FANCL

FANCL Renaissance

Annual Report 2013

For the Year Ended March 31, 2013

Profile

"I want to provide a completely "Mutenka" line of cosmetics that will make the customer's skin even more beautiful."

This was the kind of idea and desire that led Kenji Ikemori to found FANCL in April 1980.

Since then, we have expanded business on the basis of our management philosophy of striving to eliminate the negatives that affect people's lives around the world—dissatisfactions, uncertainties, and inconveniences. Nowadays, our principal business is the manufacture and sale of cosmetics and nutritional supplements, and our sales are conducted through three main channels: mail order (including online sales), directly operated retail stores, and wholesale.

In recent years, our business environment has been rapidly changing and competition has been intensifying. As a result, FANCL is now tackling a major transformation of its business, under the leadership of our founder. While achieving this major transformation in a speedy manner, we will continue to contribute to society by rising to the challenge of eliminating the negatives that affect people's lives around the world.

Management Philosophy

"Can Achieve More"

FANCL Group is a corporation that truly cares for people.
FANCL has strived to eliminate customers' negative experiences and pursue gentleness, safety, and assurance of its products.

We always put ourselves in customers' shoes and the happiness of our customers forms the basis of everything we do.

About the concept of "Mutenka"

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

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

"Preservatives" "Sterilisers" "Petroleum surfactants" "Fragrances" "Mineral oils" "Ultraviolet absorbents" "Artificial colorings"

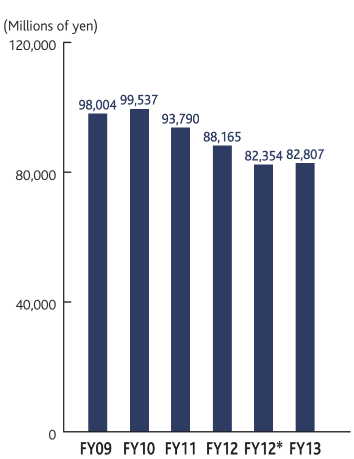
Financial Highlights

FANCL CORPORATION and Consolidated Subsidiaries
For the years ended March 31

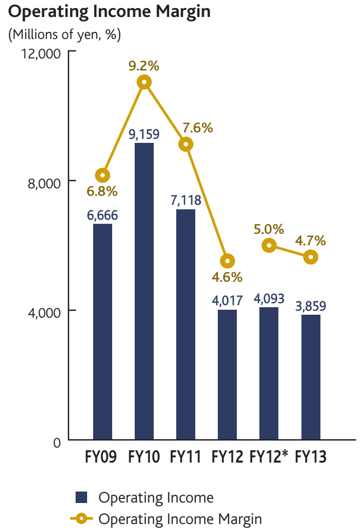
	Millions of yen				Thousands of U.S. dollars (Note 1)
	2013 (A)	2012 (B)	2012 (Note 2)	Change (A) – (B)	2013
For the year:					
Net sales	**¥ 82,807**	¥ 88,165	¥82,354	¥(5,358)	**$880,457**
Operating income	**3,859**	4,017	4,093	(158)	**41,027**
Net income (loss)	**(2,194)**	2,454	1,845	(4,648)	**(23,324)**
Net cash provided by operating activities	**6,146**	6,322	–	(176)	**65,344**
Net cash used in investing activities	**(823)**	(7,009)	–	6,186	**(8,749)**
Net cash used in financing activities	**(2,252)**	(2,316)	–	64	**(23,943)**
	Millions of yen				Thousands of U.S. dollars (Note 1)
At year-end:					
Total assets	**¥ 86,849**	¥ 91,739	¥ –	¥(4,890)	**$923,435**
Equity	**74,081**	78,454	–	(4,372)	**787,680**
	Yen				U.S. dollars (Note 1)
Per share:					
Net income	**¥ (33.8)**	¥ 37.8	¥ –	¥ (71.6)	**$ (0.36)**
Equity	**1,141.4**	1,209.1	–	(67.8)	**12.14**
Cash dividends	**34.0**	34.0	–	0.0	**0.18**
	%				
Ratio:					
Operating income margin (%)	**4.7**	4.6	5.0	0.1	
Advertising and sales promotion expenses ratio (%)	**21.5**	22.0	21.1	(0.5)	
ROE (%)	**(2.9)**	3.1	–	(6.0)	

Notes: 1. U.S. dollar amounts are the yen equivalent, calculated, for convenience only, at a rate of ¥94.05 = U.S.$1, the approximate Tokyo foreign exchange rate as of March 31, 2013.
2. On February 1, 2012, sundries business IIMONO OHKOKU Co., Ltd. was separated and all shares were transferred outside of the FANCL Group. In order to enable a more accurate analysis, results for the nine-month period of both the current and previous consolidated fiscal year have been restated to exclude the results of IIMONO OHKOKU Co., Ltd.

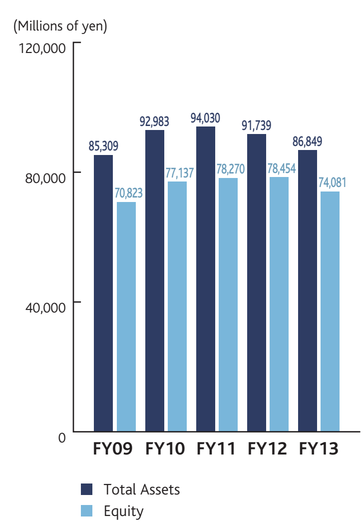
Net Sales



Operating Income and Operating Income Margin



Total Assets and Equity



* Figures exclude the effects of IIMONO OHKOKU on consolidated performance.

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FANCL Renaissance

FANCL is now working to achieve a major transformation, spearheaded by the leadership of our founder. In this feature, we introduce the ideas of our founder Kenji Ikemori who is spearheading this transformation.

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Strengthening Our Human Capital Base

In this feature we give an overview of the newly established FANCL College, and introduce comments from some of the staff there who are working hard on FANCL's front lines. They shed light on the fact that our strategy of strengthening FANCL's human capital base is the key to attaining our major transformation.

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

My Thought for FANCL

Kenji Ikemori
Founder, Chairman,
Representative Director

"Delivering happiness to as many people as possible. Helping and pleasing anyone in need.

It was on this basis that I founded FANCL."

Cosmetics are supposed to make women more beautiful, but can actually cause skin problems.

Skin trouble caused by cosmetics became a major social concern in the late 1970s. Realizing that these problems stemmed from the additives (such as preservatives) included in cosmetics at that time, FANCL developed additive-free “Mutenka Skincare.” The technology used by FANCL to develop safe cosmetics free of additives is now recognized as world-class.

In the field of health foods, FANCL was first in Japan to use the term “dietary supplement,” back when supplements were still too expensive to take on a daily basis. FANCL launched high-quality supplements with affordable prices, propelling such products to the forefront of the nation’s consciousness.

In this manner, a philosophy of “eliminating the negatives around us” has underpinned FANCL’s business evolution.

Amid rapid change in the market environment, however, FANCL’s businesses are struggling to stand out.

We now recognize a need to maintain the company’s strong points while also moving quickly enough to address areas where we have failed to move on with the times.

It is under these challenging circumstances that I become directly involved in management again, after an absence of 10 years. Over the next three years, I will pursue speedy execution of major reforms, leveraging my status as FANCL’s founder. I believe that operating under our own founding principles and strengthening our understanding of customers are key to putting FANCL’s business back on a growth trajectory and making progress toward globalization.

As the founder, I approach the task of rebuilding FANCL from the ground up with unflagging resolve, with a view to ensuring that the company continues to evolve over the next ten—even twenty—years.

August 2013

Kenji Ikemori

Kenji Ikemori
Founder, Chairman, Representative Director

To Our Shareholders and Other Stakeholders

Our business philosophy since the FANCL Group was established has been to develop a system to eliminate negatives in the consumer experience of health and beauty products.

Amid rapidly changing market conditions and intense competition, we are returning to the basic FANCL philosophy of focusing on the customer as we seek to revive growth and develop as a global enterprise. We adopted a new management structure in January 2013 as part of focusing on this core theme of building strong relationships with customers worldwide.

Kenji Ikemori
Founder, Chairman,
Representative Director

Kazuyoshi Miyajima
President, Representative Director

1 Our New Management Policy

Urgent Focus on Reviving Growth through Drastic Reforms

Under the new management structure, we have formulated 11 business policies over three core categories of the operating platform, R&D and product development, and Group strategy.

In March 2013, we reorganized the Group's operations in the form of a holding company overseeing in-house operating companies.

In April 2014, we plan to spin off the Group's cosmetics operations into a new firm called FANCL Cosmetics and the Group's nutritional supplements operations into a separate firm called FANCL HealthScience, with FANCL Corporation becoming a wholly owning parent holding company. This structure will enhance the technical expertise that FANCL possesses in each area and support the autonomy of each business, while also allowing us to focus on strengthening corporate governance through appropriate checks and balances.

We have been working to build the value of our corporate brands, including repositioning the FANCL brand within the cosmetics field. We realize that we must continue these efforts going forward to develop the Group within the global marketplace.

Within this rebranding initiative, the role of the holding company is to optimize policy settings for the whole of the FANCL Group and ensure prompt decision-making.

FANCL is also bringing women into the senior ranks of management for the first time. At the start of March 2013, we appointed one woman to the post of Senior Managing Director and a further four female Executive Officers. In the future we hope to promote many more women into the ranks of senior management.

We have also established FANCL College as an in-house training facility dedicated to developing technical expertise and knowledge within the company. FANCL College will provide training in our business philosophy, offer general training courses for employees, specialized technical courses for our retail staff, and help to develop employees working in managerial positions. By providing better training to the retail staff interacting directly with customers, we aim to build stronger trust with our customer base and achieve higher levels of customer satisfaction.

For further details, please see page 16–17.

Reinforcing our operating platform in these ways will help FANCL return to a growth trajectory based on drastic reforms.

Operating Platform	■ Holding company transition in April 2014 ■ Wider inclusion of women in management ■ Better employee training → **Creation of FANCL College** ■ CoS reduction for greater cost competitiveness
R&D and Product Development	■ Technology at the heart of FANCL → **World-leading "Mutenka" technology** ■ Entry into health/functional foods field ■ Reinforcing wholesale distribution channel
Group Strategy	■ Faster growth in the U.S. through investment in the "boscia" brand ■ Restructuring ATTENIR CORPORATION ■ Eliminating loss-making units, downsizing dramatically and making improvements ■ Multifaceted overhaul of Group companies

2 Beauty Business

Establishing FANCL as a Brand Based on World-Leading "Mutenka" Technology

FANCL leads the world in "Mutenka" cosmetics technology. Our achievements have been published at academic conferences and received widespread praise. Based on collaborative research of FANCL and dermatologists, our "Mutenka" FDR (FANCL Doctor) line cosmetics can be used safely by atopic dermatitis sufferers. The products help to suppress itching and have been shown to improve skin physiology.

FDR Line

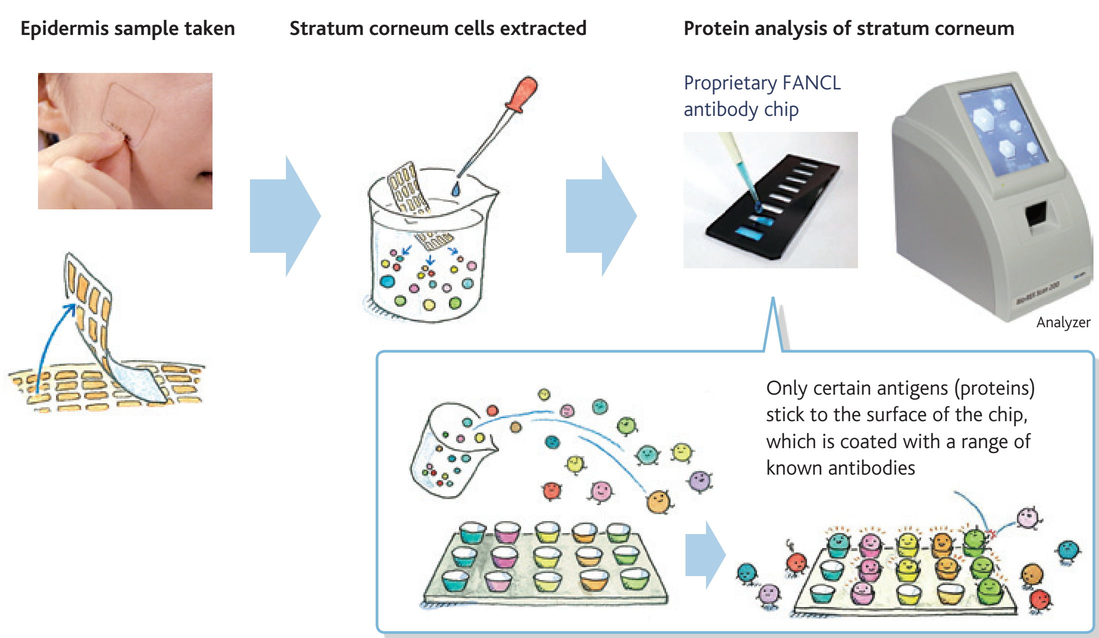
Based on our "Mutenka" technology, we have also succeeded in developing a world-first diagnostic test for assessing the aging risk of a person's skin based on biological markers that exist within the outermost epidermal layer, the stratum corneum. We aim to build on this to create a line of cosmetics catering to specific issues faced by people with skin trouble.

Epidermal Marker Diagnostic Technology

FANCL has developed a proprietary diagnostic test based on epidermal markers

Since FANCL's inception we have actively conducted research into the effects of stress factors such as UV light and beauty product preservatives on the skin. We have also studied ways of enhancing the beauty of bare skin. This research has yielded a world-first method of analyzing the proteins in the outermost layer of the skin, the stratum corneum. FANCL has developed a diagnostic test to measure protein markers in this layer, which provides a gauge

Epidermal Marker Diagnostic Test



of the skin's ability to protect itself from stress factors. The test gives an individual insight into the ability of their skin to resist stress-related changes, enabling us to predict the relative risk of vulnerability to blemishes, wrinkles and other skin problems.

This epidermal marker diagnostic test is easy to administer, since it only uses a small piece of tape to sample skin cells. Besides its use in our retail stores, we plan to develop the test so customers can order it by telephone or online.

Reinforcement of Distribution Channels

While overhauling our directly operated retail store and mail-order sales channels, we are also creating a platform to generate increased sales and profits through wholesale distribution channels. Our direct sales channels currently generate the majority of our sales. We plan to build on alliances with major retail chains to leverage the R&D and technical capabilities of FANCL to upgrade the OEM and private label product lines that we supply to these retailers.

My Thought *for* FANCL

"Driven Forward by All That FANCL has Learned Over the Past 30 Years to Improve Our Results"

In the 30 years since founding FANCL, Mr. Ikemori has consistently made a point of "acting with the customer's interests in mind," "boldly taking on new challenges," and "pursuing differentiation from other companies." I believe this is the essence of FANCL. I share Mr. Ikemori's perspective, and wish to see FANCL Cosmetics become a truly unique company.

As I see it, my foremost mission is to promote further technological development with a view to creating new value, and to be driven forward by all that FANCL has learned over the past 30 years to solidly improve our results. To that end, I have set myself three tasks as head of the Beauty Company.

The first is to re-establish a unique position for FANCL Cosmetics in the market, built around "Mutenka" anti-stress skin care. This will entail devising a concept and methods for manifesting FANCL as a brand that offers not only gentle and safe "Mutenka" but also high beauty effectiveness.

The second is to create additional touch points to engage with customers. By expanding sales channels, I aim to offer more customers the opportunity to come in contact with FANCL products.

The third is to plan and develop products catering to older members of society, and products enabling a more personal approach to aiding customers in their pursuit of beauty.

For me, the Beauty Company exists to offer beauty solutions to customers. Under my leadership, the Beauty Company will deploy more new brands and product lines, partly with a view to further globalizing our operations.

Minako Yamaoka
Senior Managing Director, and
President of Beauty Company

3 Health Business

Brand Renewal: "FANCL HealthScience" to Target Middle-Aged and Seniors

In March 2013, we re-launched our health supplements business under the brand name "FANCL HealthScience." We aim to develop hit products targeting middle-aged and senior consumers, who tend to be more interested in supplementation. We will also promote the message of "efficacy in body" based on the use of FANCL technology.

FANCL Health Science

FANCL HealthScience

Development Concept: "Best absorption for maximum effect"

Ensure the **"absorption"** of hard-to-absorb ingredients

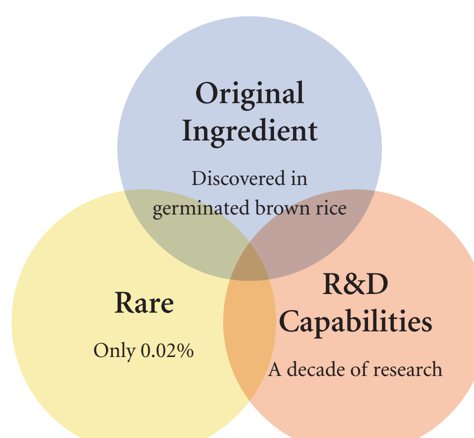
Ensure the **"accumulation"** of easy-to-lose ingredients

Enhance **"efficacy"** by balanced formulation

In addition to nutritional supplements, we plan to use technology we have created through FANCL's R&D operations to develop high-performance supplements for daily consumption that help prevent illness. We are also looking to broaden this business by focusing on the development of functional foods that can support health by being incorporated into daily meals.

Original Ingredient PSG Used in Strategic Products Targeting the Market for Middle-Aged People and Seniors

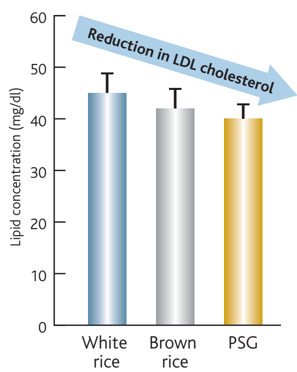
As another potential hit product targeting older customers, we are developing foods containing PSG (pre-germinated brown rice-derived steryl glycosides), a component of germinated brown rice that we have identified in our research as playing a role in cholesterol control. With a variety of functions, PSG helps to reinforce the circulatory system while also making it more flexible. Although it only makes up 0.02% of the rice, we have developed new technology for the mass production of PSG. Using it as an original ingredient in FANCL products, we are confident of turning FANCL HealthScience into a leading supplement brand among older customers. We plan to introduce new health foods containing PSG in the coming year.



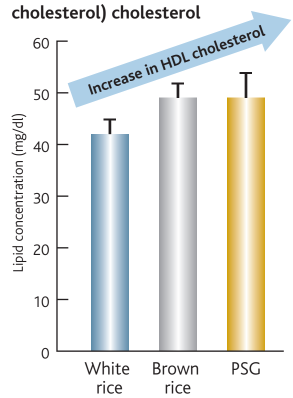
The Functionality of PSG "Strengthening Circulation"

A product of many years of research, PSG is derived from germinated brown rice. It has various functions and plays a role in cholesterol control, helping to reinforce the body's circulatory system and making it more flexible.

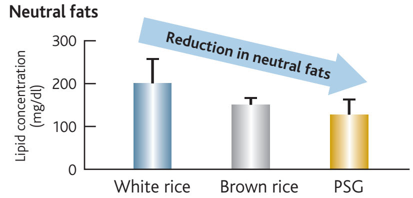
LDL (low-density lipoprotein cholesterol) cholesterol



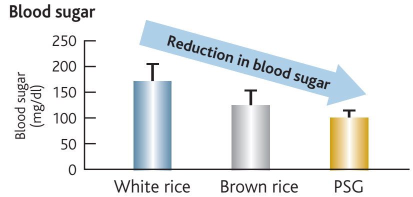
HDL (high-density lipoprotein cholesterol) cholesterol



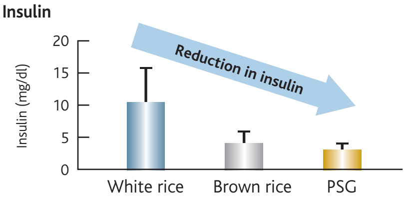
Neutral fats



Blood sugar



Insulin



*$p < 0.05$ vs white rice *$p < 0.01$ vs white rice Source: Japan Society of Nutrition and Food Science (2010)

My Thought *for* FANCL

"Supporting Each Individual Customer's Health to Achieve Good Aging"

The concept behind FANCL HealthScience is to achieve "Good Aging" by scientifically supporting individuals' pursuit of lifelong health. We have set ourselves three challenges in this respect.

