FANCL Corporation

Consolidated Financial Statements for the Fiscal Year Ended March 31, 2016

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 Fiscal Year Ended March 31, 2016

FANCL CORPORATION **April 27, 2016**

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

www.fancl.jp/en/
Contact: Kazuyuki Shimada
Senior Managing Director and General Manager of Group Support Center
Telephone: +81-45-226-1200

President, Representative Director: Kazuyoshi Miyajima
Scheduled date for regular shareholders' meeting: June 25, 2016
Scheduled date for submission of the financial report: June 27, 2016
Scheduled date for distribution of dividends: June 27, 2016
Appendix materials prepared to accompany this report: Yes
Investor conference call: Yes (For investors and analysts)

1. Consolidated results for the fiscal year April 1, 2015 to March 31, 2016

(1) Sales and Income

Millions of yen, rounded down

	FY ended March 31, 2016		FY ended March 31, 2015	
		Change (%)		Change (%)
Net sales	90,850	17.0	77,632	(4.3)
Operating income	1,204	(69.9)	4,001	1.5
Ordinary income	1,421	(66.8)	4,283	0.5
Net income attributable to owners of the parent company	522	(77.3)	2,301	71.3
Net income per share (¥)	8.31	--	36.11	--
Fully diluted earnings per share (¥)	8.22	--	35.76	--
Return on equity	0.7%	--	3.2%	--
Ratio of ordinary income to total capital	1.7%	--	5.0%	--
Ratio of operating income to net sales	1.3%	--	5.2%	--

Note: Percentage figures for sales, operating income, etc. represent changes compared to the previous fiscal year.
Comprehensive income: FY to March 31, 2016: ¥328 million (-85.8%) FY to March 31, 2015: ¥2,309 million (72.1%)
Gain from investments in subsidiaries and affiliates accounted for by the equity method:
FY to March 31, 2016: -- million FY to March 31, 2015: -- million

(2) Consolidated Financial Position

Millions of yen, rounded down

	As of March 31, 2016	As of March 31, 2015
Total assets	83,767	85,311
Shareholders' equity	69,639	73,214
Equity ratio (%)	82.3%	85.1%
Shareholders' equity per share (¥)	¥1,100.39	¥1,134.49

Shareholders' equity: FY to March 31, 2016: ¥68,909 million FY ended March 2015: ¥72,634 million

(3) Cash Flows

Millions of yen, rounded down

	FY ended March 31, 2016	FY ended March 31, 2015
Net cash provided by operating activities	3,170	5,946
Net cash used in investing activities	(3,389)	(5,972)
Net cash used in financing activities	(4,647)	(1,820)
Cash and cash equivalents at end of year	26,040	30,659

2. Dividends

	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016	Fiscal year ending March 31, 2017 (forecast)
Interim dividend per share (¥)	17.00	17.00	17.00
Year-end dividend per share (¥)	17.00	17.00	17.00
Annual dividend per share (¥)	34.00	34.00	34.00
Total dividend payment *(millions of yen)*	2,170	2,128	
Consolidated dividend payout ratio (%)	94.2%	409.1%	112.1%
Dividend to net assets ratio (%)	3.0%	3.0%	

3. Consolidated forecasts for the fiscal year ending March 31, 2017 (April 1, 2016 to March 31, 2017)

Millions of yen

	Interim period ending September 30, 2016		FY Ending March 31, 2017	
		Change %		Change %
Net sales	48,000	11.1	102,500	12.8
Operating income	(1,000)	--	3,000	149.1
Ordinary income	(950)	--	3,100	118.0
Profit (loss) attributable to owners of parent	(1,000)	--	1,900	263.4
Net income per share (¥)	(15.97)		30.34	

Percentage figures for sales, operating income, etc. represent changes compared to the previous fiscal year.

4. Other

1) Transfer of key subsidiaries during the period (transfers of certain subsidiaries resulting in changes in the scope of consolidation): None

2) Changes in accounting methods, procedures and presentation in the making of these financial statements

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

Note: For more information, see page 22, "(5) Notes to the Consolidated Financial Statements, Changes in Accounting Polices".

