

FANCL Corporation

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

April 1, 2017 to December 31, 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)

Results for the Nine-Month Period of the Fiscal Year Ending March 31, 2018

FANCL CORPORATION

January 30, 2018

www.fancl.jp/en/

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Scheduled date for submission of third quarter *hokokusho* (securities report): February 13, 2018

Scheduled date for distribution of dividends: -

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

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

1) Consolidated results for the nine-month period (April 1, 2017 to December 31, 2017) of the fiscal year ending March 31, 2018

(1) Consolidated Operating Results

(Millions of yen, rounded down)

| | Nine months ended December 31, 2017 | | Nine months ended December 31, 2016 | |
|---------------------------------------------------------------|----------------------------------------|----------|----------------------------------------|----------|
| | | % change | | % change |
| Net sales | 81,592 | 13.8 | 71,674 | 5.4 |
| Operating income | 7,035 | -- | (440) | -- |
| Ordinary income | 7,190 | -- | (331) | -- |
| Net income attributable to owners of the parent company | 4,839 | 21.0 | 4,001 | 334.2 |
| Earnings per share (¥) | 76.39 | -- | 63.73 | -- |
| Earnings per share (diluted) (¥) | 75.54 | -- | 62.95 | -- |

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

2. Comprehensive income: Nine months ended December 31, 2017: ¥4,842 million (26.2%)

Nine months ended December 31, 2016: ¥3,838 million (323.2%)

(2) Consolidated Financial Position

(Millions of yen, rounded down)

| | As of December 31, 2017 | As of March 31, 2017 |
|---------------------------------------------|-------------------------|----------------------|
| Total assets | 87,939 | 85,677 |
| Net assets | 74,322 | 72,402 |
| Shareholders' equity/total assets (%) | 83.6 | 83.6 |

Shareholders' equity: As of December 31, 2017: ¥73,516 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 |
| 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: 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)

| | Fiscal year ending March 31, 2018 | |
|---------------------------------------------------------------|--------------------------------------|------------|
| | | Change (%) |
| Net sales | 107,500 | 11.6 |
| Operating income | 7,700 | 243.1 |
| Ordinary income | 7,850 | 229.1 |
| Net income attributable to owners of the parent company | 5,400 | 4.9 |
| Earnings per share (¥) | 85.72 | -- |

Note: Changes to the Consolidated forecasts during the period under review: Yes

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) | December 31, 2017 | 65,176,600 shares | March 31, 2017 | 65,176,600 shares |
| 2. Number of treasury shares | December 31, 2017 | 1,649,211 shares | March 31, 2017 | 2,184,389 shares |
| 3. Average number of shares during the nine-month period | Nine months to December 31, 2017 | 63,356,931 shares | Nine months to December 31, 2016 | 62,784,910 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.

Contents

1. Operating Results

| | |
|--------------------------------------------------------------|---|
| (1) Summary of business performance..... | 5 |
| (2) Summary of consolidated financial position..... | 7 |
| (3) Forecasts for the fiscal year ending March 31, 2018..... | 7 |

2. Consolidated Financial Statements

| | |
|---------------------------------------------------------------------------------------------|----|
| (1) Consolidated balance sheets..... | 8 |
| (2) Consolidated statement of income and Consolidated statement of comprehensive income.... | 10 |
| Consolidated statement of income..... | 10 |
| Consolidated statement of comprehensive income..... | 11 |
| (3) Notes to the consolidated financial statements..... | 12 |
| Items related to going concern..... | 12 |
| Note on significant change in shareholders' equity..... | 12 |
| Transfer of important subsidiaries during the period..... | 12 |
| Segment information..... | 12 |

1. Operating Results

(1) Summary of business performance (consolidated)

(All comparisons are with the nine-month period of the previous fiscal year, unless stated otherwise.)

During the nine-month period under review, the Japanese economy continued to show a mild recovery amid ongoing improvements in employment and income conditions and solid consumer spending. A cautious outlook remains due to ongoing uncertainty overseas.