The first is to develop nutritional supplements specifically targeting middle-aged to elderly customers. Our revolutionary product, PSG, has a new dosage formulation making it easy for such customers to ingest and continue taking it.

The second task is to broaden our range of functional foods. In addition to developing foods incorporating functional health ingredients, we will offer consumers supplements to be taken along with meals, for extra benefit.

Thirdly, we aim to build a greater presence in the field of preventive medicine. From that standpoint we are developing a range of products for use under a doctor's supervision, while also working to adapt these for sale through mail-order sales channels, with personal counseling.

As Japan's society ages, the number of people seeking a healthy life span is increasing sharply. At FANCL HealthScience, our goal is to support active seniors by continuing to provide products and services that fulfill our individual customers' desire for "Good Aging."

Haruki Murakami
Executive Managing Director, and President of Health Company

4 Overseas Business

Business Development in Asia and with the "boscia" Brand

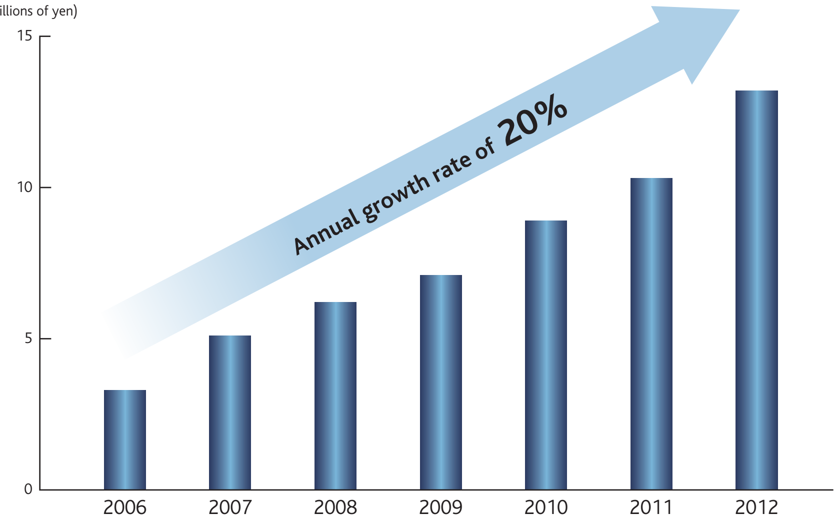
We opened the first FANCL retail store outside Japan in Hong Kong in 1996. We have since entered a number of Asian markets, including Singapore (2000), Taiwan (2001) and China (2004). Today the FANCL-branded network in Asia has about 240 stores. Japanese cosmetics brands are highly popular in Asia. Sales have also expanded due to the FANCL brand's "Mutenka" positioning. After Japan, we started the *Mutenka* rebranding in Singapore and Taiwan, and now plan to do the same in China and Hong Kong.

Following FANCL and ATTENIR, we are now developing "boscia" as the FANCL Group's third cosmetics brand, directed at the U.S. market. "boscia" ("BO-sha") is a preservative-free skincare brand. boscia means BOtanical SCIence with Advanced technology. The boscia products are available at Sephora, a top global beauty retailer. Outside of the U.S., boscia is currently being sold in Canada and Mexico, and increasing to more countries within the next few years. As we develop the boscia brand in the U.S., we expect to consolidate the boscia business with FANCL Group and expand into a true globally comprehensive brand. We plan to invest in more facilities and employees to generate efficient and faster growth with boscia. Furthermore, we are considering opening a store in New York, as well as reverse importation of boscia products into Japan.

Store Growth Overseas (Number of shops) As of December 31

Location/Date Established	2009	2010	2011	2012
Hong Kong October 1996	34	37	38	38
Singapore August 2000	11	9	11	13
Taiwan June 2001	16	18	19	20
China August 2004	87	115	145	169

Sales in the U.S.
(Billions of yen)



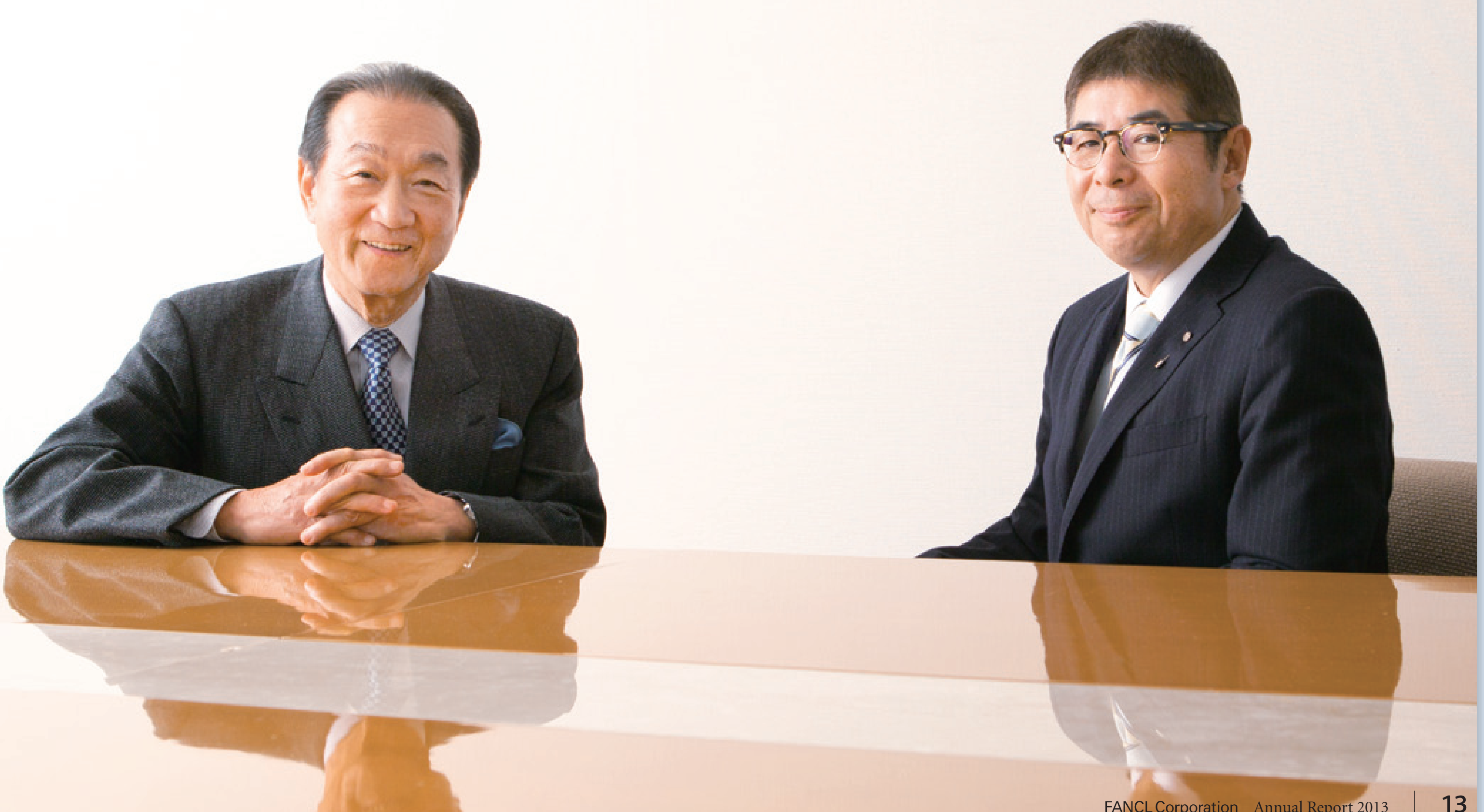
5 Next FANCL

In the few months since the adoption of the new management system in January 2013, we have decided to move to a holding company structure, increase the base wages of our retail staff, liquidate loss-making operations and buy back shares. With the reappointment of the founder, we expect to achieve drastic reforms over the next three years and develop the business at a pace ten times what we achieved in the past.

We aim to satisfy shareholder expectations by developing this business based on the essential FANCL concepts. We plan to return at least 40% of consolidated net income as dividends, undertake a dynamic share buyback program, and cancel treasury shares to ensure the latter represent no more than 10% of total issued shares. We ask for your continued support as FANCL takes on these new challenges.

Kenji Ikemori
Founder, Chairman, Representative Director

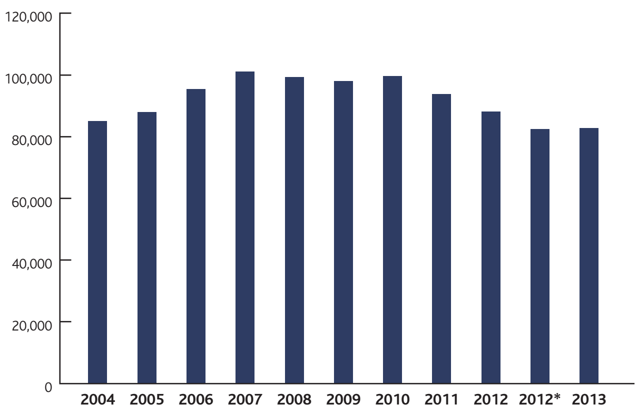
Kazuyoshi Miyajima
President, Representative Director



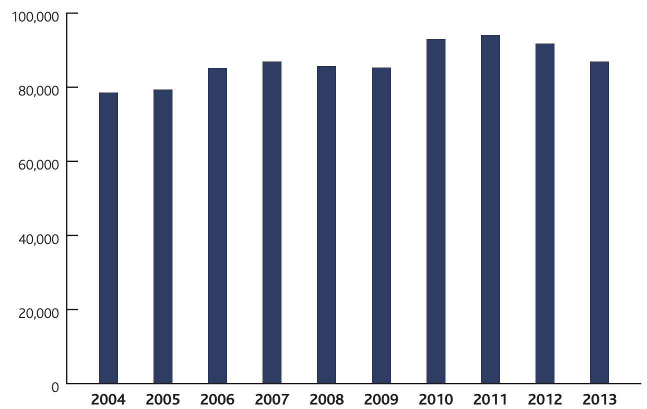
Business Overview

The FANCL Group comprises 13 subsidiaries and 2 affiliates. Its principal business is the manufacture and sale of cosmetics and nutritional supplements. Sales are conducted through three main channels: mail order (including online sales), directly operated retail stores, and wholesale.

Net Sales
(Millions of yen)



Total Assets
(Millions of yen)



Net sales in fiscal 2013 increased 0.6% year on year* to ¥82,807 million, due to an increase in revenue from FANCL Cosmetics, which underwent rebranding in March 2012, and despite a decline in sales in the nutritional supplements business, and other businesses.

Total assets decreased 5.3% year on year, to ¥86,849 million.

* Data exclude the effects of IIMONO OHKOKU on consolidated performance.

Cosmetics Business

FANCL Cosmetics sells "Mutenka" cosmetics, with mail-order, retail store and wholesale sales as the primary sales channels.

ATTENIR Cosmetics is a cosmetics company focused mainly on mail-order sales of high-quality, low-cost products.


MOISTURIZING


AGING CARE


WHITENING

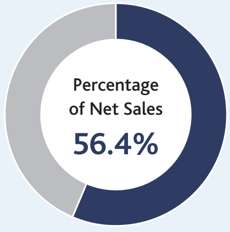

ACNE CARE


BC LINE

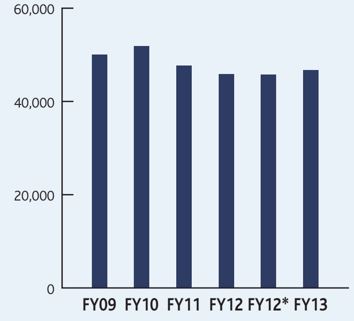

ATTENIR Cosmetics

Cosmetic Business net sales in fiscal 2013 increased* 2.3% year on year, to ¥46,721 million, accounting for 56.4% of net sales.

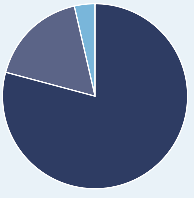
Net Sales Composition



Five-year Trend
(Millions of yen)

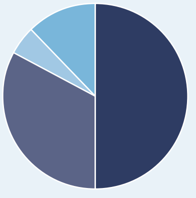


Cosmetics Business Breakdown



FANCL Cosmetics	79.4%
ATTENIR Cosmetics	17.2%
Others	3.4%

Sales Channel Breakdown



Mail-Order Sales	50.0%
Retail Store Sales	33.0%
Wholesale Sales	4.8%
Overseas Sales	12.2%

* Data exclude the effects of IIMONO OHKOKU on consolidated performance.

Nutritional Supplements Business

FANCL sells an array of products as the pioneer in popularizing nutritional supplements throughout Japan. The Company's original lineup of beauty and diet supplements enjoys a particularly strong following among female consumers.

HTC®CollagenDX

Calorie Limit

High-grade Vitamin

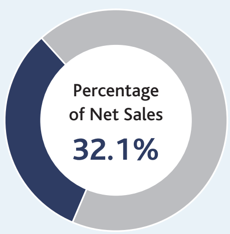
Reduced Coenzyme Q10

Joint Support

Good Choice
(core daily supplement)

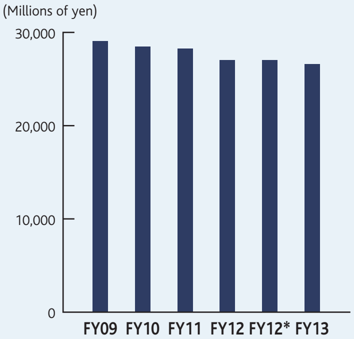
In fiscal 2013, net sales in the Nutritional Supplements Business decreased 1.6% year on year to ¥26,601 million, and accounted for 32.1% of net sales.

Net Sales Composition

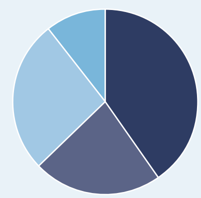


Five-year Trend

(Millions of yen)



Sales Channel Breakdown



Mail-Order Sales	40.4%
Retail Store Sales	22.6%
Wholesale Sales	26.6%
Overseas Sales	10.4%

* Data exclude the effects of IIMONO OHKOKU on consolidated performance.

Germinated Brown Rice, Kale Juice and Other Businesses

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

Germinated Brown Rice

Germinated Brown Rice Cereal Bars

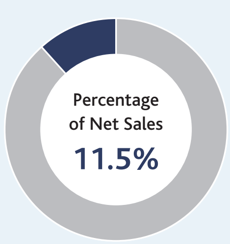
Kale Juice

Frozen Kale Juice

Net sales in fiscal 2013 decreased 1.6% year on year, to ¥9,485 million, and accounted for 11.5% of net sales.

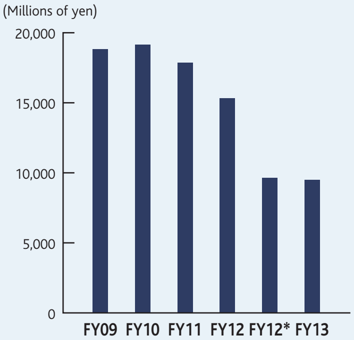
Note:
The IIMONO OHKOKU Mail-Order Business was sold on February 1, 2012. In order to enable a more accurate analysis of the status of business operations, year-on-year comparisons are based on restated figures for the fiscal year ended March 31, 2012. The figures have been restated to exclude the results of IIMONO OHKOKU Co., Ltd. in the fiscal year ended March 31, 2012.

Net Sales Composition

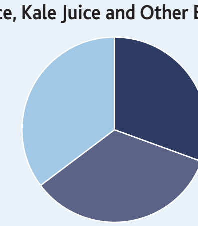


Five-year Trend

(Millions of yen)



Breakdown of Germinated Brown Rice, Kale Juice and Other Businesses



Germinated Brown Rice	30.8%
Kale Juice	34.0%
Other Businesses	35.2%

* Data exclude the effects of IIMONO OHKOKU on consolidated performance.

FANCL College

> "We hope all those attending classes at FANCL College take the opportunity to derive personal growth from the experience."

Akiko Matsugaya
Executive Officer,
Principal of FANCL College

In March 2013, in line with the FANCL founder's robust notions of focusing on the development of personnel, FANCL College was established as a center for knowledge and specialist expertise. We interviewed Akiko Matsugaya, the principal of FANCL College, about the background behind the institution's creation and its policies.

Question 1

Please tell us about the background to the founding of FANCL College.

Customers served by store assistants with specialist training from FANCL College

Answer 1

Better employee training is the most vital of the major management reforms that are being promoted by founder Kenji Ikemori, who has very strong ideas about the value of human resources development. FANCL College was established in part because of an urgent concern that the company's founding principle of basing everything on trying to create joy for the customer had to some extent become diluted.

I believe that the core mission of FANCL College is to develop our human capital base so that we not only survive, but also find ourselves ten or twenty years from now in the position of succeeding against our competition by virtue of all the knowledge and specialist technical expertise developed in the Company.

Question 2

Please tell us about the concrete details of the training given by FANCL College.

Answer 2

The first step in making FANCL a center of knowledge and specialist expertise must be to hone the skills required for each job. To date, employee training has been managed on a decentralized basis. In establishing FANCL College, we have integrated the management of training programs for store personnel and for our staff working at head office, Group companies or at telephone order centers. This will help us fill in any gaps that might have existed and ensure that there is no variation in the quality of training across the Company.

I see the three focal points of training as technology, knowledge and how we think. In terms of technical expertise, we should train people to be real experts. For instance, our training programs in makeup will help employees gain a qualification as a makeup artist. In terms of knowledge, we will cover not just FANCL products, but also a broad range of subjects including pharmacy and medicine. Finally, we are also instituting an Ikemori management program to teach the FANCL business philosophy to managers and explain how it informs managerial viewpoints.

Policy 1	Develop employees who can realize the essence of FANCL	Program 1	Store personnel	1. Better training in hospitality/etiquette 2. Upgraded training opportunities 3. Specialist training courses 4. Recruit/develop trainers and experts
Policy 2	Develop the next generation of FANCL management	Program 2	Staff at FANCL Head Office	5. Plan and execute new training programs, focusing on business philosophy training 6. Set up Ikemori management program
Policy 3	Cultivate staff with expertise in beauty, health, and serving customers	Program 3	Telephone order center personnel, Group employees	7. Study training framework to identify key issues (scheduled from next fiscal year)

Question 3

Ms. Matsugaya, please tell us about your thinking as principal of FANCL College.

Answer 3

My role in human resources development is not one that operates in the spotlight of management, but it is vital for supporting the sustained growth of FANCL. Mr. Ikemori takes the view that knowledge is nothing unless it connects emotionally with the person learning it. Our job at FANCL College is to use appreciation, care and delight to train employees with a range of personalities so that they can learn how to give joy to customers through the products and services they provide.

It is the heightened awareness of FANCL employees rather than FANCL College itself that will actually help them to boost their technical expertise and knowledge. In that sense, I believe our main role will be in providing employees with the opportunity to choose and embrace a path of personal growth.

I earnestly hope that the initiatives we undertake at FANCL College going forward will provide employees with great opportunities to grow as individuals while learning how to serve customers in ways that will forge the latter's emotional connections with the FANCL experience.

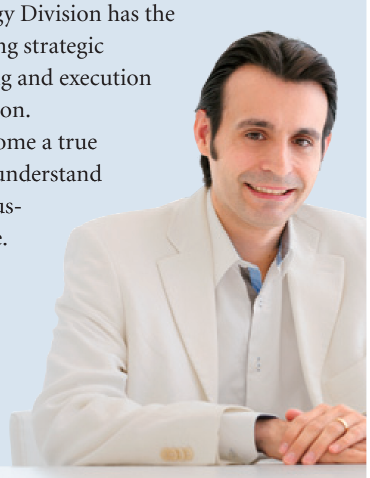
We are FANCL

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

FANCL: Evolving into a global brand

The International Strategy Division has the responsibility of managing strategic resources for the planning and execution of new countries expansion.

