FANCL Corporation

Consolidated Financial Statements for the Third quarter of the Fiscal Year Ending March 31, 2015

April 1, 2014 to December 31, 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)

Results for the nine-month period for the fiscal year ending March 31, 2015

FANCL CORPORATION **January 30, 2015**

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

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Scheduled date for submission of the third quarter *hokokusho* (securities report): February 12, 2015

Scheduled date for distribution of dividends: -

Availability of supplementary explanatory material for third quarter results: Available

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

1) Consolidated results for the nine-month period (April 1, 2014 to December 31, 2014) of Fiscal 2015

(1) Consolidated Operating Results *Millions of yen, rounded down*

	Nine months ended December 31, 2014		Nine months ended December 31, 2013	
		% change		% change
Net sales	58,281	(2.6)	59,807	(4.5)
Operating income	2,004	17.0	1,713	(28.6)
Ordinary income	2,191	8.6	2,018	(27.1)
Net income	1,683	947.8	160	(90.4)
Earnings per share (¥)	26.44	--	2.51	--
Earnings per share (diluted) (¥)	26.42	--	2.50	--

Notes: 1. The percentages shown above are a comparison with the same period in the previous fiscal year.
2. Comprehensive income: Nine months ended December 31, 2014: ¥1,682 million (920.2%)
Nine months ended December 31, 2013: ¥164 million (-90.2%)

(2) Consolidated Financial Position *Millions of yen, rounded down*

	As of December 31, 2014	As of March 31, 2014
Total assets	83,331	85,800
Net assets	72,489	72,154
Shareholders' equity/total assets (%)	86.3%	83.5%

Shareholders' equity: As of December 31, 2014: ¥71,915 million
As of March 31, 2014: ¥71,645 million

2) Dividends per share

	FY ended March 31, 2014	FY ending March 31, 2015
Interim period	17.00	17.00
Year-end	17.00	17.00 (forecast)
Annual	34.00	34.00 (forecast)

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)

(1) Consolidated *Millions of yen*

	Fiscal year ending March 31, 2015	
Net sales	79,000	(2.6)
Operating income	4,000	1.4
Ordinary income	4,000	(6.2)
Net income	2,200	63.7
Earnings per share (¥)	¥34.62	--

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: 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)	December 31, 2014	65,176,600 shares	March 31, 2014:	65,176,600 shares
2. Number of treasury shares	December 31, 2014	1,230,281 shares	March 31, 2014:	1,622,701 shares
3. Average number of shares during the nine-month period	Nine months to December 31, 2014	63,651,594 shares	Nine months to December 31, 2013	64,000,608 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: 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 nine-month period of the previous fiscal year, unless stated otherwise.)

During the nine-month period under review, the performance of the Japanese economy was generally weak as the effects of the rise in consumption tax were somewhat prolonged, personal consumption and housing investment declined significantly during the first half of the fiscal year, and this was then followed by unfavorable weather conditions. Looking ahead, a gentle recovery is expected as personal consumption picks up due to a recovery in the employment and income environment, improving corporate profits lead to increased capital expenditure, and the benefits of a lower oil price are felt.

Against a background of the reaction to the consumption tax increase, during the period under review consolidated sales decreased 2.6% to ¥58,281 million, mainly due to a decline in sales in the nutritional supplements and other business and despite an increase in sales of the cosmetics businesses. Operating income increased 17.0% to ¥2,004 million despite the decline in sales, due to an improvement in the gross profit margin and our efforts to reduce fixed costs. Ordinary income increased 8.6% to ¥2,191 million and net income for the nine-month period was ¥1,683 million, an increase of 947.8%.