Amid these conditions, consolidated sales for the nine-month period increased 13.8% to ¥81,592 million due to an increase in sales in the core cosmetics and nutritional supplements businesses. Operating income was ¥7,035 million, compared to an operating loss of ¥440 million in the previous nine-month period, due to an increase in gross profit from increased sales, as well as higher composition of sales the high-profit cosmetics business, and efforts to use marketing expenditure more efficiently. Ordinary income was ¥7,190 million, compared to a loss of ¥331 million in the previous nine-month period. Net income attributable to owners of the parent company increased 21.0% to ¥4,839 million.

Segment results are as follows:

1) Cosmetics Business

Sales

Sales from the Cosmetics business increased 17.0% to ¥49,387 million.

(Millions of yen, rounded down)

| | Nine months ended December 31, 2017 | | Nine months ended December 31, 2016 | | Change (%) |
|-------------------|----------------------------------------|---------------------|----------------------------------------|---------------------|------------|
| | Amount in ¥ million | Percent of total | Amount in ¥ million | Percent of total | |
| FANCL Cosmetics | 37,931 | 76.8 | 33,240 | 78.7 | 14.1 |
| ATTENIR Cosmetics | 8,483 | 17.2 | 6,748 | 16.0 | 25.7 |
| boscia | 2,320 | 4.7 | 1,587 | 3.8 | 46.1 |
| Others | 651 | 1.3 | 651 | 1.5 | 0.1 |
| Totals | 49,387 | 100.0 | 42,228 | 100.0 | 17.0 |

| | Nine months ended December 31, 2017 | | Nine months ended December 31, 2016 | | Change (%) |
|-----------------------|----------------------------------------|---------------------|----------------------------------------|---------------------|------------|
| | Amount in ¥ million | Percent of total | Amount in ¥ million | Percent of total | |
| Mail order sales | 20,827 | 42.2 | 18,826 | 44.6 | 10.6 |
| Retail store sales | 17,579 | 35.6 | 14,862 | 35.2 | 18.3 |
| Wholesales and others | 5,169 | 10.5 | 3,860 | 9.1 | 33.9 |
| Overseas sales | 5,811 | 11.7 | 4,678 | 11.1 | 24.2 |
| Totals | 49,387 | 100.0 | 42,228 | 100.0 | 17.0 |

Sales of **FANCL Cosmetics** increased 14.1% to ¥37,931 million, due to the renewal of *Mild Cleansing Oil*, an increase in customer numbers of basic skincare products, and contributions from *Beauty BOUQUET* cosmetics for the mature market.

Sales of **ATTENIR Cosmetics** increased 25.7% to ¥8,483 million, due to the effects of new product additions such as *ATTENIR MIDNIGHT MOISTURIZER* and *LIFT GENESIS*, and a significant increase in customers resulting from a web-based communications strategy.

Sales of **boscia** increased 46.1% to ¥2,320 million due strong sales of core product *Black Mask*.

Results by sales channels were: mail order sales increased 10.6% year on year to ¥20,827 million, retail store sales increased 18.3% to ¥17,579 million, wholesale sales through other sales channels increased 33.9% to ¥5,169 million, and overseas sales increased 24.2% to ¥5,811 million.

Operating income

Operating income increased 165.1% to ¥7,450 million due to an increase in gross profit resulting from higher sales, as well as an improvement in gross profit margin accompanying a growth in sales of core products, and the efficient use of advertising expenses through the utilization of online channels.

2) Nutritional Supplements Business

Sales

Nutritional supplement sales increased 12.4% to ¥26,867 million.