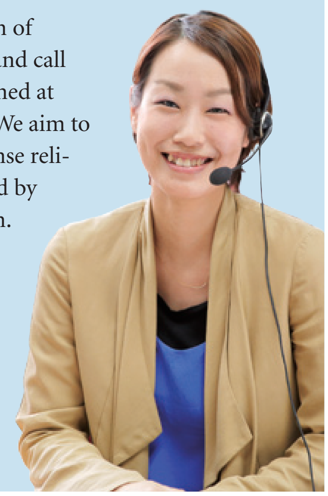
I want FANCL to become a true global company, able to understand and fulfill the needs of customers wherever they are.



Guillaume Riou
International Business Planning Department
International Strategy Division

Providing customers with specialist expertise

Our tasks include the creation of cosmetics product manuals, and call center floor management, aimed at keeping response rates high. We aim to have our expertise and response reliability to be widely recognised by our customers in the long run.



Misato Hayashi
Beauty Counseling Group
Beauty Counseling Division
Beauty Company

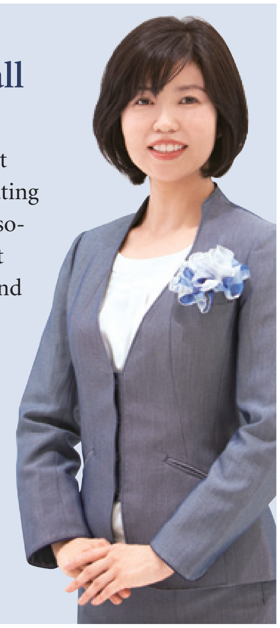
Creating more opportunities for convenient purchasing

Our task is to market FANCL products to some 2,500 drugstores nationwide. By creating more opportunities for customers to conveniently purchase FANCL products in the course of their daily lives, we aim to make the company attractive to customers, distributors, and rival manufacturers.

Jyunichi Yamamoto
Supplements Sales Group #2
Wholesale Division
Wholesale Channel Unit

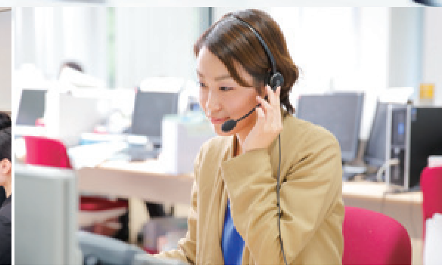
Offering services for all generations

Our job is to create and implement training for store personnel, educating them on FANCL's corporate philosophy, customer interaction, product knowledge, makeup application, and so forth. We aim to transform FANCL into a company able to offer products and services that will satisfy customers of all generations.



Akiko Miyazato
Beauty Training Group
Training Division
FANCL College

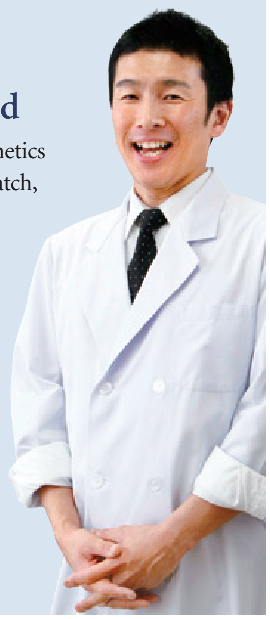




Developing cosmetics packaging for the world

Our responsibility is to develop cosmetics packaging. We develop this from scratch, constantly taking into consideration hygiene and the environment, and optimum convenience for users. In doing so we seek to grow FANCL into a global company with worldwide recognition, known for both its "Mutenka" cosmetics and innovative cosmetics packaging.

Hidehiko Aoki
Packing Development Group
Cosmetics Research Institute
FANCL Research Institute



Commitment to "Mutenka"

We are responsible for the planning and development of hair care and body care products. Our goal is to further build customer trust through consistency across the manufacturing value chain, based on FANCL's commitment to "Mutenka."

Satomi Wada
Cosmetics Planning Group #1
Product Planning Division
Beauty Company

Conveying FANCL's corporate identity

As the flagship store for the FANCL brand, FANCL Ginza Square is not merely about selling products. We believe it also helps convey to customers FANCL's history, the philosophy behind Mutenka skincare, and FANCL's corporate identity.

Noriko Fukazawa
Director
FANCL GINZA SQUARE

FANCL's outstanding workmanship

We are responsible for packaging FANCL's Cleansing Powder. We place great importance on the customer's perspective in our pursuit of "better products" and "better application methods," and through outstanding workmanship seek to ensure that FANCL remains without peer.

Ryohei Miyawaki
Production Department #2
Chiba factory
FANCL B & H Co., Ltd.

Directors and Officers

(As of June 17, 2013)

Board of Directors

Kenji Ikemori
Founder, Chairman, Representative Director

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

Kazuyoshi Miyajima
President, Representative Director

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

Tsuyoshi Tatai
Vice President, Representative Director

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

Minako Yamaoka
Senior Managing Director

1995 Joined FANCL
2013 Senior Managing Director, and President of Beauty Company (Current)

Kazuyuki Shimada
Executive Managing Director

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

Haruki Murakami
Executive Managing Director

2004 Joined FANCL
2013 Executive Managing Director, and President of Health Company (Current)

Toru Tsurusaki
Executive Director

2005 Joined FANCL
2013 Executive Director, and President of International Business Company (Current)

Yasushi Sumida
Executive Director

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

Norihiro Shigematsu
Executive Director

1996 Joined FANCL
2013 Executive Director, and Vice President of Health Company (Current)

Yoshihisa Hosaka
Executive Director

2005 Joined FANCL
2013 Executive Director, Vice President of Beauty Company and General Manager of Online Sales Headquarters (Current)

Akihiro Yanagisawa
Director

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

Kenichi Sugama
Director

1990 Joined FANCL
2013 Director, FANCL (Current)
2013 ATTENIR, President, Representative Director (Current)

Gen Inomata
Director

1994 Joined FANCL
1998 FANCL INTERNATIONAL, INC. President and C.E.O. (Current)
2009 boscia LLC, President and C.E.O.
2013 Director, FANCL (Current)

Norito Ikeda*1
Outside Director

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

Audit & Supervisory Board Members

Seiichiro Takahashi
Audit & Supervisory Board Member

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

Junji Iida
Audit & Supervisory Board Member

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

Katsunori Koseki*2
Audit & Supervisory Board Member

1984 FANCL Biken (Currently FANCL Corporation) Audit & Supervisory Board Member
1989 Established the Katsunori Koseki Certified Public Tax Account Office (Current)
2013 Audit & Supervisory Board Member, FANCL (Current)

Toshio Takano*2
Audit & Supervisory Board Member

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

Executive Officers

Yukihiro Ishigami
Tomochika Yamaguchi
Kohji Yamaguchi
Akiko Matsugaya
Yoko Mamizuka
Shoko Matsukuma
Koichi Matsumoto
Yuna Akashi
Toyokazu Inaba
Nobuyuki Uematsu

Senior Advisor

Yoshifumi Narimatsu

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

Corporate Governance

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

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

Corporate Governance Framework

Company with Audit & Supervisory Board

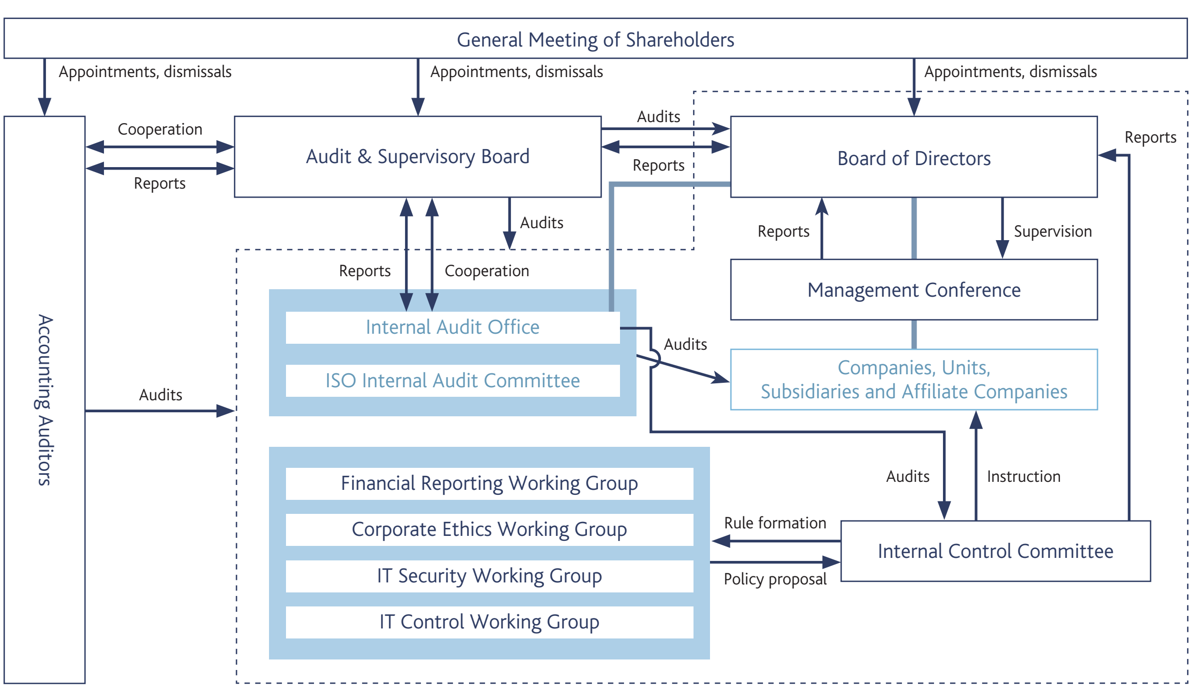
FANCL has adopted the Company with Audit & Supervisory Board Members system. One outside director and two outside audit & supervisory board members have been appointed to provide opinions and recommendations from diverse points of view, introducing an outside perspective that we utilize in the conduct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

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

Audit & Supervisory Board Members

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

Corporate Governance System



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

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

Board of Directors

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

Management Conference

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

Executive Compensation

a) Directors' Compensation

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

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

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

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

b) Audit & Supervisory Board Members' Compensation

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

Fiscal 2013 Compensation Packages for Directors and Audit & Supervisory Board Members

Recipient	Total compensation (millions of yen)	Total compensation by type (millions of yen)		Number of recipients
		Base remuneration	Stock options	
Directors (excl. outside directors)	262	200	61	9
Audit & Supervisory Board Members (excl. outside Audit & Supervisory Board Members)	14	14	–	2
Outside directors and Audit & Supervisory Board Members	35	35	–	4

Outside Directors and Audit & Supervisory Board Members

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

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

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

Message from an Outside Audit & Supervisory Board Member

Toshio Takano
Outside Audit & Supervisory Board Member

Q1. Could you begin by describing your background, please.

I have spent 37 years working as a prosecutor, including periods as Assistant Chief of the Special Investigation Division at the Tokyo District Public Prosecutor's Office, and as Chief Public Prosecutor of the Tokyo District Public Prosecutor's Office. During that time, I handled many instances of white collar crime. I retired from public office eight years ago, and since then as a lawyer I have been involved—among other things—with independent third-party panels investigating cases of corporate malfeasance, with the Ministry of Internal Affairs and Communications' Third-Party Committee to Check Pension Records, and with the Investigation Committee on the Accident at the Fukushima Nuclear Power Stations of Tokyo Electric Power Company.

These experiences have taught me that when organizations are singled out for public condemnation—whether they be public or private—it is because these organizations had in common a failure to operate with citizens or customers and other stakeholders in mind.

Q2. In your role as Outside Audit & Supervisory Board Member for FANCL, what do you look out for?

Recently, doing business means balancing compliance with meeting stakeholder expectations. Increasingly, it takes an outside eye to manage this balancing act. I believe it is important for me to draw on my previous employment and experience as an Outside Audit & Supervisory Board Member for other companies to offer candid opinions concerning FANCL's management.

Under the new management structure with Mr. Ikemori as Chairman, I expect to see swifter improvement and reform in FANCL's operations. It is important, though, that in its commitment to speedier decision-making, FANCL does not bypass the required discussions and procedures. While I am sure that the new management team is adequately aware of this duty, I think it is incumbent on me as an Outside Audit & Supervisory Board Member to ensure that the decision-making process is as proper and transparent as possible.

Q3. What are your expectations of FANCL's management? And what issues have you identified?

FANCL has spent the 30 years since its foundation supplying consumers with products, in the form of additive-free cosmetics, that are very high value-added products. These products have won praise from consumers. However in any organization of 30 years standing it is not uncommon, once the company has grown and established a solid business foundation, for directors and employees to lose the spirit of challenge they felt in the early days, and for the company to start ailing. I believe it was sense of impending crisis at the company he founded that prompted Mr. Ikemori to return to the front line as Chairman. If FANCL is to remain a force to be reckoned with over the next 30 years, it is important, I think, that its directors and employees share this sense of crisis, and work together on the development of even greater value added products.

As these products are applied directly to the skin and ingested orally, it is also critical that safety and reliability are made paramount. If that ever becomes no longer the case, the company would find its very existence threatened. FANCL is keenly aware of this issue, and practices transparent disclosure with a view to reassuring consumers about product safety and dependability. I think it is essential that the company preempt any adverse events by taking even more care in this respect, and also listening attentively to what customers have to say.

Corporate Social Responsibility

Basic Policy

We strive to eliminate the negatives that affect people's lives–dissatisfactions, uncertainties, inconveniences.

The driving force since FANCL's founding remains the same: to eliminate these negatives.

FANCL's CSR activities are organized around issues identified based on the ISO 26000 standard, which was formulated in 2010. Each divisional unit sets targets, implements activities to achieve them and verifies results utilizing PDCA cycles, from top management on down to frontline personnel. In addition, in April 2013 we announced our participation in the United Nations Global Compact and intend to help enrich society at the global level as a company involved in global operations.

Our Shareholders and FANCL

Communication with Shareholders at the General Meeting of Shareholders

The General Meeting of Shareholders has been the most important venue for direct dialogue with shareholders since FANCL's stock was first publicly listed in 1998. We strive to make the meeting as open as possible by holding it on a Saturday or Sunday so that many shareholders are able to attend, and also by avoiding the traditional dates when many other companies are also holding their meetings.

The 33rd General Meeting of Shareholders was held on Saturday, June 15, 2013 and 4,264 shareholders attended.

FANCL intends to continue its dialogue with shareholders into the future.

Business and products are introduced at an informal reception held after the General Meeting of Shareholders

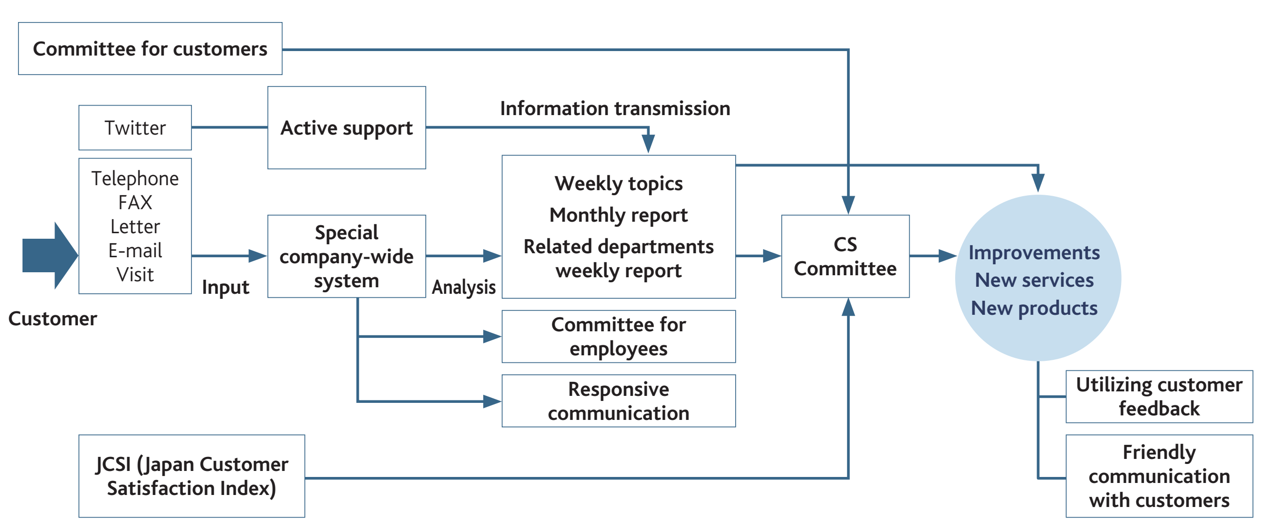
Our Customers and Distributors, and FANCL

Mechanisms for Utilizing Feedback from Customers

The concerns of customers are the starting point of FANCL's growth. We have various programs for utilizing feedback from customers as an important aspect of management. These include executives directly talking with customers about their concerns.

FANCL products are also sold through wholesale distribution channels. We often receive feedback from our distributors who say that they want to provide their customers with excellent

Mechanisms for Utilizing Feedback from Customers



products that are safe and functional. Moreover, FANCL sometimes proactively responds to the demands of a specific distributor by then developing a special original product that incorporates the demands of that distributor.

Employees and FANCL

Utilizing Women and Creating Work Opportunities for People with Disabilities

At a cosmetics company like FANCL, ideas that emerge from the perspective of women are extremely important. At our Beauty Company, which provides cosmetic products, 72% of employees are women.

We are also focused on creating work opportunities for people with disabilities. FANCL SMILE Co., Ltd., a special subsidiary established in February 1999 to support the autonomy of people with disabilities, plays an important role in cosmetics sales, specifically in binding and packaging cosmetics products for product samples and in cultivating and selling agricultural crops.


The cultivation of agricultural crops at FANCL SMILE

Employment Related Corporate Characteristics

Corporate Characteristic	FY2011	FY2012	FY2013
Percentage of women in management	26%	28%	31%
Number of foreign nationals employed	18	6	10
Number of employees aged over 60	16	17	22
Number of employees with disabilities (including special subsidiaries) ( ) shows percentage employed; legal requirement is 1.8%	48 (2.1%)	45 (2.1%)	53 (2.3%)
Number of temporary staff who became contract employees	13	6	6
Number of contract employees who became full-time employees	14	4	7
Number of employees who were recruited mid-career	5	5	3

Society and FANCL

FANCL Welfare Activities That Use Our Business Characteristics

Since 1988, FANCL has held free seminars on makeup and other topics at welfare centers, special-needs schools and other facilities. The program was born out of beauty consulting services and constitutes a distinctively FANCL welfare activities that draw on the characteristics of our business.

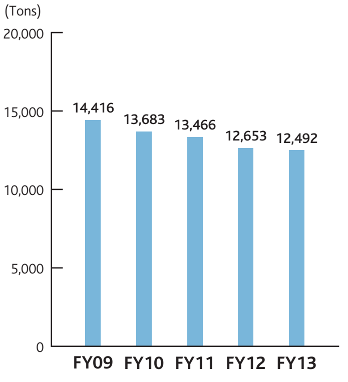

Cosmetics makeup seminar

Environment and FANCL

Initiatives to Reduce CO_2 Emissions

FANCL works to reduce CO_2 emissions under the FANCL Eco Plan, our environmental business plan formulated in fiscal 2008, and Japan's Energy Saving Act. We also continue to carry out energy cost management using environmental accounting, which was instituted in 2008.

FANCL Group's CO_2 Emissions



Figures are calculated by the FY2012 CO_2 emission coefficient.

R&D

FANCL was a pioneer in preservative-free cosmetics, a relatively new segment of the domestic cosmetics market. To this day, the Company continues to offer new value through the development of premium quality cosmetics and nutritional supplement foods that are completely free of additives and preservatives. We believe that value stems from FANCL's clearly defined R&D policy and R&D organization.