3) Number of shares outstanding (ordinary shares)

1. Number of shares outstanding (including treasury shares):
   As of March 31, 2016: 65,176,600
   As of March 31, 2015: 65,176,600
2. Number of treasury shares:
   As of March 31, 2016: 2,553,377
   As of March 31, 2015: 1,152,357
3. Average number of shares during the period:
   FY to March 31, 2016: 62,949,241
   FY to March 31, 2015: 63,735,262

Reference: Outline of Non-consolidated Financial Results

1. Non-consolidated operating results for the fiscal year ended March 31, 2016

1) Non-consolidated Operating Results

Millions of yen, rounded down

	FY ended March 31, 2016		FY ended March 31, 2015	
		(% change)		(% change)
Sales	62,065	116.8	28,628	(57.9)
Operating income	629	(63.7)	1,735	(40.4)
Ordinary income	1,031	(49.0)	2,023	(81.4)
Net income	390	(68.3)	1,232	(86.2)
Earnings per share (¥)	6.21		19.34	
Fully diluted earnings per share (¥)	6.14		19.15	

Percentage figures for sales, operating income, etc. represent changes compared to the previous fiscal year.

2) Non-Consolidated financial position

	As of March 31, 2016	As of March 31, 2015
Total assets *(millions of yen)*	72,916	74,917
Net assets *(millions of yen)*	56,636	60,618
Equity ratio (%)	76.7%	80.1%
Net assets per share (¥)	892.74	¥937.75

Reference: Shareholders' equity:
FY ended March 2016: ¥55,906 million
FY ended March 2015: ¥60,038 million

Note: The significant change in non-consolidated operating results for the fiscal year ended March 31, 2016, was the result of factors including the transfer of store channel functions, wholesale channel functions and mail-order channel functions from operating companies (FANCL COSMETICS CORPORATION and FANCL HEALTH SCIENCE CORPORATION) to FANCL CORPORATION, as well as the implementation of active investment aimed at achieving the goals set out in the medium-term management plan.

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 had been completed.

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, 2017.

Contents

1. Consolidated operating results and financial position

1) Summary of Business Performance (consolidated)

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

In the consolidated financial year under review, Japan's economy remained weak overall due to the prolonged effects of the consumption tax hike, leading to a drop in consumer spending and a slowdown in production and exports, despite an increase in corporate earnings and improvements in the employment and income environment.
Looking ahead, while there are concerns about a slowdown in emerging markets and other overseas economies, as well as the strengthening of the yen since the beginning of the year, with low oil prices and as various governmental policies take effect, the economy is expected to shift towards a modest recovery going forward.

During the consolidated financial year under review, consolidated sales increased 17.0% to ¥90,850 million, due to an increase in sales in all businesses as a result of strategic investment in advertising based on policies in the new Medium-term Management Plan (FY2016 – FY2018). Despite an increase in gross profit resulting from the increase in sales, operating income declined 69.9% to ¥1,204 million, as a result of an increase in proactive advertising investments and selling, general and administrative expenses. Ordinary income declined 66.8% to ¥1,421 million, and net income attributable to owners of the parent company declined 77.3% to ¥522 million.

Segment results are as follows:

2) Status of operations

(1) Cosmetics Business

Sales

Cosmetics sales increased 15.9% compared to the previous year, to ¥55,016 million.

(Millions of yen, rounded down)

	FY ended March 31, 2015		FY ended March 31, 2016		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
FANCL Cosmetics	39,507	83.2	44,263	80.4	12.0
ATTENIR Cosmetics	6,970	14.7	7,631	13.9	9.5
Boscia	--	--	2,155	3.9	--
Others	992	2.1	965	1.8	(2.7)
Totals	47,471	100.0	55,016	100.0	15.9

	FY ended March 31, 2015		FY ended March 31, 2016		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Mail order sales	22,376	47.2	23,669	43.0	5.8
Retail store sales	16,949	35.7	20,219	36.8	19.3
Wholesales and others	3,146	6.6	4,360	7.9	38.6
Overseas sales	4,998	10.5	6,767	12.3	35.4
Totals	47,471	100.0	55,016	100.0	15.9

Sales of **FANCL cosmetics** increased 12.0% to ¥44,263 million, with positive trends resulting from the launch of new products and *Aging Care Washing Cream* and *Mutenka Active Conditioning*, the effects of promotions for core products such as *Mild Cleansing Oil*, and growth in wholesale sales to drugstores.

Sales of **ATTENIR cosmetics** increased 9.5% to ¥7,631 million, trending strongly due to advancement in customer acquisition with new marketing merchandise, as well as a campaign aimed at existing customers.

Furthermore, from the consolidated first quarter period, U.S. subsidiaries FANCL INTERNATIONAL, INC. and boscia, LLC have been included in the scope of consolidation, and the boscia brand contributed sales of ¥2,155 million in the fiscal year under review.

