

FANCL Corporation

Consolidated Financial Statements for the First Quarter of the Fiscal Year Ending March 31, 2018

April 1, 2017 to June 30, 2017

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)

First Quarter Results for the Fiscal Year Ending March 31, 2018

FANCL CORPORATION

July 27, 2017

www.fancl.jp/en/

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

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Scheduled date for submission of first quarter *hokokusho* (securities report): August 10, 2017

Scheduled date for distribution of dividends: -

Availability of supplementary explanatory material for the first quarter results: Available

Presentation meeting for the first quarter results: Scheduled (for institutional investors and analysts)

1) Consolidated results for the first quarter (April 1, 2017 to June 30, 2017) of the fiscal year ending March 31, 2018

(1) Consolidated Operating Results

(Millions of yen, rounded down)

	Three months ended June 30, 2017		Three months ended June 30, 2016	
		% change		% change
Net sales	25,889	10.2	23,483	6.2
Operating income	1,215	--	(114)	--
Ordinary income	1,262	--	(77)	--
Net income attributable to owners of the parent company	761	--	(241)	--
Earnings per share (¥)	12.06	--	(3.85)	--
Earnings per share (diluted) (¥)	11.92	--	--	--

Notes: 1. The percentages shown above are a comparison with the same period in the previous fiscal year.

2. Comprehensive income: Three months ended June 30, 2017: ¥729 million (--%)

Three months ended June 30, 2016: -¥303 million (--%)

(2) Consolidated Financial Position

(Millions of yen, rounded down)

	As of June 30, 2017	As of March 31, 2017
Total assets	85,084	85,677
Net assets	71,680	72,402
Shareholders' equity/total assets (%)	83.5	83.6

Shareholders' equity: As of June 30, 2017: ¥71,017 million

As of March 31, 2017: ¥71,630 million

2) Dividends per share

	FY ended March 31, 2017	FY ending March 31, 2018
Interim period	29.00	29.00 (forecast)
Year-end	29.00	29.00 (forecast)
Annual	58.00	58.00 (forecast)

Note: Changes to the dividend forecast during the period under review: None

Breakdown of interim dividend for the FY ended March 31, 2017: Ordinary dividend: ¥17.00; special dividend: ¥12.00

Breakdown of year-end dividend for the FY ended March 31, 2017: Ordinary dividend: ¥17.00; special dividend: ¥12.00

Breakdown of interim dividend for the FY ending March 31, 2018 (forecast): Ordinary dividend: ¥17.00; special dividend: ¥12.00

Breakdown of year-end dividend for the FY ending March 31, 2018 (forecast): Ordinary dividend: ¥17.00; special dividend: ¥12.00

3) Consolidated forecasts for the fiscal year ending March 31, 2018 (April 1, 2017 to March 31, 2018)

(Millions of yen)

	Six months ending September 30, 2017		Fiscal year ending March 31, 2018	
	Change (%)		Change (%)	
Net sales	49,750	7.8	105,000	9.0
Operating income	1,500	--	6,000	167.3
Ordinary income	1,550	--	6,100	155.7
Net income attributable to owners of the parent company	900	(76.8)	4,000	(22.3)
Earnings per share (¥)	14.29	--	63.50	--

Note: Changes to the Consolidated forecasts during the period under review: None

4) Other

(1) Transfer of important subsidiaries during the period: Yes

Note: Indicates transfers of specified subsidiaries resulting in changes in the scope of consolidation during the period under review.

Two companies:

FANCL COSMETICS CORPORATION

FANCL HEALTH SCIENCE CORPORATION

(2) Use of simplified accounting methods or special accounting procedures: None

(3) Changes in accounting policy, changes in accounting estimates, and restatements:

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

(4) Number of outstanding shares (common stock)

1. Number of shares outstanding (including treasury shares)	June 30, 2017	65,176,600 shares	March 31, 2017	65,176,600 shares
2. Number of treasury shares	June 30, 2017	1,821,451 shares	March 31, 2017	2,184,389 shares
3. Average number of shares during the first quarter period	Three months to June 30, 2017	63,164,358 shares	Three months to June 30, 2016	62,626,710 shares

Important Notice

Disclosure of status of quarterly report review procedures:

Quarterly financial reports are not subject to quarterly review procedures.

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, 2018.