R&D Basic Policy and Structure

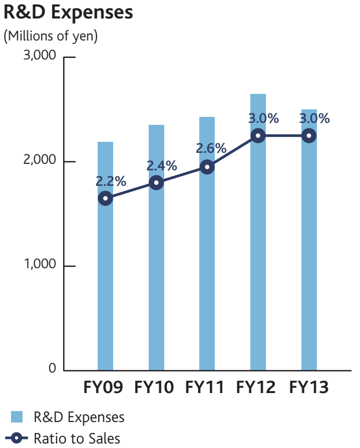
FANCL began by selling preservative-free cosmetics by mail order, and has continued to offer new products, including, in the health foods field, a range of supplements with exceptional functionality, kale juice, and germinated brown rice.

Underlying these business activities is FANCL's universal corporate philosophy of eliminating such negatives as dissatisfaction, uncertainty and inconvenience from the world. It is the driving force for FANCL as an R&D-oriented company.

Eliminating negatives from the world requires that we consistently deliver products that offer true value to customers. Ideas that defy conventional wisdom and a cutting-edge technical approach are essential to achieve this.

The FANCL Research Institute plays a pivotal role in this effort. Through key technological research and product development for cosmetics, nutritional supplements, germinated brown rice and kale juice, the Institute pursues research on safety and functionality, with an emphasis on safety, and conducts evidence-based product development. We use a special system to collect and analyze the feedback received directly from our consultation service and incorporate this into product development. The Institute is involved in a broad range of research activities, including joint projects with many different research institutions in Japan and abroad, and participates in collaborative projects involving industry, government and academic partners. FANCL's research staff of 145 people includes scientists with doctorate degrees in fields such as agriculture, pharmaceuticals, and other sciences, and we plan to reinforce our R&D framework through additional hires and other means going forward. Total R&D expenses in fiscal 2013 amounted to ¥2,499 million.

R&D Expenses



R&D Activities by Business Segment

FANCL R&D activities by business segment are highlighted below.

(1) Cosmetics Business

The Cosmetics Business conducts a broad range of research relating to product development for FANCL Cosmetics and ATTENIR Cosmetics, from exploratory research on materials to research on safety and efficacy and development of formulations and containers.

For FANCL Cosmetics, we are working toward further advancements in preservative-free technologies to prevent skin problems, an area in which we have continued since our founding, as well as actively conducting research to generate and sustain beautiful skin for a lifetime.

R&D expenses in this segment in fiscal 2013 amounted to ¥1,366 million.

(2) Nutritional Supplements Business

FANCL's health business, newly rebranded as FANCL HealthScience, operates under the basic concept of "Best absorption for maximum effect." To that end, our goal is to develop new technologies and products with improved absorbability, greater sustainability, and heightened functionality—ensuring that more of the active ingredient is absorbed by the body, where it lasts longer and has a stronger effect. In fiscal 2013, R&D expenses in this segment in amounted to ¥989 million.

(3) Other Businesses

R&D in this segment revolves around germinated brown rice and kale juice. The consolidated fiscal year under review saw the launch of *Honshibori Aojiru*, a premium kale juice product with improved taste and nutritional value. *Honshibori Aojiru* features a new manufacturing method, FANCL Mild Taste, that conveys the umami flavor of the raw material, kale, while reducing the rawness somewhat. It also incorporates an original ingredient, Plant Twintose®, that increases the body's absorption of calcium and other minerals. R&D expenses in this segment amounted to ¥145 million in fiscal 2013.

R&D-Related Data

	FY2013	FY2012	FY2011	FY2010	FY2009
R&D expenses (Millions of yen)	2,499	2,647	2,429	2,351	2,189
Ratio to sales	3.0%	3.0%	2.6%	2.4%	2.2%
No. of researchers	145	138	134	134	128
No. of patent applications in Japan	60	50	57	55	62

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Eleven-year Summary

FANCL CORPORATION and Consolidated Subsidiaries
For the years ended March 31

						Millions of yen
	2013	2012	2012 (Note 3)	2011	2010	2009
For the year:						
Net sales	¥ 82,807	¥ 88,165	¥82,354	¥ 93,790	¥ 99,537	¥ 98,004
Cosmetics	46,721	45,824	45,688	47,678	51,902	50,081
Nutritional supplements	26,601	27,037	27,028	28,248	28,492	29,089
Others	9,485	15,304	9,637	17,864	19,142	18,834
Net sales, by sales channel						
Mail-order sales	40,134	46,342	40,451	50,318	53,259	54,680
Retail store sales	22,310	22,252	22,252	23,696	24,992	26,307
Wholesale and overseas	20,363	19,571	19,650	19,775	21,286	17,017
Gross profit	55,529	58,997	55,941	61,842	66,453	65,281
Gross profit margin (%)	67.1	66.9	67.9	65.9	66.8	66.6
Selling, general and administrative expenses	51,670	54,980	51,848	54,725	57,294	58,615
Selling, general and administrative expense ratio (%)	62.4	62.4	63.0	58.3	57.6	59.8
Operating income	3,859	4,017	4,093	7,118	9,159	6,666
Cosmetics	3,889	4,685	4,638	7,098	7,946	6,762
Nutritional supplements	1,963	1,584	1,579	2,125	3,250	2,929
Others	(290)	(587)	(460)	(506)	(488)	(981)
Operating income margin (%)	4.7	4.6	5.0	7.6	9.2	6.8
Net income (loss)	(2,194)	2,454	1,845	2,850	4,307	2,663
Net income (loss) to net sales (%)	(2.6)	2.8	2.2	3.0	4.3	2.7
ROE (%)	(2.9)	3.1	–	3.7	5.8	3.8
Advertising expenses	¥ 8,632	¥ 8,540	¥ 7,847	¥ 8,231	¥ 7,971	¥ 8,963
Sales promotion expenses	9,190	10,861	9,540	11,241	11,461	12,434
Research and development expenses	2,499	2,647	–	2,429	2,351	2,189
Capital expenditures	2,991	4,001	–	3,652	1,511	3,905
Depreciation and amortization	3,444	3,438	–	2,971	3,158	3,167
Net cash provided by operating activities	6,146	¥ 6,322	–	¥ 6,311	¥ 10,532	¥ 6,005
Net cash used in investing activities	(823)	(7,009)	–	(922)	(3,555)	(1,518)
Net cash provided by (used in) financing activities	(2,252)	(2,316)	–	(2,278)	432	(1,770)
Net increase (decrease) in cash and cash equivalents	3,172	(3,049)	–	3,059	7,670	2,672

						Yen
Per share:						
Net income	¥ (33.8)	¥ 37.8	¥ 28.4	¥ 43.9	¥ 68.3	¥ 43.5
Equity (Note 2)	1,141.4	1,209.1	–	1,205.3	1,188.3	¥1,155.7
Cash dividends	34.0	34.0	–	34.0	34.0	34.0

						Millions of yen
At year-end:						
Total assets	¥ 86,849	¥ 91,739	–	¥ 94,030	¥ 92,983	¥ 85,309
Equity (Note 2)	74,081	78,454	–	78,270	77,137	70,823
Equity ratio (%)	85.3	85.5	–	83.2	83.0	83.0
Interest-bearing debt	–	–	–	–	–	–
Working capital	40,209	38,675	–	36,153	35,262	36,669
Number of stores	191	193		195	194	197
Number of consolidated subsidiaries	6	7		7	8	7

2008	2007	2006	2005	2004	2003
¥99,350	¥101,065	¥ 95,322	¥87,937	¥84,957	¥90,026
49,062	46,376	41,287	37,098	34,926	37,155
30,017	31,666	33,246	31,132	29,656	29,211
20,271	23,023	20,789	19,707	20,375	23,660
56,301	58,921	57,237	54,544	54,439	59,334
27,530	26,815	23,607	20,067	17,722	17,744
15,519	15,329	14,478	13,326	12,796	12,948
66,988	67,170	62,083	57,905	55,696	58,982
67.4	66.5	65.1	65.8	65.6	65.5
59,521	58,800	53,508	52,477	47,927	47,456
59.9	58.2	56.1	59.7	56.4	52.7
7,467	8,370	8,575	5,428	7,769	11,526
7,409	7,133	5,568	4,745	6,283	8,099
3,506	3,903	5,405	4,638	5,371	6,879
(1,385)	(898)	(762)	(1,967)	(1,821)	(1,646)
7.5	8.3	9.0	6.2	9.1	12.8
3,694	2,547	5,184	1,710	3,387	6,429
3.7	2.5	5.4	1.9	4.0	7.1
5.3	3.6	7.5	2.6	5.1	9.8
¥ 9,876	¥ 9,393	¥ 9,792	¥11,105	¥ 9,865	¥ 9,262
12,509	13,502	9,319	9,475	7,998	8,615
2,302	2,327	1,978	1,959	1,720	1,683
2,317	3,865	2,592	2,257	4,864	5,397
3,020	2,670	2,540	2,463	2,556	2,268
¥ 7,379	¥ 6,472	¥ 9,163	¥ 4,638	¥ 5,861	¥ 9,828
(672)	(1,734)	(10,280)	(4,807)	(4,117)	(5,582)
(6,036)	(2,495)	(22)	(1,090)	(4,533)	(5,432)
650	2,243	(1,139)	(1,254)	(2,809)	(1,213)
¥ 58.4	¥ 39.6	¥ 242.6	¥ 80.3	¥ 154.6	¥ 279.5
1,141.6	1,116.6	3,317.0	3,111.2	3,082.4	2,976.3
24.0	24.0	55.0	50.0	42.5	35.0
¥85,686	¥ 86,931	¥ 85,148	¥79,416	¥78,479	¥79,804
69,900	71,449	71,406	66,203	65,613	66,350
81.6	82.2	83.9	83.4	83.6	83.1
–	–	–	–	–	350
36,049	36,701	33,037	28,622	29,214	29,805
218	218	208	169	143	144
7	6	6	6	6	6

Notes:

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

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

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

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

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

3. On February 1, 2012, FANCL released IIMONO OHKOKU Co., Ltd. from consolidation. To ensure the most accurate analysis, figures have been calculated as if IIMONO OHKOKU Co., Ltd. had remained a consolidated subsidiary.

Management's Discussion and Analysis

Summary

- Net sales increased 0.6% year on year to ¥82,807 million, mainly due to higher sales of FANCL cosmetics, despite lower sales in the Nutritional Supplements Business and Other Businesses.
- FANCL recorded a valuation loss on shares of a sales representative company in China and a loss associated with reorganization of unprofitable stores. Consequently, FANCL recorded a net loss of ¥2,194 million.
- Total assets decreased ¥4,890 million from the previous fiscal year-end due to the recording of a loss on valuation of investment securities and other factors. Total liabilities decreased ¥636 million from a year earlier. Total net assets decreased ¥4,254 million from a year earlier, mainly due to the net loss and the payment of dividends.
- To revive growth and develop as a global enterprise, the Company is adopting a new management structure. Under this structure, we will return to the basic FANCL philosophy of focusing on the customer, and boldly implement this approach while pursuing management reforms.

Business Activities

The FANCL Group consists of FANCL Corporation, 13 subsidiaries and 2 affiliates accounted for by the equipment method. The Group's main business is the manufacturing and sale of cosmetics products and nutritional supplements. The Group's sales activities are centered on three sales channels: mail-order sales (including Internet sales), retail store sales and wholesale sales.

* On February 1, 2012, the sundries business of IIMONO OHKOKU Co., Ltd. was separated and all shares were transferred outside of the FANCL Group. In order to enable a more accurate analysis of the status of business operations, year-on-year comparisons in the "Fiscal 2012 Business Results" and "Statements of Income" sections are based on restated figures for the fiscal year ended March 31, 2012. The figures have been restated to exclude the results of IIMONO OHKOKU Co., Ltd. in the fiscal year ended March 31, 2012.

Business Results in the Fiscal Year Ended March 31, 2013

In the fiscal year ended March 31, 2013, overall net sales increased 0.6% year on year to ¥82,807 million, mainly due to higher sales of FANCL cosmetics, which underwent rebranding in March 2012. The overall increase was despite a decline in sales in the Nutritional Supplements Business and Other Businesses.

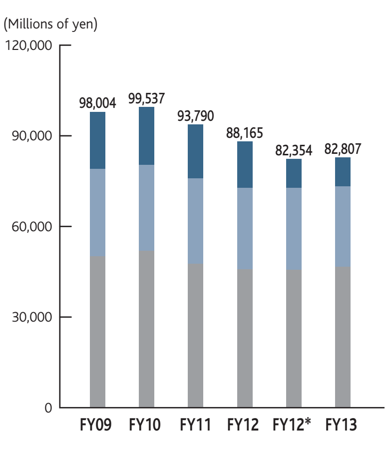
Cosmetics Business

Cosmetics Business net sales increased 2.3% year on year to ¥46,721 million. Sales of FANCL cosmetics were ¥37,103 million, up 2.5% year on year, mainly due to strong sales of the new *Mutenka Skincare* series launched in March 2012. Sales of ATTENIR cosmetics decreased 2.5% to ¥8,015 million due to lackluster results of certain campaigns. Results by sales channels were as follows: mail order sales increased 1.8% year on year to ¥23,376 million; retail store sales increased 4.2% to ¥15,431 million; wholesale sales increased 1.6% to ¥2,219 million; and overseas sales decreased 0.7% to ¥5,696 million.

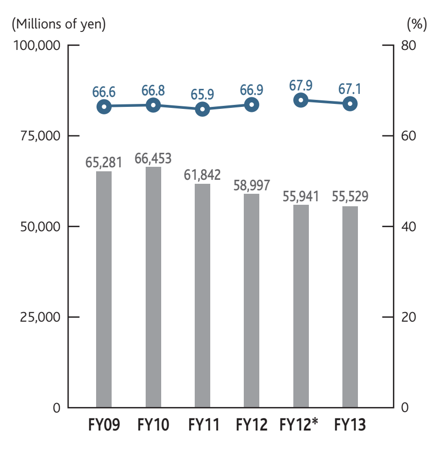
Nutritional Supplements Business

Net sales in the Nutritional Supplements Business decreased 1.6% to ¥26,601 million. Revenues from product sales decreased due to poor sales in other products, despite strong sales of dietary supplement

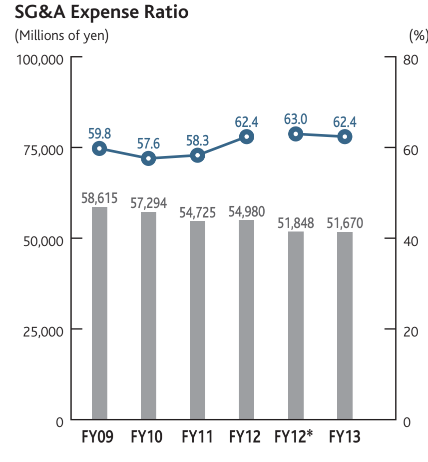
Net Sales by Business Segment



Gross Profit and Gross Profit Margin



SG&A Expenses and SG&A Expense Ratio



* Figures exclude the effects of IIMONO OHKOKU on consolidated performance.

Cosmetics Business

	Millions of yen				
	2013	2012	2012*1	2011	2010
Net sales	¥46,721	¥45,824	¥45,688	¥47,678	¥51,902
FANCL Cosmetics	37,103	36,407	36,200	37,453	40,780
ATTENIR Cosmetics	8,015	8,219	8,219	8,790	9,469
Others	1,604	1,199	1,270	1,436	1,653
Gross profit	33,764	33,632	33,480	34,798	38,315
Gross profit margin	72.3%	73.4%	73.3%	73.0%	73.8%
Selling, general and administrative expenses	29,875	28,947	28,842	27,700	30,369
Advertising expenses	5,350	4,238	4,214	3,597	4,064
Operating income	3,889	4,685	4,638	7,098	7,946
Operating income margin	8.3%	10.2%	10.2%	14.9%	15.3%

	Customers				
Number of active customers*2 at fiscal year-end:					
FANCL cosmetics (Mail order and retail store)	1,184,560	1,191,570	1,191,570	1,247,110	1,303,977
ATTENIR cosmetics (Mail order)	418,267	368,142	368,142	422,040	462,211

*1 On February 1, 2012, FANCL released IIMONO OHKOKU Co., Ltd. from consolidation. To ensure the most accurate analysis, figures have been calculated as if IIMONO OHKOKU Co., Ltd. had remained a consolidated subsidiary.
*2 Active customers: Customers making at least one purchase during the preceding seven months.

Nutritional Supplements Business

	Millions of yen				
	2013	2012	2012*1	2011	2010
Net sales	¥26,601	¥27,037	¥27,028	¥28,248	¥28,492
Gross profit	17,758	18,304	18,294	18,664	19,420
Gross profit margin	66.8%	67.7%	67.7%	66.1%	68.2%
Selling, general and administrative expenses	15,795	16,720	16,715	16,539	16,170
Advertising expenses	2,628	2,941	2,939	2,943	2,110
Operating income	1,963	1,584	1,579	2,125	3,250
Operating income margin	7.4%	5.9%	5.8%	7.5%	11.4%

	Customers				
Number of active customers*2 at fiscal year-end:					
Mail order and retail store	814,101	928,629	928,629	1,052,012	896,959

*1 On February 1, 2012, FANCL released IIMONO OHKOKU Co., Ltd. from consolidation. To ensure the most accurate analysis, figures have been calculated as if IIMONO OHKOKU Co., Ltd. had remained a consolidated subsidiary.
*2 Active customers: Customers making at least one purchase during the preceding seven months.

Germinated Brown Rice, Kale Juice and Other Businesses

	Millions of yen				
	2013	2012	2012*1	2011	2010
Net sales	¥9,485	¥15,304	¥9,637	¥17,864	¥19,142
Germinated brown rice	2,923	2,917	2,917	2,988	3,105
Kale juice	3,220	3,377	3,378	3,682	3,783
IIMONO OHKOKU mail-order	–	5,667	–	7,418	8,016
Others	3,342	3,343	3,342	3,775	4,237
Gross profit	4,007	7,061	4,166	8,380	8,718
Gross profit margin	42.2%	46.1%	43.2%	46.9%	45.5%
Selling, general and administrative expenses	4,297	7,648	4,626	8,886	9,206
Advertising expenses	654	1,362	694	1,691	1,797
Operating income (loss)	(290)	(587)	(460)	(506)	(488)
Operating income (loss) margin	(3.1)%	(3.8)%	(4.8)%	(2.8)%	(2.6)%

	Customers				
Number of active customers*2 at fiscal year-end:					
Germinated brown rice (Mail order)	187,558	192,539	192,539	186,182	204,079
Kale juice (Mail order)	97,323	89,496	89,496	93,491	103,060

*1 On February 1, 2012, FANCL released IIMONO OHKOKU Co., Ltd. from consolidation. To ensure the most accurate analysis, figures have been calculated as if IIMONO OHKOKU Co., Ltd. had remained a consolidated subsidiary.
*2 Active customers: Customers making at least one purchase during the preceding seven months.

Calorie Limit. Results by sales channel were as follows: mail order sales decreased 6.9% year on year to ¥10,745 million; retail store sales decreased 7.5% to ¥6,008 million; wholesale sales increased 0.5% to ¥7,080 million and overseas sales increased 41.5% to ¥2,769 million.

Other Businesses

Net sales in Other Businesses decreased 1.6% year on year to ¥9,485 million. In the Germinated Brown Rice Business, sales increased 0.2% to ¥2,923 million driven by strong performance in wholesale operations. In the Kale Juice Business, sales decreased 4.7% to ¥3,220 million, as strong sales of the mainstay product in this business, *Honshibori Aojiru Premium* (former name: *Kale Marugoto Shibori*), were offset by sluggish sales of other products. Sales of other businesses were mostly unchanged at ¥3,342 million, as an increase in sales from the sundries and undergarments business was offset by a decrease in sales in the beauty salon business.

Statements of Income

Gross Profit

Gross profit decreased ¥412 million, or 0.7%, year on year to ¥55,529 million, mainly due to deterioration in the cost of sales ratio, despite increased sales. The gross profit margin worsened 0.9 of a percentage point year on year to 67.1%.