(Millions of yen, rounded down)

| | Nine months ended December 31, 2017 | | Nine months ended December 31, 2016 | | Change (%) |
|-----------------------|----------------------------------------|---------------------|----------------------------------------|---------------------|------------|
| | Amount in ¥ million | Percent of total | Amount in ¥ million | Percent of total | |
| Mail order sales | 10,235 | 38.1 | 9,847 | 41.2 | 3.9 |
| Retail store sales | 7,514 | 28.0 | 5,749 | 24.1 | 30.7 |
| Wholesales and others | 7,723 | 28.7 | 7,182 | 30.0 | 7.5 |
| Overseas Sales | 1,394 | 5.2 | 1,119 | 4.7 | 24.5 |
| Totals | 26,867 | 100.0 | 23,898 | 100.0 | 12.4 |

Revenues from product sales increased due to strong trends in sales of the *Calolimit* series of Foods with Function Claims, *Age Bracket-Based Supplements*, and *HTC COLLAGEN*.

Results by sales channels were: mail order sales increased 3.9% to ¥10,235 million, retail store sales increased 30.7% to ¥7,514 million, wholesale through other sales channels increased 7.5% to ¥7,723 million, and overseas sales increased 24.5% to ¥1,394 million.

Operating income

Operating income was ¥782 million, compared to a ¥1,476 million operating loss in the previous comparable period, due to an increase in gross profit from higher sales, as well as an improvement in the gross profit margin resulting from growth in sales of core products, and the efficient use of marketing expenses.

3) Other Businesses

Sales

Other businesses decreased 3.8% year on year to ¥5,337 million

(Millions of yen, rounded down)

| | Nine months ended December 31, 2017 | Nine months ended December 31, 2016 | Change (%) |
|----------------|----------------------------------------|----------------------------------------|------------|
| Hatsuga genmai | 1,726 | 1,902 | (9.2) |
| Kale juice | 1,993 | 2,067 | (3.6) |
| Other | 1,617 | 1,577 | 2.6 |
| Totals | 5,337 | 5,547 | (3.8) |

Operating income

Operating income of ¥175 million was recorded, compared to an operating loss of ¥526 million in the previous comparable period, as a reduction in general administrative and selling 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 increased ¥2,261 million to ¥87,939 million. The primary contributing factors were an increase of ¥3,586 million in current assets and a decrease of ¥1,324 million in fixed assets.

Contributing to the increase in current assets were a ¥1,281 million increase in cash and cash equivalents, and a ¥2,751 million increase in notes and accounts receivable. The decrease in fixed assets was primarily the result of a ¥1,072 million decrease in investment and other assets – “Other” – due to a decrease in deferred tax assets.

Liabilities increased ¥340 million from the end of the previous fiscal year to ¥13,616 million. The primary contributing factor was an increase of ¥1,100 million in current liabilities and a decrease of ¥759 million in long-term liabilities. Factors contributing to the increase in current liabilities included a ¥557 million increase in notes and accounts payable, and a ¥1,301 million increase in “Other” current liabilities due to an increase in accounts payable, as well as a ¥409 million decrease in accrued income taxes and a ¥385 million decrease in allowance for bonus. The primary factor contributing to the decrease in long-term liabilities was a ¥778 million decrease in retirement benefit liabilities.

Net assets increased ¥1,920 million to ¥74,322 million. Contributing factors included a ¥4,839 million increase in retained earnings due to the recording of net income attributable to owners of the parent, and a ¥775 million decline in treasury stock due to the disposal upon exercise of stock acquisition rights of treasury stock, as well as a ¥3,667 million decrease in retained earnings from the payment of dividends.

As a result, the shareholders' equity ratio was at the same level as the end of the previous fiscal year, at 83.6%.

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

Revisions have been made to the consolidated full-year results forecast for the fiscal year ending March 31, 2018 that were announced with the earnings report on April 27, 2017. Details are as follows.

(Consolidated full-year period)

| | Revised forecasts | | Previously announced forecasts | |
|---------------------------------------------------------------|-------------------|------------|--------------------------------|------------|
| | | Change (%) | | Change (%) |
| Net sales | 107,500 | 11.6 | 105,000 | 9.0 |
| Operating income | 7,700 | 243.1 | 6,000 | 167.3 |
| Ordinary income | 7,850 | 229.1 | 6,100 | 155.7 |
| Net income attributable to owners of the parent company | 5,400 | 4.9 | 4,000 | (22.3) |
| Earnings per share (¥) | 85.72 | -- | 63.50 | -- |

Net sales are expected to be higher than previously estimated due to factors including strong sales in FANCL Cosmetics and ATTENIR, and higher-than-expected inbound demand.