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1. Operating Results

(1) Summary of business performance (consolidated)

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

During the three-month period under review, the Japanese economy showed a mild recovery due to improvements in employment conditions and corporate earnings, while the domestic consumption environment lacked strength as consumer prices trended downward due to uncertain conditions overseas and an increase in budget-mindedness among consumers.

Consolidated sales for the first quarter period increased 10.2% to ¥25,889 million as a result of an increase in sales in the core cosmetics and nutritional supplements businesses. Operating income was ¥1,215 million, an increase of ¥1,329 million, largely due to an increase in gross profit from an uptake in sales, and the efficient use of advertising expenses utilizing online advertisements. Ordinary income improved by ¥1,339 million to ¥1,262 million, and net income attributable to owners of the parent company improved by ¥1,003 million to ¥761 million.

Segment results are as follows:

1) Cosmetics Business

Sales

Sales from the Cosmetics business increased 13.5% to ¥15,776 million.

(Millions of yen, rounded down)

	Three months ended June 30, 2017		Three months ended June 30, 2016		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
FANCL Cosmetics	12,201	77.3	11,098	79.9	9.9
ATTENIR Cosmetics	2,650	16.8	2,083	15.0	27.2
boscia	728	4.6	462	3.3	57.6
Others	196	1.3	251	1.8	(22.0)
Totals	15,776	100.0	13,895	100.0	13.5

	Three months ended June 30, 2017		Three months ended June 30, 2016		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Mail order sales	6,656	42.2	6,075	43.7	9.6
Retail store sales	5,746	36.4	5,063	36.5	13.5
Wholesales and others	1,446	9.2	1,239	8.9	16.7
Overseas Sales	1,927	12.2	1,516	10.9	27.1
Totals	15,776	100.0	13,895	100.0	13.5

Sales of **FANCL Cosmetics** increased 9.9% to ¥12,201 million, due to the effects of *Mild Cleansing Oil* promotions, the launch of wholesale sales to a major convenience store chain, and the full-fledged launch of *Beauty BOUQUET*, a range of products aimed at the mature market.

Sales of **ATTENIR Cosmetics** increased 27.2% to ¥2,650 million, due to the effects of new product additions such as *ATTENIR MIDNIGHT MOISTURIZER (Spring & Summer)*, and a significant increase in customers resulting from a web-based communications strategy.

Sales of **boscia** increased 57.6% to ¥728 million, due to strong sales of the core *Black Series* of products.

Results by sales channels were: mail order sales increased 9.6% year on year to ¥6,656 million, retail store sales increased 13.5% to ¥5,746 million, wholesale sales through other sales channels increased 16.7% to ¥1,446 million, and overseas sales increased 27.1% to ¥1,927 million.

Operating income

Operating income increased 93.5% to ¥1,836 million, as an increase in gross profit from higher sales more than offset a strategic increase in advertising costs to further expand the customer base of ATTENIR cosmetics.

2) Nutritional Supplements Business

Sales

Nutritional supplement sales increased 9.6% to ¥8,399 million.

(Millions of yen, rounded down)

	Three months ended June 30, 2017		Three months ended June 30, 2016		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Mail order sales	3,269	38.9	3,086	40.3	5.9
Retail store sales	2,249	26.8	1,876	24.5	19.8
Wholesales and others	2,445	29.1	2,338	30.5	4.6
Overseas Sales	435	5.2	363	4.7	19.7
Totals	8,399	100.0	7,666	100.0	9.6

Revenues from product sales increased due to strong trends in sales of Foods with Function Claims *Calolimit*.

Results by sales channels were: mail order sales increased 5.9% to ¥3,269 million, retail store sales increased 19.8% to ¥2,249 million, wholesale through other sales channels increased 4.6% to ¥2,445 million and overseas sales increased 19.7% to ¥435 million.

Operating income

An operating loss of ¥257 million was recorded, a ¥191 million improvement on the previous period, resulting from the effects of increased sales.

3) Other Businesses

Sales

Other businesses decreased 10.9% year on year to ¥1,712 million

(Millions of yen, rounded down)

	Three months ended, June 30, 2017	Three months ended June 30, 2016	Change (%)
Hatsuga genmai	590	688	(14.3)
Kale juice	633	737	(14.1)
Other	488	494	(1.3)
Totals	1,712	1,921	(10.9)

Operating income

Operating income of ¥40 million was recorded, a ¥269 million improvement on the previous comparable period, as a reduction in selling, general and administrative expenses, offset a decline in sales.

