FANCL Corporation

Consolidated Financial Statements for the Interim Period of the Fiscal Year Ending March 31, 2013

April 1, 2012 to September 30, 2012

SUMMARY OF FINANCIAL STATEMENTS (consolidated)

Interim Period Results for the Fiscal Year Ending March 31, 2013

FANCL CORPORATION **November 2, 2012**

www.fancl.co.jp

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

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Scheduled date for submission of the first half *hokokusho* (securities report): November 9, 2012

Scheduled date for distribution of dividends: December 5, 2012

Availability of supplementary explanatory material for first half results: Available

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

1) Consolidated results for the interim period (April 1, 2012 to September 30, 2012) of Fiscal 2013

(1) Consolidated Operating Results

Millions of yen, rounded down

	Six months ended September 30, 2012		Six months ended September 30, 2011	
		% change		% change
Net sales	40,610	(7.5)	43,920	(4.1)
Operating income	841	(44.7)	1,521	(41.2)
Ordinary income	1,097	(25.4)	1,470	(40.2)
Net income	648	(19.0)	801	(18.0)
Earnings per share (¥)	10.0	--	12.34	--
Earnings per share (diluted) (¥)	9.95	--	12.30	--

Notes: 1. The percentages shown above are a comparison with the same period in the previous fiscal year.
2. Comprehensive income: Six months ended September 30, 2012: ¥657 million (-17.9%)
Six months ended September 30, 2011: ¥800 million (-17.3%)

(2) Consolidated Financial Position

Millions of yen, rounded down

	As of September 30, 2012	As of March 31, 2012
Total assets	89,614	91,739
Net assets	78,381	78,796
Shareholders' equity/total assets (%)	87.0%	85.5%

Shareholders' equity: As of September 30, 2012: ¥78,007 million
As of March 31, 2012: ¥78,453 million

2) Dividends per share

	FY ended March 31, 2012	FY ending March 31, 2013 (forecast)
Interim period	17.00	17.00
Year-end	17.00	17.00
Annual	34.00	34.00

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

3) Consolidated forecasts for the fiscal year ending March 31, 2013 (April 1, 2012 to March 31, 2013)

(1) Consolidated

Millions of yen

	Fiscal year ending March 31, 2013	
Net sales	83,500	(5.3)
Operating income	4,200	4.6
Ordinary income	4,200	4.9
Net income	2,100	(14.4)
Earnings per share (¥)	¥32.36	--

Note: 1. The percentages shown above are a comparison with the previous full fiscal year
2. Changes to the Consolidated forecasts during the period under review: Yes

4) Other

(1) **Transfer of important subsidiaries during the period:** None
Note: Indicates transfers of specified subsidiaries resulting in changes in the scope of consolidation during the period under review.

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

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

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

(4) Number of outstanding shares (common stock)

1. Number of shares outstanding (including treasury shares)	September 30, 2012	65,176,600 shares	March 31, 2012:	65,176,600 shares
2. Number of treasury shares	September 30, 2012	291,493 shares	March 31, 2012:	291,185 shares
3. Average number of shares during the interim period	Six months to September 30, 2012	64,885,243 shares	Six months to September 30, 2011	64,909,935 shares

Important Notice

Disclosure of status of quarterly report review procedures:
At time of disclosure of this quarterly financial report the review procedure for quarterly securities reports as stipulated under the Financial Instruments and Exchange Law was in progress.

Appropriate use of financial forecasts:
Forecasts, etc., recorded in this document include forward-looking statements that are based on management's estimates, assumptions and projections at the time of publication. A number of factors could cause actual results to differ materially from expectations. For further detail, please see Page 7: Operating Results, Section 3, Forecasts for the fiscal year ending March 31, 2013.

Contents

1. Operating Results

(1) Summary of business performance (consolidated)

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

During the interim period under review, recovery in the Japanese economy eased in the latter half of the period as exports and manufacturing slowed due to further slowdown in overseas economies, despite continued recovery in the first half of the period as domestic consumption increased slightly, due in part to government measures.