Results by **sales channels**: mail order sales increased 5.8% year on year to ¥23,669 million, retail store sales increased 19.3% to ¥20,219 million, wholesale sales increased 38.6% to ¥4,360 million, while overseas sales increased 35.4% to ¥6,767 million.

Operating income

Despite an increase in marketing costs compared to the previous period, operating income increased by 12.9% to ¥6,275 million, mainly due to an increase in sales.

(2) Nutritional Supplements Business

Sales

Nutritional supplement sales increased 22.9% year on year to ¥28,612 million.

(Millions of yen, rounded down)

	FY ended March 31, 2015		FY ended March 31, 2016		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Mail order sales	9,361	40.2	11,331	39.6	21.0
Retail store sales	5,778	24.8	7,199	25.2	24.6
Wholesales and others	6,746	29.0	8,690	30.4	28.8
Overseas sales	1,398	6.0	1,390	4.8	(0.6)
Totals	23,285	100.0	28,612	100.0	22.9

Revenues from **product sales** increased due to significant growth in sales of labeled functional food *Enkin*, for which TV commercials and other promotions were conducted. Additionally, sales of products which were not featured in advertising also increased significantly, as a result of proactive cross-selling initiatives.

Results by **sales channels** were: mail order sales increased 21.0% year on year to ¥11,331 million, retail store sales increased 24.6% to ¥7,199 million, while wholesale sales increased 28.8% to ¥8,690 million and overseas sales decreased 0.6% to ¥1,390 million.

Operating income

Despite an increase in sales, the operating loss grew by ¥1,775 million to ¥1,779 million, mainly due to a large increase in marketing expenses compared to the previous year.

(3) Other Businesses

Sales in Other businesses increased 5.0% year on year to ¥7,221 million

(Millions of yen, rounded down)

	FY ended March 31, 2015	FY ended March 31, 2016	Change (%)
Hatsuga genmai	2,372	2,604	9.8
Kale juice	2,679	2,757	2.9
Other	1,823	1,859	2.0
Totals	6,876	7,221	5.0

In the **Hatsuga genmai** (germinated brown rice) , sales increased 9.8% to ¥2,604 million due to an increase in periodic delivery service customers.

In the **Kale juice**, sales increased 2.9% to ¥2,757 million.

Sales at **other** increased 2.0% to ¥1,859 million.

Operating income

Despite an increase in sales, operating income declined by ¥1,927 million to a ¥1,774 million loss, due to factors such as a large increase in marketing costs for the Hatsuga genmai and Kale juice compared to the previous period.

3. Forecasts for the fiscal year ending March 31, 2017

FANCL Group continues to pursue active investment aimed at realizing its growth strategy set out in the medium-term business plan which began from FY2016.

FANCL’s Cosmetics business plans to grow sales through the launch of *Aging Care Washing Cream* at drug stores and the strengthening of promotions for *Mutenka Active Conditioning*.

FANCL’s Nutritional Supplements Business aims to grow sales by strengthening investments in advertising for *Enkin* along with other potential new star products such as Age Bracket-Based Supplements.

In light of the above, in the year ending March 31, 2017 the Company forecasts an increase in sales of 12.8% to ¥102,500 million, an increase in operating income of 149.1% to ¥3,000 million, an increase in ordinary income of 118.0% to ¥3,100 million, and an increase in net income attributable to owners of the parent company of 263.4% to ¥1,900 million.

(2) Summary of Consolidated Financial Position

Assets, liabilities and net asset value

Assets decreased ¥1,543 million to ¥83,767 million, compared with the end of the previous consolidated financial period. This was primarily the result of a ¥1,633 million decrease in current assets and a ¥89 million increase in fixed assets. The decrease in current assets was largely the result of a ¥618 million decrease in cash in hand and bank deposits, a ¥4,000 million decrease in marketable securities, and a ¥1,276 million increase in notes and accounts receivable, a ¥518 million increase in goods and products, and a ¥753 million increase in raw materials and supplies. The increase in fixed assets was largely due to a ¥696 million increase in tangible fixed assets as a result of an increase in construction in progress, and a ¥620 million decrease in other investment assets due to a decline in investments in capital.

