

FANCL Corporation

Consolidated Financial Statements for the First Quarter of the Fiscal Year Ending March 31, 2014

April 1, 2013 to June 30, 2013

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

SUMMARY OF FINANCIAL STATEMENTS (consolidated)

First Quarter Results for the Fiscal Year Ending March 31, 2014

FANCL CORPORATION

August 7, 2013

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Scheduled date for submission of the first quarter *hokokusho* (securities report): August 9, 2013

Scheduled date for distribution of dividends: --

Availability of supplementary explanatory material for first quarter results: Available

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

1) Consolidated results for the first quarter (April 1, 2013 to June 30, 2013) of the fiscal year ending March 31, 2014

(1) Consolidated Operating Results

	Three months ended June 30, 2013		Three months ended June 30, 2012	
		% change		% change
Net sales	20,113	(0.5)	20,205	(6.9)
Operating income	358	69.8	210	(78.9)
Ordinary income	479	75.3	273	(71.4)
Net income	237	413.6	46	(88.9)
Earnings per share (¥)	3.66	--	¥0.71	--
Earnings per share (diluted) (¥)	3.65	--	¥0.71	--

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

2. Comprehensive income: Three months ended June 30, 2013: ¥ 236 million (329.1%)

Three months ended June 30, 2012: ¥55 million (-86.7%)

(2) Consolidated Financial Position

	As of June 30, 2013	As of March 31, 2013
	Total assets	84,846
Net assets	72,638	74,542
Shareholders' equity/total assets (%)	85.2	85.3

Shareholders' equity: As of June 30, 2013: ¥72,260 million

As of March 31, 2013: ¥74,081 million

2) Dividends per share

	FY ended March 31, 2013	FY ending March 31, 2014 (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, 2014 (April 1, 2013 to March 31, 2014)

Company has not published consolidated financial results forecasts for the consolidated financial year ending March 2014 because forecasting with any reasonable degree of accuracy is not possible at this stage. For further detail on our decision to refrain from publishing results forecasts, please see Page 7: 1. Operating Results, Section 3, Forecasts for the fiscal year ending March 31, 2014.

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: None
2. Other changes: None
3. Changes in accounting estimates: None
4. Restatements: None

(4) Number of outstanding shares (common stock)

1. Number of shares outstanding (including treasury shares)	June 30, 2013:	65,176,600 shares	March 31, 2012:	65,176,600 shares
2. Number of treasury shares	June 30, 2013	1,099,073 shares	March 31, 2012:	269,757 shares
3. Average number of shares during the first quarter period	Three months to June 30, 2013	64,706,158 shares	Three months to June 30, 2012	64,885,331 shares

Important Notice

Disclosure of status of quarterly report review procedures:

At time of disclosure of this quarterly financial report the review procedures for quarterly securities reports as stipulated under the Financial Instruments and Exchange Law 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: 1. Operating Results, Section 3, Forecasts for the fiscal year ending March 31, 2014.

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1. Operating Results

(1) Summary of business performance (consolidated)

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

During the first quarter period under review, the Japanese economy steadily improved due to strong consumer sentiment against a backdrop of higher stock prices and the correction of the strong yen since the end of last year, and previously sluggish exports and overseas economies gradually reversing trend and turning positive. With continued monetary easing and the added effects of economic stimulus, the economy is broadly expected to mildly recover.

During the period under review, consolidated sales decreased 0.5% to ¥20,113 million, as an increase in revenue in the Nutritional Supplements Business largely offset a decline in revenue in the cosmetics business compared to the same period of the previous fiscal year, which benefited from a large-scale promotion on rebranding.

Operating income increased 69.8% to ¥358 million due to a decrease in marketing expenses in the cosmetics business. Ordinary income increased 75.3% to ¥479 million due to the recording gain on foreign exchange and other factors. As part of our restructuring of poorly performing businesses, FANCL transferred shares of consolidated subsidiary NEUES K.K., a beauty salon operator, to an entity outside of the group which led to a decrease in tax liabilities. Accordingly, net income increased 413.6% to ¥237 million.