On February 1, 2012, the sundries business of IIMONO OHKOKU Co., Ltd. (currently IIMONO FUDOUSAN 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 interim period of both the current and previous consolidated fiscal year have been restated to exclude the results of IIMONO OHKOKU Co., Ltd. (currently IIMONO FUDOUSAN Co., Ltd.).

During the interim period under review, consolidated sales decreased 0.7% to ¥40,610 million due to a decline in the Nutritional Supplements Business and other businesses, and despite an increase in revenue primarily in skincare products from the Cosmetics Business, which underwent brand restructuring (“rebranding”) in March 2012.

Operating income decreased 48.3% to ¥841 million due to an increase marketing expenses in the cosmetics business as a result of the rebranding and despite company-wide efforts to control expenses. Ordinary income decreased 30.6% to ¥1,097 million largely resulting from dividends income from restructuring of non-consolidated subsidiaries. Net income decreased 29.3% to ¥648 million.

Segment results are as follows:

1) Cosmetics Business

Sales

Sales from the Cosmetics business increased 0.0% to ¥22,649 million. *(Millions of yen, rounded down)*

	Six months ended September 30, 2012		Six months ended September 30, 2011		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
FANCL Cosmetics	18,162	80.2	17,996	79.4	0.9
ATTENIR Cosmetics	3,720	16.4	3,978	17.6	(6.5)
Others	766	3.4	673	3.0	13.8
Totals	22,649	100.0	22,648	100.0	0.0

	Six months ended September 30, 2012		Six months ended September 30, 2011		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Mail order sales	11,126	49.1	11,159	49.3	(0.3)
Retail store sales	7,723	34.1	7,454	32.9	3.6
Wholesales and others	1,148	5.1	1,156	5.1	(0.7)
Overseas Sales	2,651	11.7	2,878	12.7	(7.9)
Totals	22,649	100.0	22,648	100.0	0.0

Sales of **FANCL cosmetics** increased 0.9% to ¥18,162 million, due to strong sales of *Mutenka Skincare* products launched in March.

Sales of ATTENIR cosmetics decreased 6.5% to ¥3,720 million due to lackluster results from a summer campaign.

Results by sales channels were: mail order sales decreased 0.3% year on year to ¥11,126 million, retail store sales increased 3.6% to ¥7,723 million, wholesale sales through other sales channels decreased 0.7% to ¥1,148 million, and overseas sales decreased 7.9% to ¥2,651 million.

Operating income

Operating income decreased 52.8% to ¥1,030 million, as a result of an increase in marketing expenses due to the implementation of TV commercials and a large-scale sample product campaign as a part of the rebranding of FANCL cosmetics.

2) Nutritional Supplements Business

Sales

Nutritional supplement sales decreased 1.3% to ¥13,185 million. *(Millions of yen, rounded down)*

	Six months ended September 30, 2012		Six months ended September 30, 2011		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Mail order sales	5,177	39.3	5,554	41.6	(6.8)
Retail store sales	3,018	22.9	3,275	24.5	(7.9)
Wholesales and others	3,586	27.2	3,333	25.0	7.6
Overseas Sales	1,403	10.6	1,190	8.9	17.9
Totals	13,185	100.0	13,354	100.0	(1.3)

Revenues from product sales decreased due to poor sales in other products and despite strong sales of dietary supplement *Calorie Limit* renewed in June.

Results by sales channels were: mail order sales decreased 6.8% to ¥5,177 million, retail store sales decreased 7.9% to ¥3,018 million, wholesale sales through other sales channels increased 7.6% to ¥3,586 million and overseas sales increased 17.9% to ¥1,403 million.

Operating income

Operating income increased 56.5% to ¥842 million, as a result of a decrease in marketing expenses and despite a decrease in revenues.