SG&A Expenses

Selling, general and administrative (SG&A) expenses decreased ¥177 million, or 0.3%, to ¥51,670 million. This decrease reflected the streamlining of fixed costs, such as personnel costs, despite an increase in marketing expenses associated with rebranding.

The ratio of SG&A expenses to net sales decreased by 0.6 of a percentage point to 62.4%.

Operating Income

Operating income decreased 5.7% to ¥3,859 million, mainly due to higher marketing expenses associated with rebranding, despite increased sales.

In the Cosmetics Business, operating income decreased 16.2% to ¥3,889 million, the result of a temporary increase in marketing expenses associated with the rebranding of FANCL cosmetics.

In the Nutritional Supplements Business, operating income increased 24.3% to ¥1,963 million, mainly due to lower marketing expenses, despite a decrease in sales.

Other Businesses posted an operating loss of ¥290 million, a decrease of ¥170 million from the previous fiscal year, primarily due to the return to profitability of the undergarments business and an improvement in the profitability of the sundries business.

Net Loss

FANCL recorded a valuation loss on shares of a sales representative company in China and a loss associated with reorganization of unprofitable stores. Consequently, FANCL recorded a net loss of ¥2,194 million, compared with net income of ¥1,845 million in the previous fiscal year.

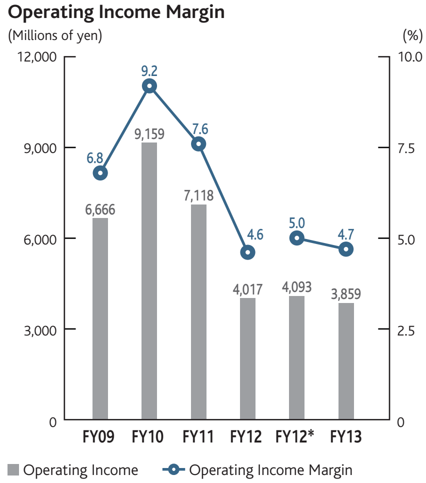
The FANCL Group posted a net loss per share of ¥33.81, compared with net income per share of ¥28.42 in the previous fiscal year.

Liquidity and Capital Resources

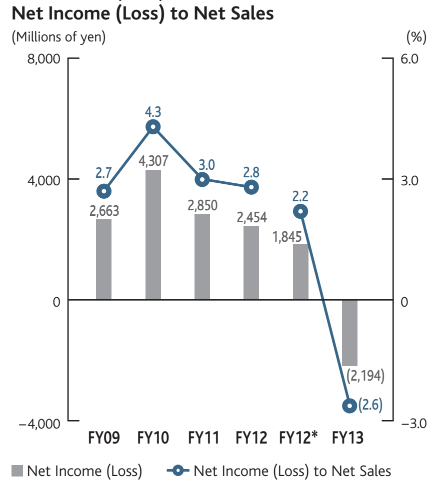
Cash Flows

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

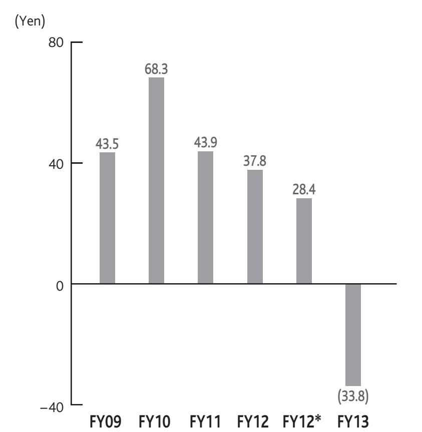
Operating Income and Operating Income Margin



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



Net Income per Share



* Figures exclude the effects of IIMONO OHKOKU on consolidated performance.

Cash Flows From Operating Activities

Net cash provided by operating activities was ¥6,146 million, compared with ¥6,322 million in the previous fiscal year.

The main contributors were loss on valuation of investment securities of ¥4,690 million and depreciation and amortization of ¥3,444 million. These factors were partly offset by loss before income taxes and minority interests of ¥1,219 million and income taxes paid of ¥1,020 million.

Cash Flows From Investing Activities

Net cash used in investing activities was ¥823 million, compared with ¥7,009 million in the previous fiscal year. Cash was mainly used for payments for purchase of marketable securities of ¥4,000 million, purchases of property, plant and equipment of ¥1,969 million, and purchases of intangible assets of ¥1,407 million. Cash was mainly provided by proceeds from sales and redemption of securities of ¥6,139 million.

As a result, free cash flow was a positive ¥5,323 million.

Cash Flows From Financing Activities

Net cash used in financing activities was ¥2,252 million, compared with ¥2,316 million in the previous fiscal year.

This was largely the result of cash dividends paid of ¥2,200 million.

Consequently, cash and cash equivalents as of March 31, 2013 was ¥28,228 million, ¥3,172 million higher than at the end of the previous fiscal year.

Capital Requirements

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

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

Balance Sheet

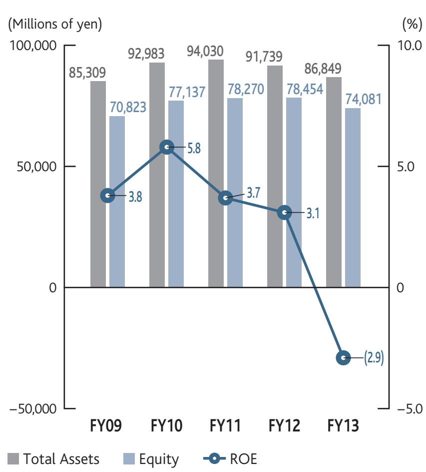
Assets

Total assets as of March 31, 2013 had decreased by ¥4,890 million from the end of the previous fiscal year to ¥86,849 million. The main factors were an increase of ¥966 million in current assets, and a combined decrease of ¥5,856 million in property plant and equipment, net, intangible assets, and total investments and other assets. The main factors behind the increase in current assets were an increase of ¥571 million in cash and bank deposits and an increase of ¥783 million in notes and accounts receivable—trade. The main factors behind the combined decrease in property plant and equipment, net, intangible assets, and total investments and other assets were a decrease of ¥713 million in property, plant and equipment, net due to depreciation, a decrease of ¥386 million in intangible assets due to a decrease in goodwill, and a decrease of ¥4,757 million in total investment and other assets due to a decline in investment securities.

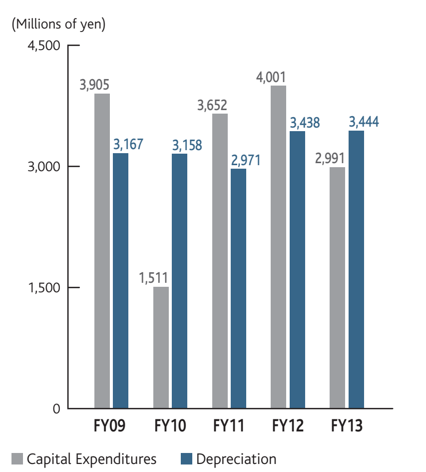
Liabilities

The sum of total current liabilities and total long-term liabilities was ¥12,306 million as of March 31, 2013, down ¥636 million from the end of the previous fiscal year, with total current liabilities declining ¥568 million and long-term liabilities declining ¥68 million. The main factors behind the decline in current liabilities were a decrease

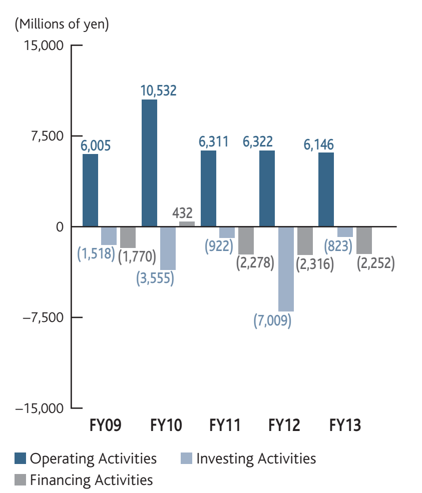
Total Assets, Equity and ROE



Capital Expenditures and Depreciation



Cash Flows



Trends in Cash Flow-Related Indices

Years ended March 31	2013	2012	2011	2010	2009
Equity ratio (%)	85.3	85.5	83.2	83.0	83.0
Equity ratio based on market price (%)	76.7	78.8	80.5	123.7	80.2
Debt service coverage (%)	–	–	–	–	–
Interest coverage ratio (times)	–	–	–	1,182.3	34,577.9

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

of ¥1,426 million in accounts payable—other, which was partially offset by an increase of ¥431 million in notes and accounts payable—trade, and an increase of ¥251 million in accrued income taxes. The main factors behind the decline in long-term liabilities included a decrease in accrued retirement benefits.

Net Assets

Total net assets was ¥74,543 million as of March 31, 2013, down ¥4,254 million from the end of the previous fiscal year. The main factor in the decline was a decrease of ¥4,410 million in retained earnings, mainly due to recording a net loss, and payment of dividends.

As a result, the ratio of capital to assets worsened 0.2 of a percentage point year on year to 85.3%.

New Management Strategy

The FANCL Group faces rapidly changing market conditions and intense competition. To succeed in this environment, revive growth and develop as a global enterprise, we will make a powerful effort to promote the basic FANCL philosophy of focusing on the customer, and building strong relationships with customers worldwide. With these core themes we adopted a new management structure that enables our founder Kenji Ikemori to become directly involved in business execution.

The Source of Our Corporate Value

The FANCL Group recognizes that building a stronger customer base is the top priority for ensuring continuous profit growth over the long term. To expand our customer base we have increased our sales channels and product lineup. In addition, we have conducted our operations from the customer's perspective. Our efforts include adding manufacture dates to product labels to appeal their freshness to customers, introducing a designated drop-off area service that enables customers to receive deliveries when they are not home, and implementing an unlimited return and exchange guarantee system.

Taking the customer's perspective, our goal is to create new value in the form of products that delight customers and exceed their expectations. By continuing to provide this new value, we will build long-term trust relationships with customers, which will ultimately drive increased corporate value.

Strategies by Business

In the cosmetics business, FANCL began rebranding in March 2012, based on the aim of establishing a position as a global premium brand, with a core focus on the value of "making beauty possible—preservative free."

Specific strategies are currently being formulated, with the aim of developing new products based on preservative-free technologies and more effective counseling and closer alignment with consumers' perspectives as a means of increasing brand value.

In the health business, in order to clearly separate our brands for cosmetics products and those for health-related businesses, including the Germinated Brown Rice and Kale Juice businesses, the brand name of the Nutritional Supplements Business has been changed to "FANCL HealthScience" as of March 2013. Our goal is to win middle-aged and older customers, who are the primary users of our nutritional supplements.

Sales Channel Strategies

In Japan, FANCL has multiple direct-sales channels via mail-order catalogs, the Internet and our own FANCL stores. The introduction of a new customer management system has enabled the centralized management of customer information, including qualitative data. Looking ahead, we will develop the skills of personnel in both the mail-order sales channels and store sales channels, aiming to provide highly specialized information and services to customers based on our own "Mutenka" beauty and health philosophy. We will also look at specific business development plans going forward. In addition, we will look at strengthening wholesale channels, making use of our strong track record in product development.

In overseas markets, rebranding is being rolled out progressively in a process that began in February 2013. Looking ahead, we intend to continue extending the rebranding process, conducting a comprehensive review of global development with consideration of initiatives such as fostering the boscia brand of FANCL's non-consolidated subsidiary in the United States to become a third cosmetics brand, alongside FANCL and ATTENIR.

Business Risks

1. Product Development and Competitive Environment

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

2. Product Manufacturing and Quality Assurance

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

3. Disasters and Bad Weather

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

4. Limits of Intellectual Property Protection

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

5. Legal Restrictions

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

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

6. Personal Information

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

7. Risk From Fluctuations in Currency Exchange Rates

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

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

Consolidated Balance Sheets

FANCL CORPORATION and Consolidated Subsidiaries
As of March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars *(Note 2)*
Assets	**2013**	2012	**2013**
Current assets:			
Cash and bank deposits *(Notes 3 and 14)*	**¥ 18,721**	¥ 18,149	**$ 199,053**
Short term investment securities *(Notes 3 and 4)*	**13,359**	13,383	**142,047**
Notes and accounts receivable—trade *(Notes 3 and 17)*	**10,072**	9,289	**107,089**
Less: Allowance for doubtful accounts *(Note 3)*	**(71)**	(148)	**(751)**
	10,001	9,141	**106,338**
Merchandise and products	**2,834**	2,852	**30,136**
Work in progress	**44**	63	**464**
Raw materials and supplies	**3,177**	3,364	**33,777**
Deferred income taxes *(Note 6)*	**1,139**	1,077	**12,116**
Other current assets	**856**	1,137	**9,101**
Total current assets	**50,132**	49,166	**533,031**
Property, plant and equipment, at cost *(Notes 9, 10 and 12)*:			
Land	**10,216**	10,059	**108,628**
Buildings and structures	**22,674**	22,549	**241,084**
Machinery, vehicles, tools, furniture and fixtures	**13,896**	13,245	**147,754**
Leased assets	**327**	300	**3,475**
Construction in progress	**33**	75	**350**
	47,146	46,228	**501,292**
Less: Accumulated depreciation	**(25,491)**	(23,859)	**(271,040)**
Property, plant and equipment, net	**21,655**	22,369	**230,252**
Intangible assets:			
Goodwill *(Note 10)*	**–**	284	**–**
Other intangible fixed assets *(Note 10)*	**3,797**	3,899	**40,369**
Intangible assets, net	**3,797**	4,183	**40,369**
Investments and other assets:			
Investment securities *(Notes 3 and 4)*:			
Non-consolidated subsidiaries and affiliates	**865**	710	**9,199**
Other investment securities	**6,463**	11,151	**68,714**
	7,328	11,862	**77,913**
Lease and guarantee deposits *(Note 3)*	**1,794**	1,994	**19,074**
Long-term loans receivable *(Note 3)*	**458**	443	**4,875**
Deferred income taxes *(Note 6)*	**945**	682	**10,051**
Other assets	**1,182**	1,502	**12,572**
Less: Allowance for doubtful accounts	**(442)**	(460)	**(4,701)**
Total investments and other assets	**11,266**	16,022	**119,784**
Total assets	**¥ 86,849**	¥ 91,739	**$ 923,435**

Liabilities and net assets	Millions of yen 2013	2012	Thousands of U.S. dollars *(Note 2)* 2013
Current liabilities:			
Notes and accounts payable—trade *(Note 3)*	¥ 2,383	¥ 1,952	$ 25,342
Accounts payable—other	2,824	4,250	30,029
Accrued income taxes	933	682	9,918
Reserve for customer awards	1,434	1,380	15,248
Allowance for bonuses	934	945	9,927
Other current liabilities	1,415	1,281	15,043
Total current liabilities	9,923	10,491	105,507
Long-term liabilities:			
Accrued retirement benefits *(Note 7)*	1,648	1,721	17,525
Other long-term liabilities	735	731	7,818
Total long-term liabilities	2,384	2,452	25,343
Net assets *(Note 13)*:			
Shareholders' equity *(Note 5)*:			
Common stock:			
Authorized —233,838,000 shares in 2013 and 2012			
Issued — 65,176,600 shares in 2013 and 2012	10,795	10,795	114,781
Capital surplus	11,706	11,706	124,468
Retained earnings	51,907	56,317	551,908
Less: Treasury stock 269,757 shares in 2013 and 291,185 shares in 2012	(334)	(361)	(3,550)
Total shareholders' equity	74,074	78,458	787,607
Accumulated other comprehensive income:			
Net unrealized holding gain (loss) on other securities	7	(5)	72
Total accumulated other comprehensive income	7	(5)	72
Warrants	461	343	4,906
Total net assets	74,543	78,797	792,586
Total liabilities and net assets	¥86,849	¥91,739	$923,435

See notes to consolidated financial statements.

Consolidated Statements of Income

FANCL CORPORATION and Consolidated Subsidiaries
For the years ended March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars *(Note 2)*
	2013	2012	2013
Net sales *(Note 17)*	¥82,807	¥88,165	$880,457
Cost of sales	27,278	29,168	290,040
Gross profit	55,529	58,997	590,418
Selling, general and administrative expenses *(Note 8)*	51,670	54,980	549,391
Operating income	3,859	4,017	41,027
Other income (expenses):			
Interest and dividend income	254	82	2,702
Loss on valuation of investment securities	(4,690)	(7)	(49,871)
Loss on impairment of fixed assets *(Note 10)*	(585)	(483)	(6,225)
Loss on closing of stores	(138)	(135)	(1,464)
Loss on liquidation of subsidiaries and affiliates	(365)	–	(3,881)
Other, net	447	29	4,754
Income (loss) before income taxes and minority interests	(1,219)	3,503	(12,957)
Income taxes *(Note 6)*:			
Current	1,310	1,039	13,932
Deferred	(335)	10	(3,565)
	975	1,049	10,367
Income (loss) before minority interests	(2,194)	2,454	(23,324)
Net income (loss) *(Note 13)*	¥ (2,194)	¥ 2,454	$ (23,324)

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

FANCL CORPORATION and Consolidated Subsidiaries
For the years ended March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars *(Note 2)*
	2013	2012	2013
Income before minority interests	¥(2,194)	¥2,454	$(23,324)
Other comprehensive income:			
Net unrealized holding gain (loss) on other securities	11	(10)	121
Foreign currency translation adjustment	–	–	–
Share of other comprehensive income of affiliates accounted for by the equity method	–	–	–
Total other comprehensive income (loss) *(Note 18)*	11	(10)	121
Comprehensive income	¥(2,182)	¥2,445	$(23,203)
Total comprehensive income (loss) attributable to:			
Shareholders of the parent company	¥(2,182)	¥2,445	$(23,203)
Minority interests	–	–	–

See notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

FANCL CORPORATION and Consolidated Subsidiaries
For the years ended March 31, 2013 and 2012

	Thousands	Millions of yen										
	Shareholders' equity						Accumulated other comprehensive income					
	Common stock											
	Number of shares	Amount	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized holding (loss) gain on other securities	Translation adjustments	Total accumulated other comprehensive income	Warrants	Minority interests	Total net assets
April 1, 2011	65,176	¥ 10,795	¥ 11,706	¥ 56,070	¥ (307)	¥ 78,265	¥ 5	¥0	¥ 5	¥378	¥0	¥ 78,647
Cash dividends	–	–	–	(2,207)	–	(2,207)	–	–	–	–	–	(2,207)
Net income	–	–	–	2,454	–	2,454	–	–	–	–	–	2,454
Purchase of treasury stock	–	–	–	–	(54)	(54)	–	–	–	–	–	(54)
Sale of treasury stock	–	–	–	(0)	0	0	–	–	–	–	–	0
Other net changes during the year	–	–	–	–	–	–	(10)	–	(10)	(34)	–	(44)
April 1, 2012	65,176	10,795	11,706	56,317	(361)	78,458	(5)	0	(5)	343	0	78,797
Cash dividends	–	–	–	(2,206)	–	(2,206)	–	–	–	–	–	(2,206)
Net loss	–	–	–	(2,194)	–	(2,194)	–	–	–	–	–	(2,194)
Purchase of treasury stock	–	–	–	–	(1)	(1)	–	–	–	–	–	(1)
Sale of treasury stock	–	–	–	(11)	27	17	–	–	–	–	–	17
Other net changes during the year	–	–	–	–	–	–	11	–	11	118	–	129
March 31, 2013	**65,176**	**¥10,795**	**¥11,706**	**¥51,907**	**¥(334)**	**¥74,074**	**¥ 7**	**¥0**	**¥ 7**	**¥461**	**¥0**	**¥74,543**