Segment results are as follows:

1) Cosmetics Business

Sales

Sales from the Cosmetics business increased 3.6% to ¥35,577 million. *(Millions of yen, rounded down)*

	Nine months ended December 31, 2014		Nine months ended December 31, 2013		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
FANCL Cosmetics	29,357	82.5	27,765	80.8	5.7
ATTENIR Cosmetics	5,465	15.4	5,730	16.7	(4.6)
Others	754	2.1	853	2.5	(11.6)
Totals	35,577	100.0	34,348	100.0	3.6

	Nine months ended December 31, 2014		Nine months ended December 31, 201		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Mail order sales	17,064	48.0	17,311	50.4	(1.4)
Retail store sales	12,527	35.2	11,814	34.4	6.0
Wholesales and others	2,361	6.6	1,318	3.8	79.1
Overseas Sales	3,624	10.2	3,903	11.4	(7.2)
Totals	35,577	100.0	34,348	100.0	3.6

Sales of **FANCL cosmetics** increased 5.7% to ¥29,357 due to the launch of wholesale sales of *Mild Cleansing Oil* and *Facial Washing Powder* to drugstores, and shipments of private brand products to major retail chains, combined with a renewal of makeup products and beauty essence.

Sales of **ATTENIR** cosmetics decreased 4.6% to ¥5,465 million. However the renewal of high end cream *The Inner Effector* and various campaigns drove up sales during the third quarter period (October – December).

Results by sales channels were: mail order sales decreased 1.4% year on year to ¥17,064 million, retail store sales increased 6.0% to ¥12,527 million, wholesale sales through other sales channels increased 79.1% to ¥2,361 million, and overseas sales decreased 7.2% to ¥3,624 million.

Operating income

Operating income increased 23.5% to ¥3,511 million due to the increase in sales, despite an increase in marketing expenses.

2) Nutritional Supplements Business

Sales

Nutritional supplement sales decreased 8.9% to ¥17,432 million. *(Millions of yen, rounded down)*

	Nine months ended December 31, 2014		Nine months ended December 31, 2013		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Mail order sales	7,033	40.4	7,684	40.1	(8.5)
Retail store sales	4,254	24.4	4,556	23.8	(6.6)
Wholesales and others	5,129	29.4	5,138	26.9	(0.2)
Overseas Sales	1,015	5.8	1,762	9.2	(42.4)
Totals	17,432	100.0	19,142	100.0	(8.9)

Revenues from product sales decreased due to poor sales in other products and despite strong sales of the new dietary supplement *Calorie Limit for the Mature Aged,* which was launched on June 20, 2014.

Results by sales channels were: mail order sales decreased 8.5% to ¥7,033 million, retail store sales decreased 6.6% to ¥4,254 million, wholesale sales through other sales channels decreased 0.2% to ¥5,129 million and overseas sales decreased 42.4% to ¥1,015 million.

Operating income

An operating loss of ¥285 million was recorded (compared to operating income of ¥380 million in the previous period) due to a decline in sales, and despite improvement in the gross profit margin driven by an increase in the domestic sales ratio and sales of high-profit products.

3) Other Businesses

Sales in Other businesses decreased 16.5% year on year to ¥5,271 million

(Millions of yen, rounded down)

	Nine months ended December 31, 2014	Nine months ended December 31, 2013	Change (%)
Hatsuga genmai business	1,808	2,129	(15.1)
Kale juice business	2,060	2,411	(14.6)
Other businesses	1,403	1,775	(20.9)
Totals	5,271	6,317	(16.5)

In the Hatsuga genmai (germinated brown rice) business, sales decreased 15.1% to ¥1,808 million..

In the Kale juice business, sales decreased 14.6% to ¥2,060 million.

Sales at other businesses decreased 20.9% to ¥1,403 million due to factors including the transfer of shares of consolidated subsidiary NEUES Co., Ltd. a beauty salon operator, to an entity outside of the group.

Operating income

Operating income of ¥173 million was recorded for the nine-month period (compared to an operating loss of ¥50 million recorded in the previous period), due to an improvement in profitability in the Hatsuga genmai business stemming from a drop in the price genmai raw ingredients, 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 ¥2,468 million to ¥83,331 million. The primary contributing factors were a decrease of ¥1,022 million in current assets and a decrease of ¥1,446 million in fixed assets. Primary factors contributing to the decrease in current assets were a ¥1,861 million decrease in cash and deposits, a ¥1,320 million decrease in notes and accounts receivable, and a ¥2,001 million increase in marketable securities. The decrease in fixed assets was primarily the result of a ¥399 million decrease in intangible fixed assets, and a ¥1,197 million decrease in other investment assets due to a decline in investment securities.

