

FANCL Corporation

Consolidated Financial Statements for the First Quarter of the Fiscal Year Ending March 31, 2015

April 1, 2014 to June 30, 2014

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, 2015

FANCL CORPORATION

August 13, 2014

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Scheduled date for submission of the first quarter *hokokusho* (securities report): August 13, 2014

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, 2014 to June 30, 2014) of the fiscal year ending March 31, 2015

(1) Consolidated Operating Results

	Three months ended June 30, 2014		Three months ended June 30, 2013	
		% change		% change
Net sales	17,863	(11.2)	20,113	(0.5)
Operating income	(584)	--	358	69.8
Ordinary income	(530)	--	479	75.3
Net income	(302)	--	237	413.6
Earnings per share (¥)	(4.77)	--	3.66	--
Earnings per share (diluted) (¥)	--	--	3.65	--

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, 2014: ¥305 million (--%)

Three months ended June 30, 2013: ¥236 million (329.1%)

(2) Consolidated Financial Position

	As of June 30, 2014	As of March 31, 2014
	Total assets	83,152
Net assets	71,085	72,154
Shareholders' equity/total assets (%)	84.9	83.5

Shareholders' equity: As of June 30, 2014: ¥70,606 million

As of March 31, 2013: ¥71,645 million

2) Dividends per share

	FY ended March 31, 2014	FY ending March 31, 2015 (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, 2015 (April 1, 2014 to March 31, 2015)

	Six months ending September 30, 2014		Fiscal year ending March 31, 2015	
		Change (%)		Change (%)
Net sales	38,500	(0.7)	81,000	(0.1)
Operating income	300	(57.8)	4,000	1.4
Ordinary income	300	(68.0)	4,000	(6.2)
Net income	100	--	2,200	63.7
Earnings per share (¥)	¥1.57	--	¥34.62	--

Note: 1. The percentages shown above are a comparison with the interim period of the previous fiscal year for 'Six months ending September 30, 2014' and a comparison with the previous full fiscal year for 'Fiscal year ending March 31, 2015'.

2. Changes to the Consolidated forecasts during the period under review: None

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: None
4. Restatements: None

(4) Number of outstanding shares (common stock)

1. Number of shares outstanding (including treasury shares)	June 30, 2014	65,176,600 shares	March 31, 2014	65,176,600 shares
2. Number of treasury shares	June 30, 2014	1,568,589 shares	March 31, 2014	1,622,701 shares
3. Average number of shares during the first quarter period	Three months to June 30, 2014	63,566,987 shares	Three months to June 30, 2013	64,706,158 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, 2015.

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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 remained weak as consumer spending and real estate investment declined due to a reactionary fall-back from the surge in demand prior to the consumption tax increase. While concern remains over trends in emerging economies, we anticipate an overall recovery, with gradual recovery in demand, and improvement in employment and salaries.

During the first quarter period under review, consolidated sales decreased 11.2% to ¥17,863 million, mainly due to a reactionary fall-back from the surge in demand which occurred prior to the consumption tax increase, and the transfer of shares of consolidated subsidiary NEUES K.K., a beauty salon operator, to an entity outside of the group.

FANCL recorded an operating loss of ¥584 million (compared to operating income of ¥358 million in the previous period), mainly due to a decrease in sales, which offset an improvement in the gross profit margin. An ordinary loss of ¥530 million was recorded (compared to ordinary income of ¥479 million in the previous period), resulting in a net loss of ¥302 million (compared to net income of ¥237 million in the previous period).