Segment results are as follows:

1) Cosmetics Business

Sales

Sales from the Cosmetics business decreased 2.6% to ¥11,033 million. *(Millions of yen, rounded down)*

	Three months ended June 30, 2013		Three months ended June 30, 2012		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
FANCL Cosmetics	8,716	79.0	8,933	78.8	(2.4)
ATTENIR Cosmetics	1,991	18.1	1,909	16.9	4.3
Others	324	2.9	490	4.3	(33.8)
Totals	11,033	100.0	11,333	100.0	(2.6)

	Three months ended June 30, 2013		Three months ended June 30, 2012		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Mail order sales	5,544	50.3	5,511	48.6	0.6
Retail store sales	3,806	34.5	3,855	34.0	(1.3)
Wholesales and others	465	4.2	692	6.1	(32.7)
Overseas Sales	1,216	11.0	1,274	11.3	(4.5)
Totals	11,033	100.0	11,333	100.0	(2.6)

Sales of **FANCL Cosmetics** decreased 2.4% to ¥8,716 million. Despite efforts to grow sales through the launch of limited edition products, sales decreased in contrast to the previous year when a large-scale promotion was implemented on rebranding, and delayed purchase of Facial Washing Powder in anticipation of its renewal.

Sales of **ATTENIR Cosmetics** increased 4.3% to ¥1,991 million, due to further expansion of the customer base, with newly registered mail order customer numbers increasing 27% compared to the previous comparable period.

Results by sales channels were: mail order sales increased 0.6% year on year to ¥5,544 million, retail store sales decreased 1.3% to ¥3,806 million, wholesale sales through other sales channels decreased 32.7% to ¥465 million, and overseas sales decreased 4.5% to ¥1,216 million.

Operating income

Operating income increased 254.4% to ¥1,204 million, as a result of a decrease in marketing expenses for FANCL Cosmetics and other factors.

2) Nutritional Supplements Business

Sales

Nutritional supplement sales increased 5.2% to ¥6,766 million. *(Millions of yen, rounded down)*

	Three months ended June 30, 2013		Three months ended June 30, 2012		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Mail order sales	2,580	38.1	2,567	39.9	0.5
Retail store sales	1,656	24.5	1,471	22.9	12.6
Wholesales and others	1,925	28.5	1,862	29.0	3.4
Overseas Sales	604	8.9	529	8.2	14.0
Totals	6,766	100.0	6,431	100.0	5.2

Revenues from product sales increased due to strong sales of dietary supplement *Calorie Limit* and launch of renewed beauty supplement *HTC Collagen DX*.

Results by sales channels were: mail order sales increased 0.5% to ¥2,580 million, retail store sales increased 12.6% to ¥1,656 million, wholesale sales through other sales channels increased 3.4% to ¥1,925 million and overseas sales increased 14.0% to ¥604 million.

Operating income

An operating loss of ¥380 million was recorded in the first quarter (compared to operating income of ¥324 million in the previous period) as a result of a temporary increase in marketing expenses to acquire new customers and despite an increase in revenue.

3) Other Businesses

Sales in Other businesses decreased 5.2% year on year to ¥2,313 million

(Millions of yen, rounded down)

	Three months ended June 30, 2013	Three months ended June 30, 2012	Change (%)
Hatsuga genmai business	720	749	(3.9)
Kale juice business	786	830	(5.3)
Other businesses	806	859	(6.2)
Totals	2,313	2,440	(5.2)

In the Hatsuga genmai (germinated brown rice) business, sales decreased 3.9% to ¥720 million due to slow mail order sales.

In the Kale juice business, sales decreased 5.3% to ¥786 million as strong sales of core product *Honshibori Aojiru Premium* failed to offset slow sales in other products.

Sales at other businesses decreased 6.2% to ¥806 million due to a decrease in profits in the household sundries business.

Operating income

An operating loss of ¥46 million was recorded for the first quarter, in line with the operating loss recorded in the previous comparable period. Profitability of the Hatsuga genmai business worsened due to an increase in grain prices while profitability of the household sundries and undergarments business businesses improved.