Despite additional advertising investment anticipated for Q4, operating income, ordinary income and net income figures are expected to exceed previous forecasts due to an increase in revenue.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheets

| <i>Millions of yen, rounded down</i> | | |
|-------------------------------------------------------------------|----------------------------|-------------------------|
| | As of December 31, 2017 | As of March 31, 2017 |
| ASSETS | | |
| I. Current assets: | | |
| Cash and cash equivalents | 32,891 | 31,609 |
| Notes and accounts receivable | 13,852 | 11,101 |
| Merchandise and products | 3,961 | 3,833 |
| Work in progress | 25 | 23 |
| Raw materials and supplies | 4,063 | 3,763 |
| Others | 2,432 | 3,273 |
| Allowance for doubtful accounts | (113) | (79) |
| Total current assets | 57,112 | 53,526 |
| II. Fixed assets: | | |
| Tangible fixed assets | | |
| Buildings and structures | 27,367 | 27,156 |
| Accumulated depreciation and accumulated impairment loss | (15,516) | (14,985) |
| Buildings and structures (net) | 11,850 | 12,170 |
| Machinery and transport equipment | 8,634 | 8,408 |
| Accumulated depreciation and accumulated impairment loss | (6,904) | (6,534) |
| Machinery and transport equipment (net) | 1,730 | 1,874 |
| Furniture, tools and fixtures | 8,250 | 8,025 |
| Accumulated depreciation and accumulated impairment loss | (7,089) | (6,772) |
| Furniture, tools and fixtures (net) | 1,161 | 1,252 |
| Land | 11,607 | 11,607 |
| Lease assets | 312 | 268 |
| Accumulated depreciation and accumulated impairment loss | (160) | (148) |
| Lease assets (net) | 152 | 119 |
| Others | 128 | 25 |
| Total tangible fixed assets | 26,630 | 27,049 |
| Intangible fixed assets | | |
| Other | 2,214 | 2,045 |
| Total intangible fixed assets | 2,214 | 2,045 |
| Investments and other assets | | |
| Investment securities | 126 | 128 |
| Others | 1,855 | 2,928 |
| Total investments and other assets | 1,982 | 3,056 |
| Total fixed assets | 30,826 | 32,151 |
| Total Assets | 87,939 | 85,677 |

Consolidated Balance Sheets, continued

Millions of yen, rounded down

| | As of December 31, 2017 | As of March 31, 2017 |
|-----------------------------------------------------------|----------------------------|-------------------------|
| LIABILITIES | | |
| I. Current liabilities: | | |
| Notes and accounts payable | 2,864 | 2,307 |
| Accrued income taxes | 678 | 1,088 |
| Allowance for bonus | 645 | 1,030 |
| Allowance for points | 1,654 | 1,617 |
| Asset retirement obligations | 1 | 2 |
| Others | 6,566 | 5,264 |
| Total current liabilities | 12,410 | 11,310 |
| II. Long-term liabilities: | | |
| Retirement benefit liabilities | 524 | 1,303 |
| Asset retirement obligations | 420 | 416 |
| Others | 260 | 245 |
| Total long-term liabilities | 1,206 | 1,965 |
| Total liabilities | 13,616 | 13,275 |
| NET ASSETS | | |
| Shareholders' equity | | |
| Common stock | 10,795 | 10,795 |
| Capital surplus | 11,706 | 11,706 |
| Retained earnings | 53,446 | 52,339 |
| Treasury stock | (2,395) | (3,170) |
| Total shareholders' equity | 73,552 | 71,670 |
| Other comprehensive income | | |
| Foreign currency translation adjustment | 86 | 119 |
| Total adjustments related to retirement benefits | (122) | (159) |
| Total other comprehensive income | (36) | (39) |
| Warrants | 805 | 771 |
| Total net assets | 74,322 | 72,402 |
| Total Liabilities and Net Assets | 87,939 | 85,677 |