Segment results are as follows:

1) Cosmetics Business

Sales

Sales from the Cosmetics business decreased 2.1% to ¥10,805 million. *(Millions of yen, rounded down)*

	Three months ended June 30, 2014		Three months ended June 30, 2013		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
FANCL Cosmetics	8,708	80.6	8,716	79.0	(0.1)
ATTENIR Cosmetics	1,791	16.6	1,991	18.1	(10.1)
Others	305	2.8	324	2.9	(5.8)
Totals	10,805	100.0	11,033	100.0	(2.1)

	Three months ended June 30, 2014		Three months ended June 30, 2013		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Mail order sales	5,133	47.5	5,544	50.3	(7.4)
Retail store sales	3,796	35.1	3,806	34.5	(0.3)
Wholesales and others	752	7.0	465	4.2	61.6
Overseas Sales	1,123	10.4	1,216	11.0	(7.7)
Totals	10,805	100.0	11,033	100.0	(2.1)

Sales of **FANCL Cosmetics** were in line with the previous comparable period, decreasing 0.1% to ¥8,708 million, as slow sales in overseas markets were offset by the launch of sales of Mild Cleansing Oil and Facial Washing Powder at drugstores, and a renewal of base make products.

Sales of **ATTENIR Cosmetics** decreased 10.1% to ¥1,791 million.

Results by sales channels were: mail order sales decreased 7.4% year on year to ¥5,133 million, retail store sales decreased 0.3% to ¥3,796 million, wholesale sales through other sales channels increased 61.6% to ¥752 million, and overseas sales decreased 7.7% to ¥1,123 million.

Operating income

Operating income decreased 76.0% to ¥289 million, as a result of a decrease in sales, an increase in marketing expenses, and other factors.

2) Nutritional Supplements Business

Sales

Nutritional supplement sales decreased 20.5% to ¥5,376 million.

(Millions of yen, rounded down)

	Three months ended June 30, 2014		Three months ended June 30, 2013		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Mail order sales	2,106	39.2	2,580	38.1	(18.4)
Retail store sales	1,286	23.9	1,656	24.5	(22.3)
Wholesales and others	1,664	31.0	1,925	28.5	(13.6)
Overseas Sales	318	5.9	604	8.9	(47.3)
Totals	5,376	100.0	6,766	100.0	(20.5)

Revenues from product sales decreased as strong sales of dietary supplement *Calorie Limit for the Mature Aged* which was launched on June 20, 2014, was offset by a slowdown in other products compared to the previous comparable period when a promotional campaign was conducted.

Results by sales channels were: mail order sales decreased 18.4% to ¥2,106 million, retail store sales decreased 22.3% to ¥1,286 million, wholesale sales through other sales channels decreased 13.6% to ¥1,664 million and overseas sales decreased 47.3% to ¥318 million.

Operating income

An operating loss of ¥451 million was recorded in the first quarter (compared to an operating loss of ¥380 million in the previous period) as a result of a decline in sales, and despite a decrease in marketing expenses.

3) Other Businesses

Sales

Other businesses decreased 27.3% year on year to ¥1,681 million

(Millions of yen, rounded down)

	Three months ended June 30, 2014	Three months ended June 30, 2013	Change (%)
Hatsuga genmai business	581	720	(19.4)
Kale juice business	657	786	(16.4)
Other businesses	443	806	(45.1)
Totals	1,681	2,313	(27.3)

In the Hatsuga genmai (germinated brown rice) business, sales decreased 19.4% to ¥581 million.

In the Kale juice business, sales decreased 16.4% to ¥657 million.

Sales at other businesses decreased 45.1% to ¥443 million due to factors including the transfer of shares of consolidated subsidiary NEUES K.K., a beauty salon operator, to an entity outside of the group.

Operating income

Operating income of ¥20 million was recorded for the first quarter, (compared with an operating loss of ¥46 million recorded in the previous period) due to an improvement in profitability stemming from the sale of the beauty salon business, and despite a decrease in sales.

(2) Summary of consolidated financial position

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

Assets decreased ¥2,647 million to ¥83,152 million. The primary contributing factors were a decrease of ¥1,107 million in current assets and a decrease of ¥1,540 million in fixed assets. Contributing to the decrease in current assets were a ¥2,669 million decrease in notes and accounts receivable, a ¥375 million increase in cash and deposits, and a ¥856 million increase in "Other" current assets due to an increase in prepaid expenses and other factors. The decrease in fixed assets was primarily the result of a ¥73 million decrease in tangible fixed assets due to the effects of depreciation, a ¥124 million decrease in intangible fixed assets and a ¥1,341 million decrease in other investment assets due to a decline in security deposits and other factors.