(2) Summary of consolidated financial position

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

Assets decreased ¥2,003 million to ¥84,846 million. The primary contributing factors were a decrease of ¥1,396 million in current assets and a decrease of ¥606 million in fixed assets. Contributing to the decrease in current assets were a ¥1,208 million decrease in cash and deposits, a ¥1,047 million decrease in notes and accounts receivable, and a ¥1,348 increase in "Other" current assets due to payment for the acquisition of own shares and other factors. The decrease in fixed assets was primarily the result of a ¥267 million decrease in tangible fixed assets due to the effects of depreciation, a ¥199 million decrease in intangible fixed assets and a ¥139 million decrease in other investment assets due to a decline in security deposits and guarantee deposits.

Liabilities decreased ¥98 million from the end of the previous fiscal year to ¥12,207 million. The primary contributing factors were a decrease of ¥85 million in current liabilities and a decrease of ¥13 million in fixed liabilities. Contributing factors to the decrease in current liabilities include a ¥429 million decrease in notes and accounts payable, a ¥757 million decrease in accrued income taxes, and a ¥459 million increase in allowance for bonuses. The decrease in fixed liabilities was primarily the result of a ¥25 million decrease in "Other" fixed liabilities (decrease in lease liabilities).

Net assets decreased ¥1,904 million to ¥72,638 million. Contributing factors include a ¥888 million decline in retained earnings from dividend payments and a ¥932 million decline due to the purchase of own shares.

As a result, the shareholders' equity ratio decreased 0.1 percentage points from the end of the previous fiscal year to 85.2%.

Cash flow

Cash and cash equivalents as of June 30, 2013 were ¥27,019 million, ¥1,208 million lower than at the end of the previous fiscal year. The main contributing factors are detailed below.

Cash flows from operating activities

Cash flow generated by operating activities during the period under review was ¥972 million compared to a ¥554 million outflow for the first quarter of the previous fiscal year. Factors increasing operating cash flow included a decrease in trade receivables of ¥966 million, depreciation expenses of ¥749 million, and an increase of ¥503 million in "Other" current liabilities. Factors reducing operating cash flow included a ¥468 million increase in allowance for bonuses, a decrease of ¥1,066 million in "Other" current assets and income taxes paid of ¥805 million.

Cash flows from investing activities

Cash generated by investing activities during the period under review was ¥162 million, compared to a ¥1,257 million outflow for the first quarter of the previous fiscal year. This was largely the result of outlays, such as of ¥378 million for acquisitions of tangible fixed assets, ¥113 million for acquisitions of intangible fixed assets, and ¥108 million for the sale of affiliate company shares due to a change in the scope of consolidation; and inflows such as ¥472 million in income from the sale and redemption of marketable securities.

Cash flows from financing activities

Cash flow used in financing activities during the period under review was ¥2,073 million, compared to ¥1,020 million used in the first quarter of the previous fiscal year, and was primarily due to outlays of ¥1,051 million for the acquisition of own shares and dividend payments of ¥1,004 million.

(3) Forecasts for the fiscal year ending March 31, 2014

As announced on January 15, 2013, in order to make progress towards globalization and renewing corporate growth, the Company has shifted to a new management structure that enables Company founder and Honorary Chairman, Kenji Ikemori, to be directly involved in executive management.

The business strategies within the new management structure are currently being formulated, and the Company has decided to refrain from publishing consolidated financial results forecasts for the consolidated financial year ending March 2014 since we are not in a position to forecasting with any reasonable degree of accuracy. The Company will disclose forecasts for the fiscal year in a timely manner after the new business strategy has been confirmed.

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: None

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

Millions of yen, rounded down

	As of June 30, 2013	As of March 31, 2013
ASSETS		
I. Current assets:		
Cash and cash equivalents	17,512	18,720
Notes and accounts receivable	9,024	10,071
Marketable securities	12,888	13,359
Merchandise and products	2,611	2,834
Work in progress	49	43
Raw materials and supplies	3,335	3,176
Others	3,380	1,995
Allowance for doubtful accounts	(66)	(70)
Total current assets	48,734	50,131
II. Fixed assets:		
Tangible fixed assets		
Buildings and structures	22,240	22,673
Accumulated depreciation and accumulated impairment loss	(13,564)	(13,729)
Buildings and structures (net)	8,676	8,944
Machinery and transport equipment	6,610	6,563
Accumulated depreciation and accumulated impairment loss	(5,392)	(5,314)
Machinery and transport equipment (net)	1,217	1,249
Furniture, tools and fixtures	7,359	7,332
Accumulated depreciation and accumulated impairment loss	(6,219)	(6,233)
Furniture, tools and fixtures (net)	1,139	1,098
Land	10,216	10,216
Lease assets	257	326
Accumulated depreciation and accumulated impairment loss	(155)	(213)
Lease assets (net)	101	112
Others	35	32
Total tangible fixed assets	21,387	21,655
Intangible fixed assets		
Others	3,597	3,796
Total intangible fixed assets	3,597	3,796
Investments and other assets		
Investment securities	7,326	7,327
Others	3,799	3,937
Total investments and other assets	11,126	11,265
Total fixed assets	36,111	36,717
Total Assets	84,846	86,849