	Thousands of U.S. dollars *(Note 2)*										
	Shareholders' equity					Accumulated other comprehensive income					
	Common stock										
	Amount	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized holding (loss) gain on other securities	Translation adjustments	Total accumulated other comprehensive income	Warrants	Minority interests	Total net assets
April 1, 2012	$ 114,781	$ 124,468	$ 598,801	$ (3,833)	$ 834,217	$ (49)	$0	$ (49)	$ 3,650	$0	$ 837,819
Cash dividends	–	–	(23,457)	–	(23,457)	–	–	–	–	–	(23,457)
Net loss	–	–	(23,324)	–	(23,324)	–	–	–	–	–	(23,324)
Purchase of treasury stock	–	–	–	(6)	(6)	–	–	–	–	–	(6)
Sale of treasury stock	–	–	(113)	290	177	–	–	–	–	–	177
Other net changes during the year	–	–	–	–	–	121	–	121	1,255	–	1,376
March 31, 2013	**$114,781**	**$124,468**	**$551,908**	**$(3,550)**	**$787,607**	**$ 72**	**$0**	**$ 72**	**$4,906**	**$0**	**$792,586**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

FANCL CORPORATION and Consolidated Subsidiaries
For the years ended March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2013	2012	**2013**
Cash flows from operating activities:			
Income (loss) before income taxes and minority interests	**¥ (1,219)**	¥ 3,503	**$ (12,957)**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	**3,444**	3,438	**36,618**
Loss on impairment of fixed assets	**585**	483	**6,225**
Share-based payments	**135**	105	**1,432**
Amortization of goodwill	**57**	114	**604**
(Reversal of) provision for reserve for customer awards	**54**	(11)	**574**
Increase (decrease) in allowance for doubtful accounts	**(18)**	43	**(187)**
Accrued retirement benefits, net of payments	**(10)**	(449)	**(106)**
Interest and dividend income	**(254)**	(82)	**(2,702)**
Loss (gain) from foreign exchange	**(119)**	55	**(1,263)**
Loss on valuation of investment securities	**4,690**	7	**49,871**
Loss (gain) on sales of investment securities	**–**	8	**–**
Income from investment in a silent partnership	**(19)**	(22)	**(203)**
Loss (gain) on sales of noncurrent assets	**–**	150	**–**
Loss on disposal of fixed assets	**100**	17	**1,063**
Loss on closing of stores	**138**	135	**1,464**
Loss (gain) on extinguishment of tie-in shares	**–**	143	**–**
Gain on reversal of subscription rights to shares	**–**	(139)	**–**
Exchange gain on cash dividends	**(107)**	–	**(1,142)**
Loss on liquidation of subsidiaries and affiliates	**365**	–	**3,881**
Gain on transfer from business divestiture	**–**	(214)	**–**
Changes in operating assets and liabilities:			
Notes and accounts receivable—trade	**(783)**	278	**(8,325)**
Inventories	**224**	(328)	**2,377**
Other current assets	**36**	331	**387**
Other fixed assets	**73**	57	**772**
Accounts payable—trade	**431**	(294)	**4,586**
Other current liabilities	**(821)**	1,028	**(8,730)**
Other long-term liabilities	**(136)**	(3)	**(1,445)**
Income taxes paid	**(1,020)**	(2,041)	**(10,843)**
Other, net	**319**	11	**3,394**
Net cash provided by operating activities	**6,146**	6,322	**65,344**
Cash flows from investing activities:			
Payments by receipt of time deposit	**–**	(500)	**–**
Proceeds from cancellation of time deposits	**500**	1,500	**5,316**
Purchases of property, plant and equipment	**(1,969)**	(2,085)	**(20,932)**
Purchases of intangible assets	**(1,407)**	(1,863)	**(14,957)**
Payments for purchase of marketable securities	**(4,000)**	–	**(42,531)**
Proceeds from collection of long-term loans receivable	**126**	28	**1,337**
Purchases of short-term investment securities	**(1,000)**	(7,000)	**(10,633)**
Proceeds from sales and redemption of securities	**6,139**	2,503	**65,273**
Proceeds from sales of property, plant and equipment	**1**	579	**12**
Proceeds from sales and redemption of investment securities	**1,000**	35	**10,633**
Purchase of shares in affiliates	**(204)**	–	**(2,167)**
Payments for loans receivable	**(99)**	(90)	**(1,054)**
Payments for business divestiture *(Note 14)*	**–**	(365)	**–**
Other, net	**90**	250	**953**
Net cash used in investing activities	**(823)**	(7,009)	**(8,749)**
Cash flows from financing activities:			
Purchases of treasury stock	**(1)**	(54)	**(6)**
Proceeds from sale of treasury stock	**0**	0	**0**
Cash dividends paid	**(2,200)**	(2,201)	**(23,396)**
Other, net	**(51)**	(61)	**(541)**
Net cash used in financing activities	**(2,252)**	(2,316)	**(23,943)**
Effect of foreign exchange rate changes on cash and cash equivalents	**101**	(45)	**1,074**
Net increase (decrease) in cash and cash equivalents	**3,172**	(3,049)	**33,726**
Cash and cash equivalents at beginning of the year	**25,056**	28,070	**266,412**
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries *(Note 14)*	**–**	35	**–**
Cash and cash equivalents at end of the year *(Note 14)*	**¥28,228**	¥25,056	**$300,138**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

FANCL CORPORATION and Consolidated Subsidiaries
For the years ended March 31, 2013 and 2012

1. Summary of Significant Accounting Policies

(a) Basis of preparation

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

(b) Basis of consolidation

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

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

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

(c) Foreign currency translation

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

Assets and liabilities of the Company's one overseas consolidated subsidiary are translated at the current exchange rate in effect at each balance sheet date and its revenue and expense accounts are translated at the average rate of exchange in effect during the year.

Differences arising from translation are presented as translation adjustments and minority interests in the consolidated balance sheets.

(d) Cash equivalents

All highly liquid investments, generally with a maturity of three months or less when purchased, which are readily convertible into known amounts of cash and which are so near maturity that they represent only an insignificant risk of any change in their value attributable to changes in interest rates, are considered cash equivalents.

Under the accounting standard governing statements of cash flows, the definition of cash and cash equivalents in the statement of cash flows and that of cash and bank deposits in the balance sheet differs with respect to certain components. A reconciliation between the cash definitions referred to above is presented in Note 16.

(e) Securities

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

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

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

(f) Inventories

Finished goods, merchandise, work in process and raw materials are stated at cost by the average method. Supplies are stated at cost by the last purchase price method.

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

(g) Depreciation and amortization

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

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

The following summarizes the estimated useful lives of property, plant and equipment by major category:

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

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

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

(Changes in Accounting Policies for Items that are Difficult to Categorize as Changes in Accounting Estimates)

Effective the fiscal year under review and in line with the corporate tax revision, the Company and its domestic consolidated subsidiaries have changed to a depreciation method based on the revised Corporation Tax Law for property, plant and equipment acquired on or after April 1, 2012.

The result of these changes was a ¥73 million ($780 thousand) increase of operating income, and decrease of the same amount in net income before income taxes and minority interests compared with the previous accounting policies.

(h) Leases

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

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

(i) Research and development expenses

Research and development expenses are charged to income when incurred.

(j) Allowance for doubtful accounts

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

(k) Allowance for employees' bonuses

The allowance for employees' bonuses represents a provision for the future payment of employees' bonuses.

(l) Reserve for customer awards

The reserve for customer awards is provided at an amount which is reasonably estimated to be used in the future based on the historical experience with respect to the usage of customer awards against the unused customer awards at the balance sheet date.

(m) Retirement benefits

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

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

Unrecognized actuarial net gain or loss is amortized by the straight-line method over five years, a period which falls within the average remaining years of service of the active participants in the plans, commencing the year following the year in which the gain or loss was incurred.

The domestic consolidated subsidiaries also provide an accrual for retirement allowances for directors and statutory auditors at the full amount which would be required to be paid if all directors and statutory auditors retired at the balance sheet date based on their respective internal regulations.

(n) Deferred income taxes

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

(o) Derivatives

Derivative financial instruments are stated at fair value.

(p) Accounting standard and guidance that are yet to be adopted

"Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, May 17, 2012)
"Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012)

(1) Overview

From the standpoint of improving financial reporting and considering international trends, the aforementioned accounting standard and guidance principally reflect the following amendments: Changes in the treatment of actuarial gains and losses and past service costs that are yet to be recognized in profit or loss; Amendments to the determination of liability for retirement benefits and current service costs, and Enhanced disclosures.

(2) Planned Effective Dates

The Company plans to adopt the above accounting standard and guidance effective from the end of the fiscal year ending March 31, 2014. However, amendments to the determination of retirement benefit obligations and current service costs are scheduled to be applied from the beginning of the fiscal year ending March 31, 2015.

(3) Effect of Adopting this Accounting Standard and Guidance

The Company is currently evaluating the effect of adopting this accounting standard and guidance on the consolidated financial statements, at the time of preparation of these statements.

2. U.S. Dollar Amounts

For the convenience of the reader, the accompanying consolidated financial statements with respect to the year ended March 31, 2013 have been presented in U.S. dollars by translating all yen amounts at ¥94.05 = U.S.$1.00, the exchange rate prevailing on March 31, 2013. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

3. Financial Instruments

1. Matters relating to financial instruments

(1) Basic policy on financial instruments

With respect to managing surplus funds, the Group limits such management to short-term deposits and highly safe financial assets, based on internal regulations governing fund management.

With regard to derivatives, the Group's policy is to avoid speculative transactions. As such, the Group had no derivative transactions during the fiscal year ended March 31, 2013.

(2) Description, risks and risk management framework regarding financial instruments

Notes and accounts receivable, which are operating receivables, are exposed to the credit risk of counterparties. In confronting such risk, the Group, in line with internal regulations for managing credit exposure, manages the accounts and remaining balances for each customer at the appropriate closing date. The Group also has a system for assessing the credit status of major customers on an annual basis.

Shares, which are investment securities, are exposed to the risk from fluctuations in market prices. These shares, however, consist mainly of those of holdings in companies for business purposes, with fair value periodically assessed and reported to the Board of Directors.

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

(3) Supplementary explanation to matters regarding fair values of financial instruments

Fair values of financial instruments are based on market price. If market price is not available, other reasonable valuation techniques are used. Such techniques include variable factors and the results of valuation may change depending on the assumptions used.

2. Matters regarding fair values of financial instruments

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

	Millions of yen			Thousands of U.S. dollars		
As of March 31, 2013	Carrying value	Fair value	Unrealized gain (loss)	Carrying value	Fair value	Unrealized gain (loss)
(1) Cash and bank deposits	¥18,721	¥18,721	¥ –	$199,053	$199,053	$ –
(2) Notes and accounts receivable—trade	10,001	10,001	–	106,338	106,338	–
(3) Short term investment securities	13,359	13,359	–	142,047	142,047	–
(4) Investment securities						
Other investment securities	1,048	1,048	–	11,141	11,141	–
(5) Lease and guarantee deposits						
Store deposits and guarantee money	1,471	1,270	(201)	15,643	13,504	(2,139)
(6) Long-term loans receivable	458	43	(416)	4,875	453	(4,422)
Total assets	¥45,059	¥44,442	¥(617)	$479,096	$472,535	$(6,560)
(1) Notes and accounts payable—trade	¥ (2,383)	¥ (2,383)	¥ –	$ (25,342)	$ (25,342)	$ –
Total liabilities	¥ (2,383)	¥ (2,383)	¥ –	$ (25,342)	$ (25,342)	$ –

As of March 31, 2012	Millions of yen Carrying value	Fair value	Unrealized gain (loss)
(1) Cash and bank deposits	¥18,149	¥18,149	¥ –
(2) Notes and accounts receivable—trade	9,196	9,196	–
(3) Short term investment securities	13,383	13,383	–
(4) Investment securities			
Other investment securities	1,046	1,046	–
(5) Lease and guarantee deposits			
Store deposits and guarantee money	1,669	1,472	(197)
(6) Long-term loans receivable	443	23	(419)
Total assets	¥43,886	¥43,270	¥(616)
(1) Notes and accounts payable—trade	¥ (1,952)	¥ (1,952)	¥ –
Total liabilities	¥ (1,952)	¥ (1,952)	¥ –

(Note i) Methods for calculating fair value of financial instruments and matters regarding short term investment securities and derivatives

Assets

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

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

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

(3) Short term investment securities

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

(4) Investment securities

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

For notes on marketable securities owned for holding purposes, refer to Note 6 “Investment Securities.”

(5) Lease and guarantee deposits

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

(6) Long-term loans receivable

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

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

Liabilities

(1) Notes and accounts payable—trade

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

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

March 31,	Millions of yen 2013	2012	Thousands of U.S. dollars 2013
Category	Carrying value		
1 Unlisted equity securities*1	¥6,280	¥10,815	$66,772
2 Other lease and guarantee deposits*2	323	325	3,431

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

*2 “Other lease and guarantee deposits,” included under “Lease and guarantee deposits,” is not disclosed because market prices are not available, and because of the extreme difficulty of estimating both the actual deposit period from the time that a store opens until its eventual closure, as well as any reasonable cash flows, making the value difficult to assess.

(Note iii) Projected redemption amounts for monetary receivables and securities with maturity after account closing date

	Millions of yen				Thousands of U.S. dollars			
As of March 31, 2013	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and bank deposits	¥18,682	¥ –	¥ –	¥–	$198,644	$ –	$ –	$–
Notes and accounts receivable—trade	10,065	6	–	–	107,022	67	–	–
Marketable and investment securities								
Other marketable securities held to maturity:								
(1) Bonds (corporate bonds)	2,861	–	1,000	–	30,421	–	10,633	–
(2) Other	10,507	–	–	–	111,718	–	–	–
Long-term loans receivable*	33	43	–	–	354	462	–	–
Total	¥42,149	¥50	¥1,000	¥–	$448,159	$529	$10,633	$–

* Excluded an amount of ¥415 million ($4,413 thousand) considered unredeemable.

	Millions of yen			
As of March 31, 2012	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and bank deposits	¥18,107	¥ –	¥ –	¥–
Notes and accounts receivable—trade	9,289	–	–	–
Marketable and investment securities				
Other securities held to maturity:				
(1) Bonds (corporate bonds)	6,000	–	1,000	–
(2) Other	7,407	–	–	–
Long-term loans receivable*	135	373	–	–
Total	¥40,938	¥373	¥1,000	¥–

* Excluded an amount of ¥70 million considered unredeemable.

(Note iv) Projected repayment amounts for corporate bonds, long-term loans, lease obligations and other interest-bearing debt after the account closing date

Details of Bonds

None

Details of Borrowings

	Millions of yen		Thousands of U.S. dollars		%	
	Balance at beginning of year	Balance at end of year	Balance at beginning of year	Balance at end of year	Average interest rate	Maturity
Short-term loans	¥ –	¥ –	¥ –	¥ –	–	–
Current portion of long-term loans	–	–	–	–	–	–
Current portion of long-term lease obligations	41	62	437	660	–	–
Long-term loans (excluding current portion)	–	–	–	–	–	–
Lease obligations (excluding current portion)	55	67	586	715	–	From 2014 to 2017
Other interest-bearing debt	–	–	–	–	–	–
Total	¥96	¥129	¥1,023	¥1,375	–	–

Notes: 1. Average interest rates on lease obligations are not presented as the amount before deducting the amount equivalent to interest expenses comprised in the total lease payment is recorded as lease obligations on the balance sheet.

2. The repayment schedule of lease obligations, excluding the current portion, within the five-year period subsequent to March 31, 2013

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2014	¥45	$482
2015	20	214
2016	1	14
2017	1	6

4. Investment Securities

(1) Information regarding investment securities with quoted market prices classified as other securities at March 31, 2013 and 2012 is summarized as follows:

	(Millions of yen)			(Thousands of U.S. dollars)		
As of March 31, 2013	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Stocks	¥ 31	¥ 19	¥11	$ 328	$ 207	$122
Bonds	1,017	1,009	8	10,810	10,730	80
Other	–	–	–	–	–	–
Subtotal	1,048	1,029	19	11,139	10,937	202
Securities whose acquisition cost exceeds their carrying value:						
Stocks	0	0	(0)	3	3	(0)
Bonds	2,861	2,861	–	30,421	30,421	–
Other	10,498	10,507	(9)	111,626	111,718	(93)
Subtotal	13,360	13,368	(9)	142,049	142,142	(93)
Total	¥14,407	¥14,397	¥10	$153,188	$153,079	$109

	Millions of yen		
As of March 31, 2012	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stocks	¥ 23	¥ 19	¥ 3
Bonds	1,023	1,011	12
Other	–	–	–
Subtotal	1,046	1,030	16
Securities whose acquisition cost exceeds their carrying value:			
Stocks	0	0	(0)
Bonds	6,000	6,000	–
Other	7,383	7,407	(24)
Subtotal	13,383	13,407	(24)
Total	¥14,429	¥14,437	¥ (8)

(2) Other Securities sold during the following consolidated fiscal years

Fiscal year ended March 31, 2013

Not applicable.

Fiscal year ended March 31, 2012

	(Millions of yen)		
As of March 31, 2012	Sales amount	Gains on sales	Losses on sales
Stocks	¥35	¥0	¥8
Bonds	–	–	–
Other	–	–	–
Total	¥35	¥0	¥8

(3) Accounting for the impairment in securities

"Acquisition cost" in the above chart is recognized at book value after impairment treatment.

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

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

5. Shareholders' Equity

The Companies Act provides that amounts from capital surplus and retained earnings may be distributed to the shareholders at any time by resolution of the shareholders or by the Board of Directors if certain provisions are met subject to the extent of the applicable sources of such distributions. The Companies Act further provides that amounts equal to 10% of such distributions be transferred to the legal capital surplus included in capital surplus or the legal retained earnings included in retained earnings based on the applicable sources of such distributions until the sum of the legal capital surplus and the legal retained earnings equals 25% of the capital stock account.

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

The amount of year-end cash dividends per share and half-year cash dividends per share, which the Company paid to the shareholders of record as at the respective period ends for the years ended March 31, 2013 and 2012, were as follows:

	Yen		U.S. dollars
	2013	2012	2013
Year-end	¥17.00	¥17.00	$0.18
Half-year	17.00	17.00	0.18

The effective dates of the distribution for year-end and half-year cash dividends, which were paid during the year ended March 31, 2013, were June 18, 2012 and December 5, 2012, respectively.

The cash dividends of retained earnings of the Company for the year ended March 31, 2013 approved at a meeting of the Board of Directors, which was held on May 13, 2013, were as follows:

	Millions of yen	Thousands of U.S. dollars
Cash dividends	¥1,103	$11,732

	Yen	U.S. dollars
Cash dividends per share	¥17.00	$0.18

6. Income Taxes

The significant components of deferred tax assets and liabilities at March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Deferred tax assets:			
Accrued enterprise taxes	¥ 42	¥ 33	$ 451
Accrued bonuses	356	360	3,783
Allowance for doubtful accounts	175	138	1,861
Reserve for customer awards	530	518	5,630
Allowance for retirement benefits	569	574	6,054
Allowance for directors' benefits	20	42	212
Long-term accrued amount payable	13	27	140
Net loss carried forward	885	1,140	9,413
Loss on valuation of investment securities	1,786	119	18,994
Impairment loss	408	363	4,338
Investments in capital of subsidiaries and affiliates	117	–	1,248
Asset retirement obligations	169	162	1,796
Other	404	400	4,298
Gross deferred tax assets	5,475	3,876	58,217
Valuation allowance	(3,098)	(1,824)	(32,944)
Total deferred tax assets	2,377	2,053	25,273
Deferred tax liabilities:			
Unrealized intercompany profit on land	232	232	2,467
Gain on valuation of land	70	71	742
Removal expenses associated with asset retirement obligations	43	43	457
Other	23	25	239
Total deferred tax liabilities	367	371	3,906
Net deferred tax assets	¥ 2,010	¥ 1,681	$ 21,368

Income taxes applicable to the Company and its domestic consolidated subsidiaries comprise corporation tax, inhabitants' taxes and enterprise tax which, in the aggregate, resulted in a statutory tax rate of approximately 38% for the years ended March 31, 2013 and 2012.