(2) Summary of consolidated financial position

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

Assets decreased ¥593 million to ¥85,084 million. The primary contributing factors were an increase of ¥70 million in current assets and a decrease of ¥663 million in fixed assets.

Contributing to the increase in current assets were a ¥428 million increase in “Other” current assets due to an increase in deferred tax assets, and a ¥353 million decrease in notes and accounts receivable. The decrease in fixed assets was primarily the result of a decrease of ¥522 million in investments and other assets - “Others” due to a decrease in deferred tax assets.

Liabilities increased ¥128 million from the end of the previous fiscal year to ¥13,403 million. The primary contributing factor was an increase of ¥859 million in current liabilities and a decrease of ¥731 million in long-term liabilities. Factors contributing to the increase in current liabilities include a ¥693 million increase in “Other” current liabilities due to an increase in accounts payable. Contributing to the decrease in long-term liabilities was a ¥746 million decrease in retirement benefit liabilities.

Net assets decreased ¥721 million to ¥71,680 million. Contributing factors included a ¥1,826 million decline in retained earnings from dividend payments, a ¥761 million increase in retained earnings due to the recording of net income attributable to owners of the parent, and a ¥526 million decline in treasury stock due to the disposal upon exercise of stock acquisition rights of treasury stock.

As a result, the shareholders’ equity ratio fell 0.1 percentage points from the end of the previous fiscal year to 83.5%.

(3) Forecasts for the fiscal year ending March 31, 2018

The interim and full-year consolidated results forecasts are unchanged from that announced on April 27, 2017.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheets

<i>Millions of yen, rounded down</i>		
	As of June 30, 2017	As of March 31, 2017
ASSETS		
I. Current assets:		
Cash and cash equivalents	31,866	31,609
Notes and accounts receivable.....	10,747	11,101
Merchandise and products	3,675	3,833
Work in progress	51	23
Raw materials and supplies.....	3,642	3,763
Others	3,702	3,273
Allowance for doubtful accounts	(90)	(79)
Total current assets.....	53,596	53,526
II. Fixed assets:		
Tangible fixed assets		
Buildings and structures	27,237	27,156
Accumulated depreciation and accumulated impairment loss	(15,146)	(14,985)
Buildings and structures (net)	12,091	12,170
Machinery and transport equipment.....	8,422	8,408
Accumulated depreciation and accumulated impairment loss	(6,642)	(6,534)
Machinery and transport equipment (net)	1,779	1,874
Furniture, tools and fixtures.....	8,119	8,025
Accumulated depreciation and accumulated impairment loss	(6,834)	(6,772)
Furniture, tools and fixtures (net).....	1,285	1,252
Land.....	11,607	11,607
Lease assets	312	268
Accumulated depreciation and accumulated impairment loss	(169)	(148)
Lease assets (net).....	142	119
Others	57	25
Total tangible fixed assets.....	26,963	27,049
Intangible fixed assets		
Others	1,991	2,045
Total intangible fixed assets.....	1,991	2,045
Investments and other assets		
Investment securities	126	128
Others	2,405	2,928
Total investments and other assets	2,532	3,056
Total fixed assets	31,487	32,151
Total Assets.....	85,084	85,677

Consolidated Balance Sheets, continued

	<i>Millions of yen, rounded down</i>	
	As of June 30, 2017	As of March 31, 2017
LIABILITIES		
I. Current liabilities:		
Notes and accounts payable	2,420	2,307
Accrued income taxes.....	537	1,088
Allowance for bonus	1,606	1,030
Allowance for points.....	1,646	1,617
Asset retirement obligations	2	2
Others	5,958	5,264
Total current liabilities	12,170	11,310
II. Long-term liabilities:		
Retirement benefit liabilities.....	557	1,303
Asset retirement obligations	417	416
Others	258	245
Total long-term liabilities.....	1,233	1,965
Total liabilities.....	13,403	13,275
NET ASSETS		
Shareholders' equity		
Common stock	10,795	10,795
Capital surplus	11,706	11,706
Retained earnings	51,321	52,339
Treasury stock.....	(2,644)	(3,170)
Total shareholders' equity	71,088	71,670
Other comprehensive income		
Foreign currency translation adjustment.....	80	119
Total adjustments related to retirement benefits	(151)	(159)
Total other comprehensive income.....	(70)	(39)
Warrants.....	662	771
Total net assets	71,680	72,402
Total Liabilities and Net Assets	85,084	85,677