Consolidated Balance Sheets, continued

	<i>Millions of yen, rounded down</i>	
	As of June 30, 2013	As of March 31, 2013
LIABILITIES		
I. Current liabilities:		
Notes and accounts payable	1,954	2,383
Accrued income taxes	175	932
Allowance for bonus	1,392	933
Allowance for points.....	1,411	1,434
Asset retirement obligations	2	2
Others.....	4,901	4,236
Total current liabilities	9,837	9,922
II. Fixed liabilities:		
Allowance for retirement benefits.....	1,616	1,593
Allowance for directors' retirement bonuses	59	54
Asset retirement obligations.....	481	498
Others	211	236
Total fixed liabilities.....	2,370	2,383
Total liabilities.....	12,207	12,306
NET ASSETS		
Shareholders' equity		
Common stock.....	10,795	10,795
Additional paid-in capital.....	11,706	11,706
Retained earnings	51,018	51,906
Treasury stock	(1,266)	(333)
Total shareholders' equity	72,254	74,074
Other comprehensive income		
Valuation difference on other marketable securities	6	6
Total other comprehensive income.....	6	6
Warrants.....	378	461
Total net assets.....	72,638	74,542
Total Liabilities and Net Assets	84,846	86,849

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

Millions of yen, rounded down

	April 1, 2013 to June 30, 2013	April 1, 2012 to June 30, 2012
Net sales	20,113	20,205
Cost of sales	6,601	6,457
Gross profit	13,512	13,747
Selling, general and administrative expenses	13,154	13,536
Operating income	358	210
Non-operating income		
Interest income	18	24
Dividend income	0	0
Gain on foreign exchange	51	50
Other non-operating income	62	54
Total non-operating income	132	130
Non-operating expenses		
Provisions for allowance for bad debt	--	57
Other non-operating expenses	11	11
Total non-operating expenses	11	68
Ordinary income	479	273
Extraordinary income		
Total extraordinary income	--	--
Extraordinary loss		
Loss on sale of fixed assets	13	--
Loss on disposal of fixed assets	4	5
Impairment loss	7	-
Loss on closure of stores	7	13
Loss on litigation	223	--
Loss on extinguishment of tie-in shares	136	--
Other	2	0
Total extraordinary loss	394	18
Income before income taxes	85	255
Income and other taxes	152	404
Adjustments to income and other taxes	(304)	(195)
Total income and other taxes	(151)	209
Net income from minority interests prior to adjustments	237	46
Net income	237	46

Consolidated statements of comprehensive income

Millions of yen, rounded down

	April 1, 2013 to June 30, 2013	April 1, 2012 to June 30, 2012
Income before minority interests.....	237	46
Other comprehensive income		
Net unrealized holding gain on other securities	(0)	8
Total other comprehensive income	(0)	8
Comprehensive income	236	55
(Breakdown)		
Comprehensive income attributable to owners of the parent company.....	236	55
Comprehensive income attributable to minor interests	--	--