Liabilities decreased ¥2,804 million to ¥10,841 million. The primary contributing factors were a decrease of ¥2,280 million in current liabilities and a decrease of ¥524 million in noncurrent liabilities. Contributing factors to the decrease in current liabilities include a ¥332 million decrease in notes and accounts payable, and a ¥1,729 million decrease in “Other” current liabilities due to a decrease in deposits. The decrease in fixed liabilities was primarily the result of a ¥461 million decline in retirement benefit liabilities.

Net assets increased ¥335 million to ¥72,489 million. Primary contributing factors included a ¥1,683 million increase in retained earnings due to the recording of quarterly net income, a ¥296 million increase in retained earnings due to a change in accounting standards for retirement benefits, a ¥463 million decline due to the disposal of own shares in exercising share warrants, and a ¥2,162 million decline in retained earnings due to dividend payments.

As a result, the shareholders’ equity ratio increased 2.8 percentage points from the end of the previous fiscal year to 86.3%.

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

There are no changes to the results forecast revisions for the consolidated fiscal year ending March 31, 2015 that were announced on October 22, 2014.

2. Other

(1) Changes to subsidiaries during the period

As of the first quarter period, 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. 35 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 nine-month period.

As a result, retirement benefit liabilities at the beginning of the nine-month 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 December 31, 2014	As of March 31, 2014
ASSETS		
I. Current assets:		
Cash and bank deposits	18,512	20,374
Notes and accounts receivable	9,089	10,410
Marketable securities	14,004	12,003
Merchandise and products	3,019	2,283
Work in progress	12	31
Raw materials and supplies	2,966	2,652
Others	2,397	3,278
Allowance for doubtful accounts	(49)	(58)
Total current assets	49,953	50,975
II. Fixed assets:		
Tangible fixed assets		
Buildings and structures	21,810	21,997
Accumulated depreciation and accumulated impairment loss	(13,878)	(13,696)
Buildings and structures (net)	7,931	8,301
Machinery and transport equipment	6,850	6,693
Accumulated depreciation and accumulated impairment loss	(5,863)	(5,678)
Machinery and transport equipment (net)	986	1,014
Furniture, tools and fixtures	6,996	7,410
Accumulated depreciation and accumulated impairment loss	(5,927)	(6,342)
Furniture, tools and fixtures (net)	1,069	1,067
Land	10,177	10,177
Lease assets	371	319
Accumulated depreciation and accumulated impairment loss	(206)	(137)
Lease assets (net)	164	181
Others	624	62
Total tangible fixed assets	20,955	20,804
Intangible fixed assets		
Others	3,020	3,420
Total intangible fixed assets	3,020	3,420
Investments and other assets		
Investment securities	6,131	7,241
Others	3,270	3,358
Total investments and other assets	9,402	10,599
Total fixed assets	33,378	34,824
Total Assets	**83,331**	**85,800**