Liabilities decreased ¥1,579 million from the end of the previous fiscal year to ¥12,066 million. The primary contributing factors were a decrease of ¥1,146 million in current liabilities and a decrease of ¥433 million in fixed liabilities. Contributing factors to the decrease in current liabilities include a ¥354 million decrease in notes and accounts payable, a ¥1,306 million decrease in "Other" current liabilities due to a decline in deposits and other factors, and a ¥516 million increase in allowance for bonuses. The decrease in fixed liabilities was primarily the result of a ¥433 million decline in retirement benefit liabilities.

Net assets decreased ¥1,068 million to ¥71,085 million. Contributing factors include a ¥1,100 million decline in retained earnings from dividend payments.

As a result, the shareholders' equity ratio increased 1.4 percentage points from the end of the previous fiscal year to 84.9%.

(3) Forecasts for the fiscal year ending March 31, 2015

There are no changes to the results forecasts for the interim and full-year period for the consolidated fiscal year ending March 31, 2015, that were issued on May 9, 2014.

2. Other

(1) Changes to subsidiaries during the period

As of the first quarter period under review, FANCL COSMETICS CORPORATION and FANCL HEALTH SCIENCE CORPORATION, which were established through company separation (simple incorporation-type company separation), have been included in the scope of consolidation.

(2) Use of special accounting procedures: None

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

Change in accounting policy

As of the first quarter of the current fiscal year, Article 35 of the *Accounting Standard for Retirement Benefits* (Accounting Standards Board of Japan (ASBJ) Statement No. 26 issued on May 17, 2012) and article 67 of the *Guidance on Accounting Standard for Retirement Benefits* (ASBJ Guidance No. 25 issued on May 17, 2012) have been adopted. Accordingly, the method for calculating retirement benefits has been revised, and method of attributing expected benefit to periods has changed from a straight-line basis to a benefit formula basis, and the method for deciding discount rates has been changed from one based on the expected average remaining working life to a single weighted average discount rate.

With the adoption of the Accounting Standard for Retirement Benefits, and in accordance with transitional treatment as stipulated in article 37 of the Accounting Standard for Retirement Benefits, the impact of the change in the method of calculating retirement benefits and service costs has been reflected in retained earnings at the beginning of the first quarter period under review.

As a result, retirement benefit liabilities at the beginning of the first quarter period are ¥460 million lower, and retained earnings are ¥296 million higher. The impact on the operating loss, ordinary loss and net loss before income taxes is minimal.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

Millions of yen, rounded down

	As of June 30, 2014	As of March 31, 2014
ASSETS		
I. Current assets:		
Cash and cash equivalents	20,749	20,374
Notes and accounts receivable	7,740	10,410
Marketable securities	12,004	12,003
Merchandise and products	2,525	2,283
Work in progress	43	31
Raw materials and supplies	2,721	2,652
Others	4,135	3,278
Allowance for doubtful accounts	(51)	(58)
Total current assets	49,867	50,975
II. Fixed assets:		
Tangible fixed assets		
Buildings and structures	22,045	21,997
Accumulated depreciation and accumulated impairment loss	(13,859)	(13,696)
Buildings and structures (net)	8,186	8,301
Machinery and transport equipment	6,701	6,693
Accumulated depreciation and accumulated impairment loss	(5,750)	(5,678)
Machinery and transport equipment (net)	951	1,014
Furniture, tools and fixtures	7,055	7,410
Accumulated depreciation and accumulated impairment loss	(6,030)	(6,342)
Furniture, tools and fixtures (net)	1,024	1,067
Land	10,177	10,177
Lease assets	363	319
Accumulated depreciation and accumulated impairment loss	(158)	(137)
Lease assets (net)	204	181
Others	186	62
Total tangible fixed assets	20,730	20,804
Intangible fixed assets		
Others	3,295	3,420
Total intangible fixed assets	3,295	3,420
Investments and other assets		
Investment securities	6,239	7,241
Others	3,018	3,358
Total investments and other assets	9,258	10,599
Total fixed assets	33,284	34,824
Total Assets	83,152	85,800