A reconciliation between the statutory tax rate and the effective tax rates as a percentage of income before income taxes and minority interests for the years ended March 31, 2013 and 2012 is summarized as follows:

	2013	2012
Statutory tax rate	–	40.63%
Additions to (deductions from) income taxes resulting from:		
Permanent nondeductible difference such as entertainment expenses	–	3.21
Inhabitants' per capita taxes	–	3.80
Permanent difference not recognized for tax purposes such as dividends received	–	(1.75)
Valuation allowance	–	(14.92)
Tax credits such as for research and development expenses	–	(4.05)
Difference in effective tax rates among the Company and its consolidated subsidiaries	–	(2.79)
Amortization of goodwill	–	1.32
Equity in loss of affiliated companies	–	–
Portion of tax exemption for overseas subsidiaries	–	–
Effects of changes in income tax rates	–	5.19
Other	–	(0.70)
Effective tax rates	–	29.94%

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

7. Retirement Benefits

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

The funded status of the defined benefit pension plans at March 31, 2013 and 2012 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Projected benefit obligation	¥(2,873)	¥(2,594)	$(30,544)
Fair value of plan assets	1,315	1,096	13,987
Funded status	(1,557)	(1,498)	(16,557)
Unrecognized actuarial net loss	(14)	(76)	(150)
Unrecognized prior service cost	(22)	(30)	(238)
Net retirement benefit obligation	(1,594)	(1,604)	(16,945)
Accrued retirement benefits	¥(1,594)	¥(1,604)	$(16,945)

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

Retirement benefit expenses for the years ended March 31, 2013 and 2012 were composed of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Service cost-benefits earned during the year	¥232	¥120	$2,463
Interest cost on projected benefit obligation	33	34	349
Expected return on plan assets	(25)	(21)	(264)
Amortization of unrecognized actuarial net loss	22	100	235
Amortization of prior service cost	(7)	(7)	(79)
Contributions to welfare pension fund	314	307	3,338
Retirement benefit expenses	¥568	¥532	$6,043

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

The principal assumptions used in the above actuarial calculations for the years ended March 31, 2013 and 2012 were as follows:

	2013	2012
Discount rate	0.92%	1.75%
Expected rate of return	3.00%	3.00%
Actuarial cost method	Unit credit actuarial cost method	Unit credit actuarial cost method
Amortization period for prior service cost	5 years*1	5 years*1
Amortization period for actuarial differences	5 years*2	5 years*2

*1 Prior service cost is amortized by the straight-line method for a certain period within the average remaining service period of employees, and charged to income as incurred.
*2 Amortized by the straight-line method over a period which falls within the estimated average remaining years of service of the active participants, commencing the year subsequent to the period when the actuarial difference was calculated.

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

(1) Funded status of the Fund as of March 31, 2013 and 2012:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Fund's assets	¥6,866	¥6,343	$73,007
Projected benefit obligation	5,897	5,498	62,703
Funded status	¥ 969	¥ 845	$10,303

The funded status above primarily consisted of unamortized prior service cost of ¥14 million ($157 thousand), additional asset appraisal value of ¥(84) million ($(897) thousand) and a general reserve of ¥1,363 million ($14,494 thousand) and retained earnings for the year of ¥464 million ($4,931 thousand).

(2) The percentage of the contributions paid by the Company group over total contributions paid by all participants into the Fund was 56.1% for the year ended March 31, 2013 (previous year was 56.3%).

(3) Supplementary explanation

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Unamortized prior service cost	¥ 15	¥ 150	$ 157
Valuation adjustment of plan assets	(84)	368	(897)
General reserve	1,363	1,679	14,494
Deficits	464	316	4,931
Surplus	–	–	–

The Company group does not make special contributions to the Fund.
Proportionate share of contributions paid in (2) above is not corresponding to proportionate share of the benefit obligation incurred by the Group.

8. Research and Development Expenses

Research and development expenses charged to income for the years ended March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Research and development expenses	¥2,499	¥2,647	$26,568

9. Leases

The Group holds certain machinery and equipment under finance leases which do not transfer ownership to the lessee. These leases are not capitalized, but are accounted by a method similar to that applicable to operating leases. If such leases had been capitalized, the acquisition costs, accumulated depreciation and accumulated loss on impairment of the leased assets at March 31, 2013 and 2012 would have been as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Machinery and equipment:			
Acquisition cost	¥999	¥1,793	$10,622
Accumulated depreciation	778	1,371	8,275
Accumulated loss on impairment	216	400	2,298
	¥ 5	¥ 21	$ 49

The following table represents the future minimum lease payments subsequent to March 31, 2013 and 2012 under finance leases which do not transfer ownership.

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Minimum lease payments:			
Due within one year	¥0	¥223	$ 1
Due after one year	–	0	–
	0	223	1
Accumulated loss on impairment	6	41	62

Lease payments, reversal of accumulated loss on impairment of leased assets, accumulated depreciation and interest payments for the years ended March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Lease payments	¥191	¥219	$2,027
Reversal of accumulated loss on impairment of leased assets	36	38	378
Accumulated depreciation	106	194	1,123
Interest payments	4	10	39

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

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

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

10. Loss on Impairment of Fixed Assets

Loss on impairment of fixed assets for the years ended March 31, 2013 and 2012 consisted of the following:

As of March 31, 2013

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

Outline of impairment loss recognition

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

(2) For goodwill associated with the acquisition of shares of CHALONE INC. (following the merger and absorption of CHALONE INC. by consolidated subsidiary NICOSTAR BEAUTECH Co., Ltd. on March 1, 2011), the Company has booked ¥228 million as an impairment loss in other expenses, as it no longer expects to generate profits as initially planned.

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

Method for calculating recoverable value

1. The recoverable value of store equipment is calculated as the net sale value. Assets other than those that can be diverted are unlikely to be sold and have a value of zero.
2. The recoverable value of goodwill is calculated based on future business plans.

As of March 31, 2012

Used for	Type of assets	Amount	Place
		Millions of yen	
Iijima Office	Building and structures	¥223	Yokohama City, Sakae-ku
	Land	184	
Store equipment	Building and structures	39	Kanto Area
	Tools and equipment	6	
	Lease assets	9	
	Software	1	
	Long-term prepaid expenses	0	
	Building and structures	4	Tohoku Area
	Tools and equipment	0	
	Building and structures	11	Kinki Area
	Tools and equipment	1	
	Building and structures	4	Chugoku Area
	Tools and equipment	0	
Total		¥483	

Outline of impairment loss recognition

(1) In regards to the Iijima Office, due to a change in its intended use, the Company has accounted for ¥407 million of impairment losses on production facilities deemed no longer useful, reducing their book value to their recoverable value. These have been recorded in other expenses.

(2) For store equipment, following the decisions of store closures or renovations, the book values of such equipment were written down to the recoverable amounts of these assets. This reduction in value (¥75 million) was charged as an impairment loss in other expenses.

Grouping method:

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

Method for calculating recoverable value

1. The recoverable value of Iijima Office is measured as the net sale value. The value of applicable assets is calculated based largely on valuation by the appraisal of real estate.
2. The recoverable value of store equipment is calculated as the net sale value. Assets other than those that can be diverted are unlikely to be sold and have a value of zero.

11. Stock Option Plans

Stock Option-related Expenses and Line Items for the Consolidated Fiscal Year

Selling, general and administrative expenses of ¥135 million ($1,432 thousand) and ¥105 million were recorded for the years ended March 31, 2013 and 2012, respectively.

Stock Option-related gains recorded due to expiration as a result of not exercising right

Gain on reversal of subscription rights to shares of ¥139 million ($1,482 thousand) was recorded for the year ended March 31, 2012.

At March 31, 2013, the Company had the following stock option plans which were approved by its shareholders or the Board of Directors.

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

Date of approval by shareholders or the Board of Directors	September 13, 2012	November 12, 2012
Grantees	9 directors and 5 executive officers of the Company, and 7 executive officers of subsidiaries	7 directors and 5 executive officers
Type of shares with warrants granted	Common stock	Common stock
Number of shares with warrants granted	147,000 shares	116,300 shares
Option price per warrant	¥907	¥1
Exercise period	September 14, 2014 – September 13, 2017	December 4, 2012 – December 3, 2042

12. Contingent Liabilities

Contingent liabilities as of March 31, 2013 amounted to ¥1,528 million ($16,252 thousand) and represented guarantees of borrowings from Shoko Chukin Bank incurred by the 16 industrial corporations (including FANCL B&H Co., Ltd.) which are members of the Nagareyama Industrial Cooperative Association (the "Association") for the purpose of financing their purchases of manufacturing and other facilities located in the Nagareyama City area. FANCL B&H Co., Ltd. has guaranteed such borrowings jointly and severally with the other 15 members of the Association.

Also, contingent liabilities as of March 31, 2012 amounted to ¥1,536 million ($16,333 thousand) and represented guarantees of borrowings from Shoko Chukin Bank incurred by the 16 industrial corporations (including FANCL B&H Co., Ltd.) which are members of the Nagareyama Industrial Cooperative Association (the "Association") for the purpose of financing their purchases of manufacturing and other facilities located in the Nagareyama City area. FANCL B&H Co., Ltd. has guaranteed such borrowings jointly and severally with the other 15 members of the Association.

In addition to the guarantees stated above, land of ¥592 million ($6,292 thousand) and plant of ¥1,328 million ($14,125 thousand) located in the Nagareyama area were pledged as collateral for the above borrowings as of March 31, 2013.

Furthermore, land of ¥592 million ($6,292 thousand) and plant of ¥1,384 million ($16,843 thousand) located in the Nagareyama area were pledged as collateral for the above borrowings as of March 31, 2012.

13. Amounts per Share

In accordance with the accounting standard for earnings per share, basic net income per share is computed based on the net income available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during each year. Diluted net income per share is computed based on the net income available for distribution to the shareholders of common stock and the weighted-average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock to be issued upon the exercise of warrants and stock subscription rights. Net assets per share is computed based on the number of shares of common stock outstanding at each year end.

	Yen		U.S. dollars
	2013	2012	2013
Net income (loss):			
– Basic	¥ (33.81)	¥ 37.82	$ 0.36
– Diluted	–	37.68	–
Net assets	1,141.35	1,209.11	12.14

(Note) The following represents the basis of computation of net income per share and diluted net income per share.

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Net income per share			
Net income (loss)	¥ (2,194)	¥ 2,454	$ (23,324)
Amount not attributable to common shareholders	–	–	–
Net income (loss) on common stock	(2,194)	2,454	(23,324)
Average number of shares of common stock outstanding during the period	64,886,796	64,897,708	64,886,796
Diluted net income per share			
Net income	–	–	–
Increase in shares of common stock mainly consists of:			
Stock acquisition rights	–	241,043	–
Description of residual securities which were not included in the calculation of diluted net income per share as they have no dilutive effects	–	–	–

14. Supplementary Cash Flow Information

The following table represents a reconciliation of cash and bank deposits in the accompanying consolidated balance sheets with cash and cash equivalents in the accompanying consolidated statements of cash flows at March 31, 2013 and 2012:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Cash and bank deposits	¥18,721	¥18,149	$199,053
Marketable securities	13,359	13,383	142,047
Time deposits for periods of more than three months	–	(500)	–
Marketable securities pledged as collateral for periods of more than three months	(3,852)	(5,976)	(40,961)
Cash and cash equivalents	¥28,228	¥25,056	$300,138

A breakdown of increased assets and liabilities due to the acquisition of a non-consolidated subsidiary is as follows:

FANCL Wellness Counseling Clinic Co., Ltd.

As of May 31, 2011	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 75	$ 802
Fixed assets	72	765
Total assets	¥147	$1,567
Current liabilities	¥ 73	$ 779
Long-term liabilities	217	2,309
Total liabilities	¥290	$3,088

A break-down of the reduction in assets and liabilities of a subsidiary due to the business divestiture and related amounts for the business transfer amount, and payments for business divestiture is as follows:

IIMONO OHKOKU Co., Ltd.

As of January 31, 2012	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 1,442	$ 15,335
Fixed assets	80	849
Current liabilities	(1,456)	(15,483)
Long-term liabilities	(130)	(1,383)
Total other comprehensive income	0	3
Gain on transfer from business divestiture	214	2,276
Business transfer amount	150	1,595
Cash and cash equivalents of transferred business	(515)	(5,481)
Payments for business divestiture	¥ (365)	$ (3,886)

15. Asset Retirement Obligations

As of March 31, 2013

Information on asset retirement obligations

(1) Overview of applicable asset retirement obligations

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

   Following termination of lease agreements, the Company and FANCL Group companies have the obligation to restore offices and stores used under real estate lease agreements to their original condition.

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

   The Company and FANCL Group companies have a legal obligation to eliminate chlorofluorocarbons (“CFCs”) and PCB waste at Group offices and manufacturing facilities.

(2) Method for calculating amount of applicable asset retirement obligations

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

   The Company has adopted an estimate based on an anticipated usage period ranging from 2 to 36 years from the acquisition of property, with applied discount rates of 0.70 – 2.38%.

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

   The Company has adopted an estimate for its obligation to conduct surveys and enact countermeasures based on an anticipated usage period of 15 years from the acquisition of property, with applied discount rates of 0.80 – 1.50%.

(3) Total changes in applicable asset retirement obligations during the years ended March 31, 2013 and 2012

	Yen		U.S. dollars
	2013	2012	2013
Balance at beginning of year	¥481	¥489	$5,111
Liabilities incurred due to the acquisition of property, plant and equipment	25	30	261
Accretion expense	11	9	112
Liabilities settled	15	33	157
Decrease due to business divestiture	–	14	–
Balance at end of year	501	481	5,328

16. Segment Information

(a) Summary of reportable segments

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

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

As shown in "Changes in Accounting Policies for Items that are Difficult to Categorize as Changes in Accounting Estimates," effective from the first quarter of the fiscal year under review, the Company and its domestic consolidated subsidiaries have recorded depreciation for property, plant and equipment acquired on or after April 1, 2012 using the depreciation method based on the amended Corporation Tax Act, in accordance with the amendment of the Corporation Tax Act. Accordingly, the Company has changed the depreciation method for the reportable segments to a method based on the amended Corporation Tax Act.

As a result of this change, in the fiscal year under review, segment profits in the cosmetics business increased by ¥50 million ($531 thousand), segment profits in the nutritional supplements business increased by ¥18 million ($196 thousand), and segment profits in other businesses increased by ¥5 million ($53 thousand) compared with using the previous method.

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

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

(c) Information by reportable segments

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

*1 Other businesses mainly consist of mail-order sales business of comfort undergarments, health equipment and lifestyle goods, germinated brown rice business, kale juice business and esthetic business.
*2 Unallocatable operating expenses included under "Adjustments and eliminations" for the year ended March 31, 2013 amounted to ¥1,703 million ($18,104 thousand) and consisted of operating expenses incurred in the Administration Department of the Company. Corporate assets included under "Adjustments and eliminations" at March 31, 2013 amounted to ¥28,336 million ($301,286 thousand) and consisted principally of cash and cash equivalents, short-term investments, land and funds for long-term investments (investment securities and other) of the Company.
*3 Segment profits (losses) are adjusted for operating income (loss) as recorded in the consolidated financial statements.

Year ended March 31, 2012	Millions of yen						
	Reportable segments						
	Cosmetics business	Nutritional supplements business	Sub total	Other businesses*1	Total	Adjustments and eliminations*2	Consolidated*3
I. Sales, profits or losses and assets by reportable segments							
Sales to external customers	¥45,824	¥27,037	¥72,861	¥15,304	¥88,165	¥ –	¥88,165
Intersegment sales or transfers	–	–	–	–	–	–	–
Total sales	45,824	27,037	72,861	15,304	88,165	–	88,165
Segment profits (losses)	4,685	1,584	6,269	(587)	5,682	(1,665)	4,017
Segment assets	¥34,208	¥13,926	¥48,134	¥10,112	¥58,246	¥33,493	¥91,739
II. Other items							
Depreciation and amortization	¥ 2,087	¥ 867	¥ 2,954	¥ 318	¥ 3,272	¥ 128	¥ 3,400
Amortization of goodwill	114	–	114	–	114	–	114
Increase in property, plant and equipment and intangible fixed assets	2,597	1,092	3,689	313	4,001	–	4,001

*1 Other businesses mainly consist of mail-order sales business of comfort undergarments, health equipment and lifestyle goods, germinated brown rice business, kale juice business and esthetic business.
*2 Unallocatable operating expenses included under "Adjustments and eliminations" for the year ended March 31, 2012 amounted to ¥1,665 million and consisted of operating expenses incurred in the Administration Department of the Company. Corporate assets included under "Adjustments and eliminations" at March 31, 2012 amounted to ¥33,493 million and consisted principally of cash and cash equivalents, short-term investments, land and funds for long-term investments (investment securities and other) of the Company.
*3 Segment profits (losses) are adjusted for operating income (loss) as recorded in the consolidated financial statements.

Year ended March 31, 2013	Thousands of U.S. dollars						
	Reportable segments						
	Cosmetics business	Nutritional supplements business	Sub total	Other businesses*1	Total	Adjustments and eliminations*2	Consolidated*3
I. Sales, profits or losses and assets by reportable segments							
Sales to external customers	**$496,769**	**$282,841**	**$779,610**	**$100,848**	**$880,457**	**$ –**	**$880,457**
Intersegment sales or transfers	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total sales	**496,769**	**282,841**	**779,610**	**100,848**	**880,457**	**–**	**880,457**
Segment profits (losses)	**41,347**	**20,868**	**62,215**	**(3,085)**	**59,130**	**(18,104)**	**41,027**
Segment assets	**$377,603**	**$168,875**	**$546,478**	**$75,672**	**$622,149**	**$301,286**	**$923,435**
II. Other items							
Depreciation and amortization	**$ 22,814**	**$ 9,112**	**$ 31,927**	**$ 3,351**	**$ 35,278**	**$ 889**	**$ 36,166**
Amortization of goodwill	**604**	**–**	**604**	**–**	**604**	**–**	**604**
Increase in property, plant and equipment and intangible fixed assets	**18,050**	**10,487**	**28,537**	**2,890**	**31,428**	**379**	**31,807**

*1 Other businesses mainly consist of mail-order sales business of comfort undergarments, health equipment and lifestyle goods, germinated brown rice business, kale juice business and esthetic business.
*2 Unallocatable operating expenses included under "Adjustments and eliminations" for the year ended March 31, 2012 amounted to ¥1,703 million ($18,104 thousand) and consisted of operating expenses incurred in the Administration Department of the Company. Corporate assets included under "Adjustments and eliminations" at March 31, 2013 amounted to ¥28,336 million ($301,286 thousand) and consisted principally of cash and cash equivalents, short-term investments, land and funds for long-term investments (investment securities and other) of the Company.
*3 Segment profits (losses) are adjusted for operating income (loss) as recorded in the consolidated financial statements.

Related Information

For the year ended March 31, 2013

1. Information by product and service

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

2. Segment information by location

(1) Net sales

Millions of yen			
Japan	Asia	Other	Total
¥74,299	¥8,489	¥18	¥82,807

Thousands of U.S. dollars			
Japan	Asia	Other	Total
$789,999	$90,263	$195	$880,457

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

(2) Property, plant and equipment

   Property, plant and equipment held in Japan accounted for over 90% of the total consolidated balance sheet, and therefore property, plant and equipment by location was omitted.

3. Information by major customer

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

For the year ended March 31, 2012

1. Information for each product and service

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

2. Segment Information by Location

(1) Net sales

   Japan accounted for over 90% total net sales and therefore segment information by location was omitted.

(2) Property, plant and equipment

   Property, plant and equipment held in Japan accounted for over 90% of the total consolidated balance sheet, and therefore property, plant and equipment by location was omitted.

3. Segment information by customer

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

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

	Millions of yen					
	Cosmetics business	Nutritional supplements business	Total	Other businesses*1	Adjustments and eliminations*2	Consolidated
Impairment loss for the year ended March 31, 2013	¥362	¥158	¥520	¥65	–	¥585
Impairment loss for the year ended March 31, 2012	¥ 39	¥ 15	¥ 54	¥22	¥407	¥483

	Thousands of U.S. dollars					
	Cosmetics business	Nutritional supplements business	Total	Other businesses*1	Adjustments and eliminations	Consolidated
Impairment loss for the year ended March 31, 2013	$38,477	$1,681	$696	$696	–	$6,225

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

*2 The amount of ¥407 million is related to the Iijima Office.