(2) Consolidated statements of income and Consolidated statements of comprehensive income
Consolidated statements of income

Millions of yen, rounded down

	April 1, 2017 to June 30, 2017	April 1, 2016 to June 30, 2016
Net sales	25,889	23,483
Cost of sales	7,602	7,054
Gross profit	18,286	16,428
Selling, general and administrative expenses	17,071	16,542
Operating income	1,215	(114)
Non-operating income		
Interest income	1	1
Dividend income	0	0
Rental income	25	26
Other non-operating income	34	44
Total non-operating income	61	72
Non-operating expenses		
Rent expenses on fixed assets	9	8
Loss on foreign exchange	--	17
Other non-operating expenses	5	9
Total non-operating expenses	14	36
Ordinary income	1,262	(77)
Extraordinary income		
Income from sale of fixed assets	--	0
Gain on reversal of subscription rights to shares	1	2
Gain on transfer of retirement benefit plan	5	--
Total extraordinary income	7	2
Extraordinary loss		
Loss on disposal of fixed assets	2	4
Impairment loss	0	59
Loss on closure of stores	0	3
Loss on valuation of stocks in subsidiaries and affiliates	1	--
Other	--	0
Total extraordinary loss	5	67
Income before income taxes	1,263	(142)
Income and other taxes	342	407
Adjustments to income and other taxes	159	(308)
Total income and other taxes	501	99
Net income	761	(241)
Net income attributable to owners of the parent company	761	(241)

Consolidated statements of comprehensive income

Millions of yen, rounded down

	April 1, 2017 to June 30, 2017	April 1, 2016 to June 30, 2016
Income before minority interests.....	761	(241)
Other comprehensive income		
Foreign currency translation adjustment.....	(39)	(66)
Adjustments related to retirement benefits.....	7	4
Total other comprehensive income	(31)	(61)
Comprehensive income	729	(303)
(Breakdown)		
Comprehensive income attributable to owners of the parent company	729	(303)
Comprehensive income attributable to minor interests.....	--	--

(3) Notes to the consolidated financial statements

Items related to going concern:

No applicable items

Note on significant change in shareholders' equity

No applicable items

Transfer of important subsidiaries during the period

From the consolidated first quarter period under review, consolidated subsidiaries and special subsidiaries FANCL COSMETICS CORPORATION and FANCL HEALTH SCIENCE CORPORATION were removed from the scope of consolidation due to their dissolution following an absorption-type merger, with FANCL Corporation as the surviving company.

Segment information

Business Segments

1. Three months ended June 30, 2017

(Millions of yen, rounded down)

	Business Segments			Total	Eliminations or Corporate* ²	Consolidated * ³
	Cosmetics Business	Nutritional Supplements Business	Other Businesses * ¹			
1. Sales and operating income:						
(1) Sales to external customers	15,776	8,399	1,712	25,889	--	25,889
(2) Inter-segment sales or transfers	--	--	--	--	--	--
Total sales	15,776	8,399	1,712	25,889	--	25,889
Operating income (loss)	1,836	(257)	40	1,619	(403)	1,215

Notes:

1. The Other Businesses segment consists of sundries, personnel effects, comfort undergarments, Hatsuga genmai (germinated brown rice), and kale juice
2. The adjustment amount on segment income (loss) of (¥403 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.
3. Segment income (loss) is adjusted for operating income (loss) as recorded in the consolidated financial statements.

2. Three months ended June 30, 2016

(Millions of yen, rounded down)

	Business Segments			Total	Eliminations or Corporate* ²	Consolidated * ³
	Cosmetics Business	Nutritional Supplements Business	Other Businesses * ¹			
1. Sales and operating income:						
(1) Sales to external customers	13,895	7,666	1,921	23,483	--	23,483
(2) Inter-segment sales or transfers	--	--	--	--	--	--
Total sales	13,895	7,666	1,921	23,483	--	23,483
Operating income (loss)	949	(449)	(229)	270	(384)	(114)

Notes:

1. The Other Businesses segment consists of sundries, personnel effects, comfort undergarments, Hatsuga genmai (germinated brown rice), and kale juice

2. The adjustment amount on segment income (loss) of (¥384 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.
3. Segment income (loss) is adjusted for operating income (loss) as recorded in the consolidated financial statements.