Consolidated Balance Sheets, continued

	<i>Millions of yen, rounded down</i>	
	As of June 30, 2014	As of March 31, 2014
LIABILITIES		
I. Current liabilities:		
Notes and accounts payable	1,904	2,258
Accrued income taxes	330	274
Allowance for bonus	1,568	1,051
Allowance for points.....	1,377	1,406
Allowance for loss on business withdrawal.....	186	212
Asset retirement obligations	--	2
Others.....	4,867	6,174
Total current liabilities	10,234	11,381
II. Long-term liabilities:		
Allowance for directors' retirement bonuses	73	76
Retirement benefit liabilities	1,145	1,579
Asset retirement obligations.....	446	453
Others	166	155
Total long-term liabilities	1,831	2,265
Total liabilities.....	12,066	13,646
NET ASSETS		
Shareholders' equity		
Common stock.....	10,795	10,795
Additional paid-in capital.....	11,706	11,706
Retained earnings	49,942	51,043
Treasury stock	(1,853)	(1,917)
Total shareholders' equity	70,589	71,626
Other comprehensive income		
Valuation difference on other marketable securities	4	5
Total adjustments related to retirement benefits	11	14
Total other comprehensive income.....	16	19
Warrants.....	479	508
Total net assets.....	71,085	72,154
Total Liabilities and Net Assets	83,152	85,800

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

Millions of yen, rounded down

	April 1, 2014 to June 30, 2014	April 1, 2013 to June 30, 2013
Net sales	17,863	20,113
Cost of sales	5,345	6,601
Gross profit	12,517	13,512
Selling, general and administrative expenses	13,102	13,154
Operating income	(584)	358
Non-operating income		
Interest income	5	18
Dividend income	0	0
Gain on foreign exchange	5	51
Other non-operating income	53	62
Total non-operating income	65	132
Non-operating expenses		
Other non-operating expenses	11	11
Total non-operating expenses	11	11
Ordinary income	(530)	479
Extraordinary income		
Gain on reversal of subscription rights to shares	1	--
Total extraordinary income	1	--
Extraordinary loss		
Loss on sale of fixed assets	--	13
Loss on disposal of fixed assets	1	4
Impairment loss	1	7
Loss on closure of stores	0	7
Loss on litigation	--	223
Loss on extinguishment of tie-in shares	--	136
Other	1	2
Total extraordinary loss	5	394
Income before income taxes	(534)	85
Income and other taxes	228	152
Adjustments to income and other taxes	(459)	(304)
Total income and other taxes	(231)	(151)
Net income from minority interests prior to adjustments	(302)	237
Net income	(302)	237

Consolidated statements of comprehensive income

Millions of yen, rounded down

	April 1, 2014 to June 30, 2014	April 1, 2013 to June 30, 2013
Income before minority interests.....	(302)	237
Other comprehensive income		
Net unrealized holding gain on other securities	(0)	(0)
Adjustments related to retirement benefits	(2)	--
Total other comprehensive income.....	(2)	(0)
Comprehensive income	(305)	236
(Breakdown)		
Comprehensive income attributable to owners of the parent company.....	(305)	236
Comprehensive income attributable to minor interests	--	--

(3) Notes to the consolidated financial statements

Items related to going concern:

No applicable items

Note on significant change in shareholders' equity

No applicable items

Segment information

Business Segments

1. Three months ended June 30, 2014

(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	10,805	5,376	16,181	1,681	17,863	--	17,863
(2) Inter-segment sales or transfers	--	--	--	--	--	--	--
Total sales	10,805	5,376	16,181	1,681	17,863	--	17,863
Operating income (loss)	289	(451)	(162)	20	(141)	(443)	(584)

Notes:

1. Other businesses: Mail-order of sundries, accessories and undergarments, and the Hatsuga Genmai (germinated brown rice) and Kale Juice businesses etc.
2. The adjustment amount on segment income (loss) of (¥443) 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, 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.