3) Other Businesses

Sales in Other businesses decreased 2.2% year on year to ¥4,775 million

(Millions of yen, rounded down)

	Six months ended September 30, 2012	Six months ended September 30, 2011	Change (%)
Hatsuga genmai business	1,412	1,425	(0.9)
Kale juice business	1,677	1,773	(5.4)
Other businesses	1,685	1,682	0.2
Totals	4,775	4,881	(2.2)

In the Hatsuga genmai (germinated brown rice) business, sales decreased 0.9% to ¥1,412 million as strong wholesale sales failed to offset slow mail order sales.

In the Kale juice business, sales decreased 5.4% to ¥1,677 million as strong sales of core product *Kale Marugoto Shibori* failed to offset slow sales in other products.

Sales at other businesses increased 0.2% to ¥1,685 million due to an increase in revenues at the household sundries and undergarments businesses.

Operating income

An operating loss of ¥144 million was recorded for the interim period, representing a reduction of ¥79 million in operating loss compared to the previous comparable period due to an improvement in profitability of the household sundries business.

(2) Summary of consolidated financial position

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

Assets decreased ¥2,125 million to ¥89,614 million. The primary contributing factors were a decrease of ¥5,393 million in current assets and an increase of ¥3,268 million in fixed assets. Primary factors contributing to the decrease in current assets were a ¥1,364 million decrease in cash and deposits, a ¥4,477 million decrease in marketable securities, a ¥480 million increase in notes and accounts receivable and a ¥72 million increase in Other current assets due to an increase in prepaid expenses. The increase in fixed assets was primarily the result of a ¥149 million increase in intangible assets due to the acquisition of software, and a ¥3,075 increase in other investment assets due to an increase in marketable securities.

Liabilities decreased ¥1,709 million to ¥11,232 million. The primary contributing factors were a decrease of ¥1,728 million in current liabilities and an increase of ¥18 million in noncurrent liabilities. Contributing factors to the decrease in current liabilities include a ¥14 million decrease in notes and accounts payable, a ¥446 million decrease in accrued income taxes and a ¥1,310 million decrease in Other current liabilities due to a decrease in accrued accounts payable. The increase in noncurrent liabilities was primarily the result of a ¥25 million increase in allowance for employee retirement benefits.

Net assets decreased ¥415 million to ¥78,381 million. Primary contributing factors included a ¥1,103 million decline in retained earnings due to dividend payments and recording ¥648 million in net income for the quarterly period.
As a result, the shareholders' equity ratio increased 1.5 percentage points from the end of the previous fiscal year to 87.0%.

Cash flow
Cash and cash equivalents as of September 30, 2012 were ¥22,690 million, ¥2,365 million lower than at the end of the previous fiscal year. The main contributing factors are detailed below.

<u>Cash flows from operating activities</u>
Cash flow gained in operating activities during the interim period under review was ¥611 million compared to an inflow of ¥3,086 million in the interim period of the previous fiscal year. Factors increasing operating cash flow include income before income taxes of ¥902 million and depreciation expenses of ¥1,659 million. Factors reducing operating cash flow included a decrease in other current liabilities of ¥1,163 million and income taxes paid of ¥617 million.

<u>Cash flows from investing activities</u>
Cash used in investing activities during the interim period under review was ¥1,862, compared to an outflow of ¥1,478 million in the interim period of the previous fiscal year. Factors increasing investment cash flow included an inflow of ¥3,000 million for income from sale and redemption of marketable securities. Factors reducing investment cash flow included outlays of ¥3,000 million for acquisitions of marketable securities, ¥1,180 million for the acquisition of intangible noncurrent assets and ¥951 million for the acquisition of tangible noncurrent assets.

<u>Cash flows from financing activities</u>
Cash flow used in financing activities during the period under review was ¥1,123 million, compared to an outflow of ¥1,184 million in the interim period of the previous fiscal year, and mainly comprised dividend payments of ¥1,099 million.