Liabilities increased ¥2,031 million to ¥14,128 million, compared with the end of the previous consolidated financial period, primarily the result of a ¥1,749 million increase in current liabilities and a ¥282 million increase in long-term liabilities. The main factors contributing to the increase in current liabilities were a ¥432 million increase in notes and accounts payable, a ¥1,961 million increase in accounts payable, and a ¥714 million decrease in income taxes payable. The main contributing factor to the increase in long-term liabilities was a ¥261 million increase in retirement benefit liabilities.

Net assets decreased ¥3,574 million to ¥69,639 million, compared with the end of the previous consolidated financial period. The primary contributing factors were a ¥2,152 million decrease in retained earnings due to dividend payments, a ¥2,343 million increase in in treasury stock resulting from the purchase of own shares, and a ¥522 million increase in retained earnings due to the recording of net income attributable to owners of the parent. As a result, the shareholders' equity ratio decreased 2.8 percentage points from the end of the previous consolidated fiscal year to 82.3%.

Cash flow

Cash and cash equivalents ("funds") as of March 31, 2016 were ¥26,040 million, ¥4,618 million lower than at the end of the previous consolidated fiscal year. The main contributing factors to cash flows during the consolidated fiscal year ended March 31, 2016 are as follows:

Cash flows from operating activities

Cash flow gained from operating activities during the period under review was ¥3,170 million, compared with an inflow of ¥5,946 million in the previous consolidated fiscal year. Factors increasing operating cash flow included income before income taxes of ¥1,252 million, depreciation of ¥3,207 million, and an increase in other current liabilities of ¥1,832 million. Factors decreasing operating cash flow included an increase in accounts receivable of ¥979 million, an increase in inventories of ¥950 million, and income taxes paid of ¥2,184 million.

Cash flows from investing activities

Cash flow used investing activities during the period under review was ¥3,389 million, compared with an outflow of ¥5,972 million in the previous consolidated fiscal year. Factors decreasing investment cash flow included outlays of ¥2,638 million for the acquisition of tangible fixed assets, ¥1,087 million for the acquisition of intangible fixed assets. Factors increasing investment cash flow included inflows of ¥620 million for repayment of investments in silent partnerships.

Cash flows from financing activities

Cash flow used in financing activities during the period under review was ¥4,647 million, compared with an outflow of ¥1,820 million in the previous consolidated fiscal year. This was primarily due to outlays of ¥2,489 million due to the purchase of treasury stock, and ¥2,149 million for cash dividends paid.

Trends in Cash Flow-related Indices

	FY ended March 31, 2012	FY ended March 31, 2013	FY ended March 31, 2014	FY ended March 31, 2015	FY ended March 31, 2016
Equity ratio (%)	85.5	85.3	83.5	85.1	82.3
Equity ratio based on market price (%)	78.8	76.7	90.8	115.0	114.8

Notes:
Equity ratio: Shareholders' equity /Total assets
Equity ratio based on market price: Market capitalization/Total assets

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) Policy Regarding Allocation of Earnings and Proposed Dividends

FANCL recognizes that ensuring shareholders obtain a fair return on their investment is a key management responsibility. Our basic policy for allocation of earnings is as follows:

Dividends	Maintain a dividend payout ratio of at least 40% of consolidated net income
Acquisition of treasury shares	Flexibly consider the acquisition of treasury shares with the aim of improving the capital efficiency ratio, while taking into account trends in the share price and future capital funding requirements
Cancellation of treasury shares	Treasury shares in excess of approximately 10% of the total number of outstanding shares will be cancelled

As determined by the Board of Directors, FANCL will pay dividends from retained earnings using September 30 of each year as the record date for payment of the interim dividend. Further, FANCL will pay dividends twice annually—an interim and year-end dividend—from retained earnings.

Based on the above, dividends for the fiscal year ended March 31, 2016 will be ¥34.00 per share representing a dividend per share of ¥17.00 for both interim and year-end dividends.

For the fiscal year ending March 31, 2017, we forecast an annual dividend of ¥34.00 per share representing a dividend per share of ¥17.00 for both interim and year-end dividends.

FANCL will conform to consolidated dividend regulations.

2. Management Policy

(1) Basic Management Policy

Management policy for the Group operations is aimed at building a structure through which we will strive to eliminate the negatives in health and beauty. Today, “dissatisfaction” and “safety concerns” are just some of the negative factors in society. The FANCL Group companies are fully focused on creating new markets and value by eliminating such negatives. Looking forward, we believe that a policy that endeavors to eliminate the negative factors will lead to increased corporate value and long-term profitability for our shareholders.

