the most recent Securities Report (filed June 23, 2014).

Changes to the scope of consolidation
In the consolidated fiscal year under review, following the splitting of the Company (simple incorporation-type company split), the newly-established FANCL COSMETICS CORPORATION and FANCL HEALTH SCIENCE CORPORATION have been included in the scope of consolidation.

Changes in Accounting Policies

As of the consolidated fiscal year under review, Article 35 of the Accounting Standard for Retirement Benefits (Accounting Standards Board of Japan (ASBJ) Statement No. 26 issued on May 17, 2012) and article 67 of the Guideline for Accounting Standard for Retirement Benefits (ASBJ Guideline No. 25 issued on March 26, 2015) have been adopted. Accordingly, the method for calculating retirement benefits has been revised, and method of attributing expected benefit to periods has changed from a straight-line basis to a benefit formula basis, and the method for deciding discount rates has been changed from one based on the expected average remaining working life to a single weighted average discount rate.
With the adoption of the Accounting Standard for Retirement Benefits, and in accordance with transitional treatment as stipulated in article 37 of the Accounting Standard for Retirement Benefits, the impact of the change in the method of calculating retirement benefits and service costs has been reflected in retained earnings at the beginning of the fiscal year under review.

As a result of this change, retirement benefit liabilities at the beginning of the fiscal year under review decreased ¥460 million, and retained earnings increased ¥296 million.

Information regarding the impact on net assets per share can be found in the relevant sections.

Segment Information

1) 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 Corporate 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, and the Corporate Group pursues it business by formulating overriding strategies for Japan and overseas for each product handled.

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

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.

2) Accounting methods for sales, income and losses, assets and liabilities and other items in each reportable segment

Accounting methods for reportable segments are identical to those described in the “Significant items for the Preparation of Consolidated Financial Statements.”
Reportable segment income figures are on an operating income basis.

Business Segments

For the fiscal year April 1, 2014 to March 31, 2015 *(Millions of yen)*

	Reportable segments			Other*1	Total	Adjustments*2	Consolidated*3
	Cosmetics Business	Nutritional Supplements Business	Total				
1. Sales and operating income:							
(1) Sales to external customers	47,471	23,285	70,756	6,876	77,632	--	77,632
(2) Inter-segment sales or transfers	--	--	--	--	--	--	--
Total sales	47,471	23,285	70,756	6,876	77,632	--	77,632
Segment income (loss)	5,557	(4)	5,553	152	5,705	(1,704)	4,001
Segment Assets	33,375	13,774	47,149	4,386	51,535	33,775	85,311
Others							
Impairment losses	1,917	733	2,651	181	2,832	90	2,922
Increase in tangible and intangible fixed assets	1,652	844	2,497	197	2,694	5,032	7,726

Notes:

1. Other businesses: Mail-order of personal sundries, accessories, undergarments, health equipment and household sundries, mail-order and retail sales and wholesales of *Hatsuga Genmai* (germinated brown rice) and Kale Juice, etc.
2. Adjustments are as follows
   (1) The adjustment amount on segment income (loss) of (¥1,704) million includes total company expenses not distributed to each reportable segment and consist primarily of costs related to the General Affairs section of the parent company not included in the reportable segments.
   (2) The adjustment on segment assets of ¥33,775 million, include total company expenses not distributed to each reportable segment and consist primarily of cash and deposits, marketable securities, land, and investment securities of the General Affairs section of the parent company not included in the reportable segments.
3. Segment income (loss) is adjusted for operating income (loss) as recorded in the consolidated financial statements.

Business Segments

For the fiscal year April 1, 2013 to March 31, 2014 *(Millions of yen)*

	Reportable segments			Other*1	Total	Adjustments*2	Consolidated*3
	Cosmetics Business	Nutritional Supplements Business	Total				
1. Sales and operating income:							
(1) Sales to external customers	47,525	25,386	72,911	8,207	81,118	--	81,118
(2) Inter-segment sales or transfers	--	--	--	--	--	--	--
Total sales	47,525	25,386	72,911	8,207	81,118	--	81,118
Segment income (loss)	4,661	1,125	5,787	(4)	5,782	(1,839)	3,943
Segment Assets	31,212	13,992	45,205	4,599	49,804	35,995	85,800
Others							
Impairment losses	1,844	773	2,618	222	2,840	97	2,937
Increase in tangible and intangible fixed assets	1,575	825	2,400	207	2,607	61	2,669

Notes:

1. Other businesses: Mail-order of personal sundries, accessories, undergarments, health equipment and household sundries, mail-order and retail sales and wholesales of *Hatsuga Genmai* (germinated brown rice) and Kale Juice, etc.
2. Adjustments are as follows
   (1) The adjustment amount on segment income (loss) of (¥1,839) million includes total company expenses not distributed to each reportable segment and consist primarily of costs related to the General Affairs section of the parent company not included in the reportable segments.
   (2) The adjustment on segment assets of ¥35,995 million, include total company expenses not distributed to each reportable segment and consist primarily of cash and deposits, marketable securities, land, and investment securities of the General Affairs section of the parent company not included in the reportable segments.
3. Segment income (loss) is adjusted for operating income (loss) as recorded in the consolidated financial statements.

Per Share Information

	FY Ended March 31, 2014	FY ended March 31, 2015
Net assets per share	¥1,127.32	¥1,134.49
Net income per share	¥21.03	¥36.11
Net income per share (diluted)	¥20.91	¥35.76

Note:

1. The basis for the calculation of net income (loss) per share and the net income per share after adjustment for residual securities is as follows.

	FY Ended March 31, 2014	FY ended March 31, 2015
Net income per share		
Net income (loss) (¥ million)	1,343	2,301
Amount not attributable to common shareholders (¥ million)	--	--
Net income (loss) attributable to common shares (¥ million)	1,343	2,301
Average number of outstanding common shares during the year (1,000 shares)	63,889,478	63,735,262
Fully diluted earnings per share		
Net income adjustments (¥ million)	--	--
Breakdown of additional common shares used for calculating net income per share (diluted) (1,000 shares)	378,795	621,099
Residual securities not included in the calculation of the net income after adjustment for residual securities due to the fact that these securities had no dilutive effect.	1 type of share warrant (Number of diluted shares: 1,440, 800)	--

Important information after the preparation of this report

At a board meeting held on May 11, 2015, the directors resolved to acquire treasury stock pursuant to Article 459, Section 1 of the Companies Act of Japan, and in accordance with the Company's articles of association, based on Article 156 of the Companies Act of Japan.

1. Reasons for the acquisition of treasury stock
   Treasury stock acquisition is being undertaken in an effort to enhance shareholder returns and to improve capital efficiency by exercising flexible capital asset policy in response to changes in the environment.

2. Details of the acquisition of treasury stock

Type of shares	Common shares
Total number of shares	1,500,000 shares (upper limit) *Ratio to total shares issued (less treasury stock): 2.34% (as of March 31, 2015)
Acquisition amount	¥2.5 billion (upper limit)
Acquisition period	May 12, 2015 through to August 31, 2015
Method of acquisition	Purchase on the Tokyo Stock Exchange