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

Millions of yen, rounded down

| | April 1, 2017 to December 31, 2017 | April 1, 2016 to December 31, 2016 |
|-----------------------------------------------------------------|---------------------------------------|---------------------------------------|
| Net sales | 81,592 | 71,674 |
| Cost of sales..... | 23,539 | 21,381 |
| Gross profit | 58,052 | 50,292 |
| Selling, general and administrative expenses | 51,017 | 50,733 |
| Operating income..... | 7,035 | (440) |
| Non-operating income | | |
| Interest income | 3 | 3 |
| Dividend income | 0 | 0 |
| Rental income..... | 77 | 78 |
| Other non-operating income..... | 123 | 122 |
| Total non-operating income..... | 204 | 204 |
| Non-operating expenses | | |
| Rent expenses on fixed assets | 26 | 26 |
| Loss on foreign exchange | -- | 43 |
| Other non-operating expenses..... | 22 | 24 |
| Total non-operating expenses | 49 | 94 |
| Ordinary income..... | 7,190 | (331) |
| Extraordinary income | | |
| Income from sale of fixed assets | -- | 0 |
| Gain on reversal of subscription rights to shares | 3 | 36 |
| Gain on sale of investment securities..... | -- | 4,440 |
| Gain on transfer of retirement benefit plan ... | 5 | -- |
| Total extraordinary income | 8 | 4,477 |
| Extraordinary loss | | |
| Loss on sale of fixed assets | 0 | 0 |
| Loss on disposal of fixed assets..... | 43 | 28 |
| Impairment loss | 1 | 64 |
| Loss on closure of stores | 86 | 26 |
| Other | 1 | 1 |
| Total extraordinary loss | 132 | 121 |
| Income before income taxes | 7,066 | 4,024 |
| Income and other taxes..... | 1,073 | 593 |
| Adjustments to income and other taxes..... | 1,153 | (570) |
| Total income and other taxes | 2,227 | 23 |
| Net income | 4,839 | 4,001 |
| Net income attributable to owners of the parent company..... | 4,839 | 4,001 |

Consolidated statement of comprehensive income

Millions of yen, rounded down

| | April 1, 2017 to December 31, 2017 | April 1, 2016 to December 31, 2016 |
|---------------------------------------------------------------------------|---------------------------------------|---------------------------------------|
| Income before minority interests..... | 4,839 | 4,001 |
| Other comprehensive income | | |
| Foreign currency translation adjustment..... | (33) | (166) |
| Adjustments related to retirement benefits..... | 36 | 4 |
| Total other comprehensive income..... | 2 | (162) |
| Comprehensive income | 4,842 | 3,838 |
| (Breakdown) | | |
| Comprehensive income attributable to owners of the parent company..... | 4,842 | 3,838 |
| 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, 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. Nine months ended December 31, 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 | 49,387 | 26,867 | 5,337 | 81,592 | -- | 81,592 |
| (2) Inter-segment sales or transfers | -- | -- | -- | -- | -- | -- |
| Total sales | 49,387 | 26,867 | 5,337 | 81,592 | -- | 81,592 |
| Operating income (loss) | 7,450 | 782 | 175 | 8,408 | (1,372) | 7,035 |

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 (¥1,372 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. Nine months ended December 31, 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 | 42,228 | 23,898 | 5,547 | 71,674 | -- | 71,674 |
| (2) Inter-segment sales or transfers | -- | -- | -- | -- | -- | -- |
| Total sales | 42,228 | 23,898 | 5,547 | 71,674 | -- | 71,674 |
| Operating income (loss) | 2,810 | (1,476) | (526) | 807 | (1,248) | (440) |

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 (¥1,248 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.