(3) Forecasts for the fiscal year ending March 31, 2012

In consideration of recent trends in its business performance, we have downwardly revised our full year business results forecasts for net sales for the fiscal year ending March 31, 2013 which were announced on May 2, 2012.
The forecast for net sales has been reduced to ¥83,500 million, down ¥3500 million from our initial plans for ¥87,000 million, in light of new FANCL cosmetics customers acquired being less than initial plans, and the rescheduling of the start period for the reconstruction of the Health business from January 2013 to the spring of 2013.
Gross margin will be reduced as a result of the decrease in net sales, however due to reduced marketing expenses from the delay of the reconstruction of the health related business, and continued efforts to control expenses, the following items remain in line with our initial forecasts, and therefore we expect an operating income of ¥4,200 million, ordinary income of ¥4,200 million, and net income of ¥2,100 million.

2. Other

(1) Changes to subsidiaries during the period: None

(2) Use of special accounting procedures: None

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

In accordance with revisions to the Corporation Tax Act, as of the first quarter of the current fiscal year, FANCL and its domestic consolidated subsidiaries have changed their depreciation method based on the revisions to the act, for tangible fixed assets acquired on or after April 1, 2012.

As a result of this change, consolidated operating income, ordinary income and consolidated net income before taxes and other adjustments were each reduced by ¥25 million.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

Millions of yen, rounded down

	As of September 30, 2012	As of March 31, 2012
ASSETS		
I. Current assets:		
Cash and bank deposits	16,785	18,149
Notes and accounts receivable	9,769	9,289
Marketable securities	8,905	13,382
Merchandise and products	2,727	2,851
Work in progress	61	62
Raw materials and supplies	3,335	3,363
Others	2,286	2,214
Allowance for doubtful accounts	(97)	(147)
Total current assets	43,772	49,165
II. Fixed assets:		
Tangible fixed assets		
Buildings and structures	22,698	22,549
Accumulated depreciation and accumulated impairment loss	(13,280)	(12,968)
Buildings and structures (net)	9,418	9,580
Machinery and transport equipment	6,444	6,297
Accumulated depreciation and accumulated impairment loss	(5,124)	(4,926)
Machinery and transport equipment (net)	1,320	1,370
Furniture, tools and fixtures	7,318	6,947
Accumulated depreciation and accumulated impairment loss	(5,999)	(5,740)
Furniture, tools and fixtures (net)	1,319	1,206
Land	10,215	10,059
Lease assets	279	299
Accumulated depreciation and accumulated impairment loss	(194)	(224)
Lease assets (net)	85	75
Others	53	75
Total tangible fixed assets	22,411	22,368
Intangible fixed assets		
Goodwill	--	284
Others	4,332	3,898
Total intangible fixed assets	4,332	4,182
Investments and other assets		
Investment securities	15,006	11,861
Others	4,091	4,160
Total investments and other assets	19,097	16,022
Total fixed assets	45,841	42,573
Total Assets	89,614	**91,739**

Consolidated Balance Sheets, continued

	As of September 30, 2012	As of March 31, 2012
	Millions of yen, rounded down	
LIABILITIES		
I. Current liabilities:		
Notes and accounts payable	1,937	1,952
Accrued income taxes	235	681
Allowance for bonus	982	945
Allowance for points	1,384	1,380
Asset retirement obligations	3	1
Others	4,219	5,529
Total current liabilities	8,762	10,490
II. Noncurrent liabilities:		
Allowance for retirement benefits	1,628	1,603
Allowance for directors' retirement bonuses	128	117
Asset retirement obligations	481	478
Others	231	251
Total non-current liabilities	2,470	2,451
Total liabilities	11,232	12,942
NET ASSETS		
Shareholders' equity		
Common stock	10,795	10,795
Additional paid-in capital	11,706	11,706
Retained earnings	55,862	56,317
Treasury stock	(360)	(360)
Total shareholders' equity	78,003	78,458
Other comprehensive income		
Valuation difference on other marketable securities	4	(4)
Total other comprehensive income	4	(4)
Warrants	373	343
Total net assets	78,381	78,796
Total Liabilities and Net Assets	89,614	**91,739**