Consolidated Balance Sheets, continued

	As of December 31, 2014	As of March 31, 2014
	Millions of yen, rounded down	
LIABILITIES		
I. Current liabilities:		
Notes and accounts payable	1,926	2,258
Accrued income taxes	808	274
Allowance for bonus	500	1,051
Allowance for points	1,412	1,406
Provision for loss on business withdrawal	1	212
Asset retirement obligations	7	2
Others	4,444	6,174
Total current liabilities	9,101	11,381
II. Noncurrent liabilities:		
Allowance for directors' retirement bonuses	83	76
Allowance for retirement benefits	1,117	1,579
Asset retirement obligations	413	453
Others	124	155
Total non-current liabilities	1,740	2,265
Total liabilities	10,841	13,646
NET ASSETS		
Shareholders' equity		
Common stock	10,795	10,795
Additional paid-in capital	11,706	11,706
Retained earnings	50,849	51,043
Treasury stock	(1,454)	(1,917)
Total shareholders' equity	71,897	71,626
Other comprehensive income		
Valuation difference on other marketable securities	11	5
Adjusted total for retirement benefits	7	14
Total other comprehensive income	18	19
Warrants	574	508
Total net assets	72,489	72,154
Total Liabilities and Net Assets	**83,331**	**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 December 31, 2014	April 1, 2013 to December 31, 2013
Net sales	58,281	59,807
Cost of sales	17,438	18,881
Gross profit	40,843	40,926
Selling, general and administrative expenses	38,838	39,213
Operating income	2,004	1,713
Non-operating income		
Interest income	6	54
Dividend income	10	10
Gain (loss) from foreign exchange	45	122
Proceeds from insurance	-	1
Other non-operating income	155	159
Total non-operating income	217	348
Non-operating expenses		
Provisions for allowance for bad debt	-	4
Other non-operating expenses	30	39
Total non-operating expenses	30	43
Ordinary income	2,191	2,018
Extraordinary income		
Income from sale of fixed assets	--	0
Gain on reversal of warrants	4	0
Gain on reversal of allowance for business withdrawal	114	--
Other	0	--
Total extraordinary income	118	1
Extraordinary loss		
Loss on sale of fixed assets	-	14
Loss on disposal of fixed assets	18	151
Impairment loss	14	12
Loss on closure of stores	41	118
Loss on litigation	-	223
Loss on sale of shares in affiliates	-	136
Loss on business withdrawal	-	891
Other	7	4
Total extraordinary loss	82	1,552
Income before income taxes	2,228	466
Income and other taxes	743	218
Adjustments to income and other taxes	(198)	87
Total income and other taxes	545	306
Net income from minority interests prior to adjustments	1,683	160
Net income	1,683	160

Consolidated statements of comprehensive income

Millions of yen, rounded down

	April 1, 2014 to December 31, 2014	April 1, 2013 to December 31, 2013
Income before minority interests	1,683	160
Other comprehensive income		
Net unrealized holding gain on other securities	5	4
Adjustments related to retirement benefits	(6)	--
Total other comprehensive income	(0)	4
Comprehensive income	1,682	164
(Breakdown)		
Comprehensive income attributable to owners of the parent company	1,682	164
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. Nine months ended December 31, 2014

(Millions of yen, rounded down)

	Business Segments			Other*1	Total	Adjusted amount *2	Consolidated *3
	Cosmetics Business	Nutritional Supplements Business	Total				
1. Sales and operating income:							
(1) Sales to external customers	35,577	17,432	53,009	5,271	58,281	--	58,281
(2) Inter-segment sales or transfers	--	--	--	--	--	--	--
Total sales	35,577	17,432	53,009	5,271	58,281	--	58,281
Segmental operating income (loss)	3,511	(285)	3,226	173	3,400	(1,395)	2,004

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 -1,395 million figure for Segmental operating income (loss) recorded under Adjusted amount in 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. Segmental operating income (loss) has been adjusted to reflect operating income recorded in the Consolidated Statements of Income for the quarter

2. Nine months ended December 31, 2013

(Millions of yen, rounded down)

	Business Segments			Other*1	Total	Adjusted amount*2	Consolidated *3
	Cosmetics Business	Nutritional Supplements Business	Total				
1. Sales and operating income:							
(1) Sales to external customers	34,348	19,142	53,490	6,317	59,807	--	59,807
(2) Inter-segment sales or transfers	--	--	--	--	--	--	--
Total sales	34,348	19,142	53,490	6,317	59,807	--	59,807
Segmental operating income (loss)	2,843	380	3,224	(50)	3,174	(1,461)	1,713

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 -1,461 million figure for Segmental operating income (loss) recorded under Adjusted amount in 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. Segmental operating income (loss) has been adjusted to reflect operating income recorded in the Consolidated Statements of Income for the quarter