(3) Consolidated statements of cash flows*Millions of yen, rounded down*

	April 1, 2013 to June 30, 2013	April 1, 2012 to June 30, 2012
I. Cash flows from operating activities		
Income before income taxes.....	85	255
Depreciation	749	788
Impairment loss	7	--
Stock compensation expense.....	14	15
Amortization of goodwill.....	--	28
Increase (decrease) in allowance for doubtful accounts.....	(5)	53
Increase (decrease) in allowance for bonuses	468	508
Increase (decrease) in allowance for points	(22)	(14)
Increase (decrease) in allowance for retirement benefits	23	37
Increase (decrease) in allowance for directors retirement	5	4
benefits		
Interest and dividend income.....	(19)	(25)
Gain (loss) from foreign exchange.....	(63)	(51)
Gain on sale of fixed assets.....	13	--
Loss from disposal of fixed assets	4	5
Loss on closure of stores.....	7	13
Loss on litigation	223	--
Loss on extinguishment of tie-in shares.....	136	--
Decrease (increase) in trade receivables.....	966	(457)
Decrease (increase) in inventories.....	32	(390)
Decrease (increase) in other current assets	(1,066)	(285)
Decrease (increase) in other fixed assets.....	2	3
Increase (decrease) in trade payables.....	(405)	(462)
Increase (decrease) in other current liabilities	503	12
Increase (decrease) in other fixed liabilities	(10)	(12)
Others	(2)	(7)
Sub-total	1,647	19
Interest and dividends received	27	11
Income taxes paid	(805)	(585)
Others	102	--
Net cash provided by (used in) operating activities.....	972	(554)
II. Cash flows from investing activities		
Income from sale and redemption of marketable securities.....	472	--
Acquisition of tangible fixed assets	(378)	(464)
Income from sale of tangible fixed assets	0	--
Acquisition of intangible fixed assets	(113)	(585)
Income from sale of intangible fixed assets	2	--
Payments for investments in capital of subsidiaries	(44)	--
and affiliates		
Acquisition of shares of affiliates.....	--	(203)
Sales of shares of affiliates resulting in change in scope		
of consolidation	(108)	--
Payment of loans receivable	--	(25)
Income from loans receivable	6	29
Other payments	(33)	(20)
Other income	32	13
Net cash provided by (used in) investing activities	(162)	(1,257)
III. Cash flows from financing activities		
Sale of treasury stock	0	--
Acquisition of treasury stock	(1,051)	(0)
Cash dividends paid.....	(1,004)	(1,009)
Others.....	(17)	(10)
Net cash provided by (used in) financing activities	(2,073)	(1,020)
IV. Effect of exchange rate changes on cash and cash		
equivalents	55	40
V. Net increase in cash and cash equivalents.....	(1,208)	(2,790)
VI. Cash and cash equivalents at the beginning of the period ...	28,227	25,056
VII. Cash and cash equivalents at end of period.....	27,019	22,265

(4) Notes to the consolidated financial statements

Items related to going concern:

No applicable items

Note on significant change in shareholders' equity

No applicable items

Segment information

Business Segments

1. Three months ended June 30, 2013

(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	11,033	6,766	17,800	2,313	20,113	--	20,113
(2) Inter-segment sales or transfers	--	--	--	--	--	--	--
Total sales	11,033	6,766	17,800	2,313	20,113	--	20,113
Operating income (loss)	1,204	(380)	823	(46)	777	(419)	358

Notes:

1. Other businesses: Mail-order of sundries, accessories and undergarments, and the Hatsuga Genmai (germinated brown rice), Kale Juice, and beauty salon businesses etc.
2. The adjustment amount on segment income (loss) of (¥419) million includes total company expenses not distributed to each reportable segment and consist primarily of costs related to the General Affairs section of the parent company not included in the reportable segments.
3. Segment income (loss) is adjusted for operating income (loss) as recorded in the consolidated financial statements.

2. Three months ended June 30, 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	11,333	6,431	17,765	2,440	20,205	--	20,205
(2) Inter-segment sales or transfers	--	--	--	--	--	--	--
Total sales	11,333	6,431	17,765	2,440	20,205	--	20,205
Operating income (loss)	339	324	664	(45)	619	(408)	210

Notes:

1. Other businesses: Mail-order of sundries, accessories and undergarments, and the Hatsuga Genmai (germinated brown rice), Kale Juice, and beauty salon businesses etc.
2. The adjustment amount on segment income (loss) of (¥408) million includes total company expenses not distributed to each reportable segment and consist primarily of costs related to the General Affairs section of the parent company not included in the reportable segments.
3. Segment income (loss) is adjusted for operating income (loss) as recorded in the consolidated financial statements.