(2) Consolidated statements of income

Millions of yen, rounded down

	April 1, 2012 to September 30, 2012	April 1, 2011 to September 30, 2011
Net sales	40,610	43,920
Cost of sales	13,213	14,600
Gross profit	27,397	29,319
Selling, general and administrative expenses	26,556	27,798
Operating income	841	1,521
Non-operating income		
Interest income	52	35
Dividend income	150	15
Exchange gain	8	--
Proceeds from insurance	--	15
Other non-operating income	115	55
Total non-operating income	327	121
Non-operating expenses		
Exchange loss	--	4
Provisions for allowance for bad debt	52	138
Other non-operating expenses	19	29
Total non-operating expenses	71	172
Ordinary income	1,097	1,470
Extraordinary income		
Income from sale of fixed assets	--	3
Reversal of allowance for bad debt	--	125
Insurance proceeds	--	52
Gain on reversal of warrants	--	139
Gain on exchange from dividend in kind	107	--
Total extraordinary income	107	320
Extraordinary loss		
Loss on sale of fixed assets	--	3
Loss on disposal of fixed assets	6	5
Impairment loss	239	37
Loss on closure of stores	45	72
Loss on extinguishment of tie-in shares	--	143
Other	10	36
Total extraordinary loss	301	297
Income before income taxes	902	1,492
Income and other taxes	157	423
Adjustments to income and other taxes	96	267
Total income and other taxes	254	691
Net income from minority interests prior to adjustments	648	801
Net income	648	801

Consolidated statements of comprehensive income

Millions of yen, rounded down

	April 1, 2012 to September 30, 2012	April 1, 2011 to September 30, 2011
Income before minority interests	648	801
Other comprehensive income		
Net unrealized holding gain on other securities	8	(0)
Total other comprehensive income	8	(0)
Comprehensive income	657	800
(Breakdown)		
Comprehensive income attributable to owners of the parent company	657	800
Comprehensive income attributable to minor interests	--	--

(3) Consolidated statements of cash flows

Millions of yen, rounded down

	April 1, 2012 to September 30, 2012	April 1, 2011 to September 30, 2011
I. Cash flows from operating activities		
Income before income taxes	902	1,492
Depreciation	1,659	1,585
Impairment losses	239	37
Share-based compensation expenses	30	--
Amortization of goodwill	56	56
Increase (decrease) in allowance for doubtful accounts	41	(6)
Increase (decrease) in allowance for bonuses	37	(12)
Increase (decrease) in allowance for points	4	40
Increase (decrease) in allowance for retirement benefits	25	(475)
Increase (decrease) in allowance for directors retirement benefits	10	4
Interest and dividend income	(202)	(49)
Gain (loss) from foreign exchange	(12)	3
Gain on the sale of investment securities	--	0
Gain (loss) from revaluation of investment securities	--	7
Gain on sale of fixed assets	--	(0)
Loss from disposal of fixed assets	6	5
Loss on closure of stores	45	72
Loss on extinguishment of tie-in shares	--	143
Gain on reversal of warrants	--	(139)
Exchange gain on cash dividends	(107)	--
Decrease (increase) in trade receivables	(480)	569
Decrease (increase) in inventories	154	58
Decrease (increase) in other current assets	(174)	170
Decrease (increase) in other fixed assets	4	23
Increase (decrease) in trade payables	(14)	223
Increase (decrease) in other current liabilities	(1,163)	812
Increase (decrease) in other noncurrent liabilities	(18)	6
Others	(16)	(29)
Sub-total	1,028	4,601
Interest and dividends received	200	52
Income taxes paid	(617)	(1,567)
Net cash provided by (used in) operating activities	611	3,086
II. Cash flows from investing activities		
Proceeds from redemption of time deposits	500	--
Acquisition of marketable securities	--	(1,000)
Income from sale and redemption of marketable securities	3,000	1,502
Acquisition of tangible fixed assets	(951)	(1,067)
Income from sale of tangible fixed assets	--	29
Acquisition of intangible fixed assets	(1,180)	(1,137)
Acquisition of investment securities	(3000)	--
Income from sale and redemption of investment securities	--	0
Acquisition of shares in affiliate companies	(203)	--
Payment of loans receivable	(73)	(90)
Income from loans receivable	42	1
Other payments	(36)	(19)
Other income	41	303
Net cash provided by (used in) investing activities	(1,862)	(1,478)
III. Cash flows from financing activities		
Sale of treasury stock	--	0
Acquisition of treasury stock	(0)	(53)
Cash dividends paid	(1,099)	(1,100)
Others	(23)	(30)
Net cash provided by (used in) financing activities	(1,123)	(1,184)