(e) Information related to goodwill by reportable segments

For the fiscal year April 1, 2012 to March 31, 2013

There is no balance of unamortized goodwill. With regard to the balance of amortized goodwill, the same information is provided in Segment Information and therefore was omitted.

For the fiscal year April 1, 2011 to March 31, 2012

	Millions of yen					
	Reportable segments					
	Cosmetics business	Nutritional supplements business	Total	Other businesses	Adjustments and eliminations	Consolidated
Amortization for the year ended March 31, 2012	¥114	–	¥114	–	–	¥114
Balance as of March 31, 2012	¥284	–	¥284	–	–	¥284

17. Related Parties

(1) Transactions between the Directors of the Company and related parties

Year ended March 31,		Millions of yen		Thousands of U.S. dollars
Name of related party	Detail of transaction	2013	2012	2013
Tsuyoshi Tatai	Advisor remuneration*3	¥ –	¥13	$ –
Yukio Ikemori	Advisor remuneration*3	13	14	133
Kenji Ikemori	Remuneration for Honorary Chairman*2, 3	36	36	383
Medical Corporation Foundation *Kenkoin**1	Payment of remuneration*4	20	13	213

Of the above amounts, the amount of transactions does not include consumption taxes while the balance at the end of the year includes consumption taxes.

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

*1 The foundation was established through the sole donation of Mr. Kenji Ikemori, a major shareholder of the Company. Mr. Ikemori serves as one of the directors of the foundation.

*2 Mr. Kenji Ikemori assumed the post of Chairman and Executive Director of the Company on April 1, 2013, after the fiscal year-end, and was appointed as Chairman and Representative Director of the Company on June 15, 2013.

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

*4 Transaction terms and conditions are the same as those of the parties that have no relationship with the Company.

(2) Related parties transactions between the Company's subsidiaries and the related parties for the years ended March 31, 2013 and 2012 were principally summarized as follows:

Year ended March 31,		Millions of yen		Thousands of U.S. dollars
Name of related party	Detail of transaction	2013	2012	2013
Nagareyama Industrial Park	Debt guarantees*5, 6	¥1,528	¥1,536	$16,252
Fantastic Natural Cosmetics Limited	Sale of products*3, 4	–	3,090	–
Fantastic Natural Cosmetics (China) Limited	Sale of products*3, 4	–	1,967	–
Kenji Ikemori	Business transfer*2			
	Total transferred assets	–	1,522	–
	Total transferred liabilities	–	1,586	–
	Transfer price	–	150	–
	Gain on transfer from business divestiture	–	214	–
I'foret Co., Ltd*1	Sale of products*3	60	19	641

Of the above figures, transactions do not include consumption taxes but the balance at the end of the fiscal year includes consumption taxes.

*1 Mr. Kenji Ikemori, a major shareholder of the Company, has 80% voting rights in I'foret Co., Ltd., which was renamed from IIMONO OKOKU Co., Ltd. as of March 2012.

*2 Refers to the transfer of IIMONO OKOKU's general merchandise mail order business, decided following negotiations based on a price calculated by the Company.

*3 These transactions are conducted on equal terms with other parties who are not related parties to the Company.

*4 CMC Holdings Limited, which previously had a majority of the voting rights, disposed of the shares in the Company in October 2011 and is no longer the principal shareholder. Thus, the transaction amount represents the amount of transactions during the period in which the enterprise was a related party, while the year-end balance shows the balance as of the date when it ceased to be a related party.

*5 The Company has guaranteed the borrowings of the Nagareyama Industrial Park (the "Association") from the Shoko Chukin Bank, Ltd. jointly and severally with the other 15 members of the Association.

*6 As part of cooperative business management of plants, etc. implemented by the Association, collateral has been provided for the loans of the Association.

Balance of related party transactions as of March 31, 2013 was principally summarized as follows:

		Millions of yen	Thousands of U.S. dollars
Name of related party	Description	2013	2013
I'foret Co., Ltd	Accounts receivable	¥25	$263

18. Other Comprehensive Income

Items related to the consolidated statements of comprehensive income
For the year ended March 31, 2013

Reclassification adjustment and tax effect on components of other comprehensive income

	Millions of yen		Thousands of U.S. dollars
March 31,	2013	2012	2013
Net unrealized holding gain (loss) on other securities			
Amount arising during the year	¥18	¥(30)	$194
Reclassification adjustment	–	13	–
Before tax effect	18	(17)	194
Tax effect	(7)	8	(73)
Net unrealized holding gain (loss) on other securities	¥11	¥(10)	$121
Total other comprehensive income (loss)	¥11	¥(10)	$121

19. Material Subsequent Events

(Items Concerning Decision to Acquire Treasury Stock)

At a meeting of the Board of Directors held on May 13, 2013, the directors of FANCL Corporation 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 to be purchased	Up to 1,500,000 shares * Ratio to total shares issued (less treasury stock): 2.3% (as of March 31, 2013)
Acquisition value	Up to ¥1.8 billion yen ($19,139 thousand)
Acquisition period	May 15, 2013 to September 20, 2013
Method of acquisition	Purchase on the Tokyo Stock Exchange

(Appropriation of Retained Earnings)

At a meeting of the Board of Directors held on May 14, 2013, the directors of FANCL Corporation resolved to appropriate retained earnings pursuant to Article 459, Section 1 of the Companies Act of Japan, and in accordance with the Company's articles of association. Details are as follows:

1. Reasons for the appropriation of retained earnings
   Appropriation of retained earnings is being undertaken to offset the deficit in retained earnings brought forward, in an effort to ensure flexible and dynamic capital asset policy.

2. Outline of the appropriation of retained earnings
   The deficit in retained earnings brought forward will be offset by transferring the general reserve to retained earnings brought forward based on Article 452, Section 1 of the Companies Act of Japan.
   (1) Item of retained earnings to be reduced and the amount
   General reserve ¥3,829 million
   (2) Item of retained earnings to be increased and the amount
   Retained earnings brought forward ¥3,829 million

3. Effective date
   May 14, 2013

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

At a meeting of the Board of Directors held on May 14, 2013, it was resolved that the Company would make the transition to a holding company system by means of a company split (a simple incorporation-type company split) effective on April 1, 2014.

1. Objectives of the transition to a holding company system
   (1) Strengthening operations and business implementation structures
   As of March 1, 2013, FANCL switched to a company system in order to promote rapid decision making and business execution. To endorse this change, FANCL has clarified responsibilities for each business and sought to better understand the customers' perspective and operate under our own founding principles. In future, through a holding company system, FANCL will be able to raise the level of specialization and autonomy of each of its businesses, and strengthen corporate governance through the appropriate checks and balances.
   (2) Strengthening the global nature of the group
   FANCL is currently rebranding the Cosmetics business and endeavoring to raise its corporate brand value. Looking ahead, however, the Company is aware that these initiatives must address the global market place, and in implementing these initiatives, the Company believes that a holding company system is the most appropriate for FANCL to implement rapid decision making and present policies that are optimal for the entire group.

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

3. Business activities and scale of divisions to be split

Main business	Sales in the fiscal year ended March 31, 2013
Sale of cosmetics, etc.	¥32,988 million ($350,750 thousand)
Sale of health foods, etc.	¥27,814 million ($295,733 thousand)

4. Summary of new companies

(1) Company name	FANCL COSMETICS CORPORATION (Cosmetics business company)	FANCL HEALTH SCIENCE CORPORATION (Health foods business company)
(2) Business	Sale of cosmetics, etc.	Sale of health foods, etc.
(3) Head office	89-1 Yamashita-cho, Naka-ku, Yokohama, Japan	89-1 Yamashita-cho, Naka-ku, Yokohama, Japan
(4) Title/name of representative	President, Representative Director Minako Yamaoka	President, Representative Director Haruki Murakami
(5) Capital	¥500,000 thousand ($5,316 thousand)	¥500,000 thousand ($5,316 thousand)
(6) Total number of issued shares	10,000 shares	10,000 shares
(7) Fiscal year-end	March 31	March 31

Report of the Independent Auditor

The Board of Directors
FANCL CORPORATION

We have audited the accompanying consolidated financial statements of FANCL CORPORATION and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2013, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of FANCL CORPORATION and its consolidated subsidiaries as at March 31, 2013, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

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

Ernst & Young Shin Nihon LLC

June 15, 2013
Tokyo, Japan

Quarterly Financial Information/Monthly Sales Data

FANCL CORPORATION and Consolidated Subsidiaries
For the years ended March 31

Quarterly Financial Information

	Millions of yen											
	1st Quarter			2nd Quarter			3rd Quarter			4th Quarter		
	2013	2012	2012*	2013	2012	2012*	2013	2012	2012*	2013	2012	2012*
Net sales	¥20,206	¥21,706	¥20,242	¥20,405	¥22,214	¥20,643	¥21,993	¥24,477	¥22,213	¥20,203	¥19,769	¥19,255
Cosmetics	11,334	11,066	11,050	11,316	11,640	11,599	12,330	12,382	12,323	11,741	10,736	10,716
Nutritional supplements	6,432	6,778	6,775	6,754	6,582	6,580	7,142	7,379	7,376	6,274	6,298	6,297
Others	2,440	3,862	2,417	2,335	3,992	2,464	2,521	4,716	2,514	2,189	2,734	2,242
Net sales, by sales channel												
Mail-order sales	9,610	11,291	9,795	9,687	11,484	9,878	11,016	13,782	11,508	9,821	9,785	9,271
Retail store sales	5,558	5,536	5,536	5,654	5,699	5,699	5,663	5,888	5,888	5,434	5,129	5,129
Wholesale and others	3,229	2,824	2,855	2,809	3,000	3,037	3,206	3,346	3,357	2,629	2,681	2,682
Overseas sales	1,809	2,056	2,056	2,255	2,029	2,029	2,107	1,461	1,461	2,319	2,173	2,173
Operating income	211	1,002	1,079	631	519	551	1,556	1,942	1,844	1,461	554	620
Cosmetics	340	1,282	1,274	691	922	909	1,559	1,828	1,816	1,299	653	640
Nutritional supplements	325	306	304	518	234	234	527	516	516	592	527	525
Others	(46)	(179)	(92)	(99)	(177)	(133)	(52)	52	(33)	(93)	(283)	(202)
Net income	¥ 46	¥ 416	¥ 494	¥ 602	¥ 386	¥ 423	¥ 1,026	¥ 1,075	¥ 954	¥ (3,868)	¥ 816	¥ (27)

Figures for years with * exclude the effects of IIMONO OHKOKU on consolidated performance.

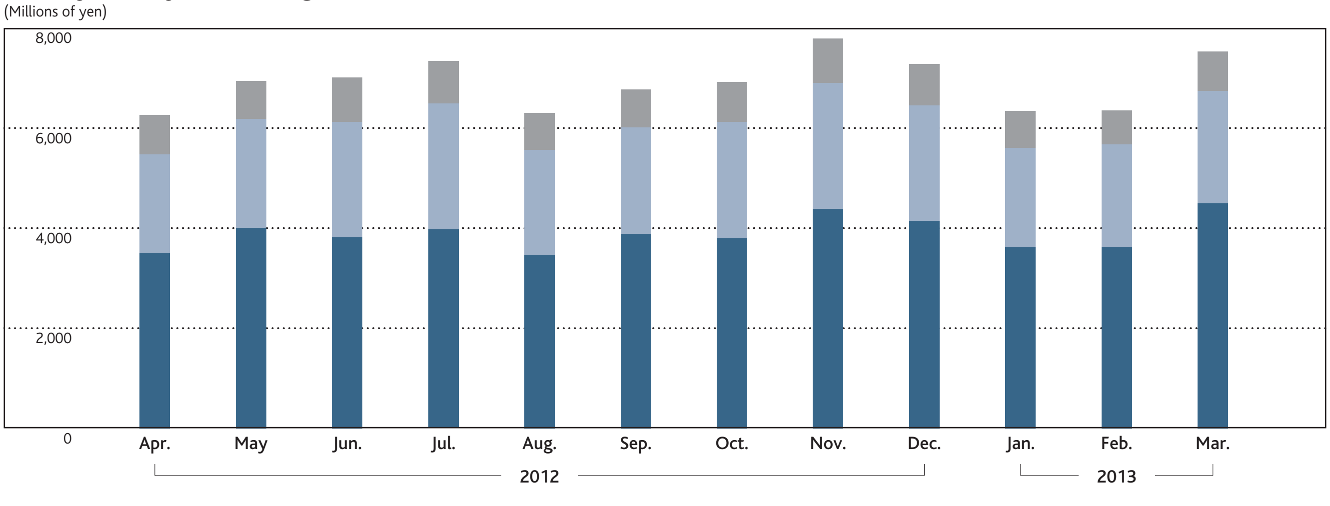
Monthly Sales Data

	Millions of yen											
	2012									2013		
	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
Cosmetics	¥3,509	¥4,005	¥3,820	¥3,972	¥3,461	¥3,884	¥3,796	¥4,389	¥4,146	¥3,620	¥3,628	¥4,493
YoY increase (decrease)*	9.4%	2.5%	(3.0%)	(0.8%)	(9.8%)	3.4%	1.2%	(3.1%)	2.5%	6.7%	18.4%	5.5%
Nutritional supplements	1,959	2,171	2,301	2,518	2,103	2,133	2,324	2,511	2,307	1,985	2,039	2,250
YoY increase (decrease)*	(3.9%)	(6.8%)	(4.3%)	15.7%	5.4%	(11.4%)	(3.7%)	3.2%	(8.9%)	2.9%	1.3%	(4.5%)
Others	790	766	884	845	733	757	805	888	828	731	679	779
YoY increase (decrease)*	7.4%	(2.7%)	(1.1%)	4.4%	(12.9%)	(7.0%)	(0.5%)	(1.5%)	3.0%	(1.2%)	(1.5%)	(4.1%)
Total	¥6,258	¥6,942	¥7,005	¥7,334	¥6,297	¥6,774	¥6,925	¥7,788	¥7,281	¥6,336	¥6,346	¥7,522
YoY increase (decrease)*	4.6%	(1.2%)	(3.2%)	4.9%	(5.7%)	(2.9%)	(0.7%)	(0.9%)	(1.3%)	4.5%	10.0%	1.3%

* Increase/decrease percentages are calculated from figures that exclude the effects of IIMONO OHKOKU on consolidated performance.

Monthly Sales by Business Segment

(Millions of yen)



Corporate Data

History

1980s

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

1990s

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

2000s

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

2010s

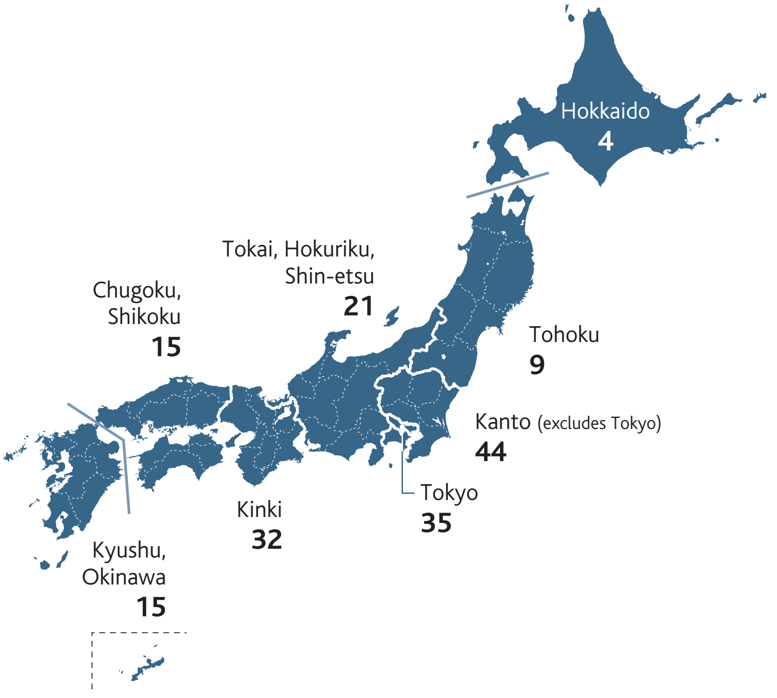
2012	Mar.	Rebranding of FANCL cosmetics business. The corporate logo and the brand statement of the Cosmetics Business are newly enacted. Released six lines of *Mutenka Skincare*.
2013	Mar.	Rebuilding of the health foods business. Developing FANCL HealthScience.

Network

Retail Stores (Global) (As of December 31, 2012)

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

Retail Stores (Domestic) (As of March 31, 2013)



Consolidated Subsidiaries

(As of July 1, 2013)

ATTENIR CORPORATION

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

FANCL B&H Co., Ltd.

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

FANCL Hatsuga Genmai Co., Ltd.

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

NICOSTAR BEAUTECH Co., Ltd.

Head office	Sakae-ku, Yokohama
Capital	¥10 million
Main business	Manufacture of cosmetics.

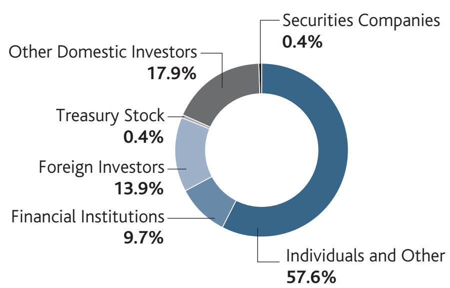
FANCL ASIA (PTE) LTD.

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

Shareholder Information

Composition of Shareholders
(Percentage of ownership)

(As of March 31, 2013)



	2011		2012		2013
	Mar.	Sep.	Mar.	Sep.	Mar.
Individuals and other	56.9	54.6	54.8	55.2	57.6
Financial institutions	8.3	0.9	9.5	9.6	9.7
Foreign investors	18.6	19.1	17.0	17.9	13.9
Treasury stock	0.4	0.5	0.5	0.5	0.4
Other domestic investors	15.3	17.1	17.9	15.8	17.9
Securities companies	0.5	7.9	0.4	1.0	0.4

Corporate Information

(As of July 1, 2013)

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

Established
August 1981

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

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

Paid-in Capital
¥10,795,161,280

Number of Shareholders
98,967

Number of Full-time Employees
705

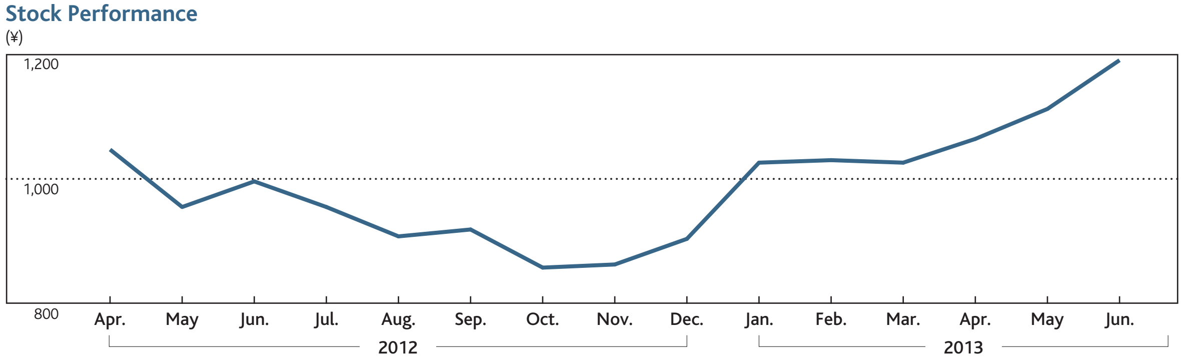
Transfer Agent and Registrar
Mitsubishi UFJ Trust and Banking
Corporation
1-4-5 Marunouchi, Chiyoda-ku,
Tokyo 100-8212, Japan
http://www.tr.mufg.jp/daikou/

Annual Meeting of Shareholders
Held in mid-June

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

Stock Price Information

Stock Performance



Market Price Range per Share of Common Stock

	2012				2013
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	1st Quarter
High (¥)	1,113	999	920	1,098	1,280
Low (¥)	931	886	833	906	956

* FANCL conducted a 3-for-1 stock split on April 1, 2006.

FANCL Corporation

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