IV. Effect of exchange rate changes on cash and cash equivalents	8	(3)
V. Net increase in cash and cash equivalents	(2,365)	419
VI. Cash and cash equivalents at the beginning of the period	25,056	28,070
VII. Increase in cash and cash equivalents following merger with nonconsolidated subsidiaries	--	34
VIII. Cash and cash equivalents at end of period	**22,690**	**28,524**

(4) Items related to going concern:
No applicable items

(5) Segment information

Business Segments

1. Six months ended September 30, 2012

(Millions of yen, rounded down)

	Business Segments			Other*1	Total	Eliminations or Corporate*2	Consolidated *3
	Cosmetics Business	Nutritional Supplements Business	Total				
1. Sales and operating income:							
(1) Sales to external customers	22,649	13,185	35,835	4,775	40,610	--	40,610
(2) Inter-segment sales or transfers	--	--	--	--	--	--	--
Total sales	22,649	13,185	35,835	4,775	40,610	--	40,610
Operating income (loss)	1,030	842	1,873	(144)	1,728	(886)	841

Notes:
1. Other businesses: Mail-order of personal sundries, accessories, undergarments, health equipment and household sundries, mail-order and retail sales and wholesales of Hatsuga Genmai (germinated brown rice) and Kale Juice, etc.
2. The Eliminations or Corporate loss of ¥886 million recorded in segmental operating income (loss) includes overall costs not allocated in each segment, and mainly consists of corporate costs applicable to the business segments, such as costs pertaining to the General Affairs Department of the parent company.
3. Segment income or loss has been adjusted with the operating income for the consolidated income statement for the quarter

2. Six months ended September 30, 2011

(Millions of yen, rounded down)

	Business Segments			Other*1	Total	Eliminations or Corporate*2	Consolidated *3
	Cosmetics Business	Nutritional Supplements Business	Total				
1. Sales and operating income:							
(1) Sales to external customers	22,706	13,360	36,066	7,853	43,920	--	43,920
(2) Inter-segment sales or transfers	--	--	--	--	--	--	--
Total sales	22,706	13,360	36,066	7,853	43,920	--	43,920
Operating income (loss)	2,204	540	2,744	(356)	2,388	(867)	1,521

Notes:
1. Other businesses: Mail-order of personal sundries, accessories, undergarments, health equipment and household sundries, mail-order and retail sales and wholesales of Hatsuga Genmai (germinated brown rice) and Kale Juice, etc.
2. The Eliminations or Corporate amount of ¥867 million recorded in segmental operating income (loss) includes overall costs not allocated in each segment, and mainly consists of corporate costs applicable to the business segments, such as costs pertaining to the General Affairs Department of the parent company.
3. Segment income or loss has been adjusted with the operating income for the consolidated income statement for the quarter

(6) Note on significant change in shareholders' equity
No applicable items