(2) Management Targets and the Medium-Term Management Strategy and Key Issues

Since its establishment, the FANCL Group has operated under a philosophy of building a system to eliminate negatives in the consumer experience, and has continued to challenge common industry practice with its preservative-free cosmetics, nutritional supplements, *Hatsuga Genmai* (germinated brown rice) and Kale Juice.

Since the return of company founder Kenji Ikemori as Chairman in January 2013, the company has focused on returning to its customer-focused roots while reforming the business structure through withdrawal from unprofitable operations, strengthening the wholesale channel, developing new store types in the retail network channel, shifting to a holding company structure, and other such measures.

Despite consumer reaction to the increase in consumption tax in 2014, these management initiatives have shown strong results, with sales of FANCL cosmetics growing and a bottoming out of sales in the nutritional supplements business.

FANCL group is now building on these results with the start of a new medium-term plan (FY2016 to FY2018) aimed at achieving a higher level of growth, and is investing aggressively in marketing to achieve the Company’s growth strategy.

<u>**Basic Approach**</u>

Make strategic investments in advertising and carry out a growth strategy with the aim of doubling sales in the 5 years from FY2016

Reinforce the business foundation and invest strategically to grow sales

1. Grow sales through strategic investment
   - In the Beauty and Health business, invest in advertising at levels significantly higher than usual to achieve higher brand awareness and sales
   - Maximize advertising effects by improving the store network, investing aggressively to create a network of 350 directly managed while working to expand wholesale sales channels
   - Develop consistent advertising to publicize the Company’s corporate stance and promote its philosophy
   - Grow sales by using heavily marketed star products to stimulate consumer purchases of complementary items

2. Reinforce business foundation
   - Improve the capacity utilization of existing manufacturing equipment, and work to improve productivity and reduce unit costs
   - Make full use of the second R&D facility opening in FY2017 to strengthen R&D and increase the speed of product development

<u>**Business Strategy**</u>

1. Beauty business strategy

Reinforce the value of Mutenka anti-stress science as FANCL cosmetic’s unique customer proposition, establishing a differentiated market position to grow customer numbers and raise brand loyalty

<Product strategy>

・ Strengthen the facial cleansing product lineup and functionality to grow the customer base
・ Progressively renew skin care products, appealing to customers who identify with the FANCL Mutenka philosophy
・ Develop products and services for the promising anti-aging market that appeal to mature customers
・ Enter new areas and create additional customer contacts points including developing personalized skin care solutions and other such services, while fostering FANCL’s characteristic brands and technical capabilities

<Marketing strategy>

・ Run concentrated campaigns promoting product features to increase penetration of wholesale store networks, increase per-store sales and capture new customers in direct marketing channels
・ Develop new communication approaches through web and magazine media, appealing to the Mutenka value

and brand philosophy to increase brand loyalty

<ATTENIR>

- To return to the founding values of the business, establish a declaration of “retaining product quality and luxury of a leading brand while offering the products at one-third of the market price or lower,” and further develop the business based around this declaration
- Build the business by developing further products that reflect the ATTENIR brand founding values of quality, value and tastefulness and brand statement of wrinkle-free beauty
- Restore sales growth by implementing large-scale campaigns and renewing core products
- Build the customer base by pursuing a new communication channel centered on internet media, and increase customer loyalty to achieve growth in new customers and a stronger repeat rate with existing customers.

2. Health business strategy

Aim to be a leading health support company in Japan, in the pursuit of lifelong health and the realization of “Good Aging”.

<Product strategy>

- Expand sales to middle-aged and senior customers with the development of highly differentiated products, developing business in the mature customer market
- Follow on from *Calorie Limit*, *Calorie Limit for the Mature Aged and Enkin* by fostering additional star products
- Respond to new functional food labeling regulations introduced in April 2015 and strengthen sales of functional foods by drawing on FANCL’s proprietary research outcomes
- Use FANCL’s advanced Inner Body Effectiveness Design technology, to pursue the development of products that are highly effective within the body
- Grow sales in the wholesale channel through the development of exclusive wholesale products and other such measures

< Marketing strategy>

- Encourage the cross-selling of other products using our star products as leads, and maximally leverage the strengths of the full product line-up with the aim of increasing sales.
- Expand sales of health foods by increasing the number of wholesale channel stores handling our products and in FANCL’s store sales channel renewing or opening more hybrid shops that have a high proportion of health food sales
- Improve specialized training for store and telephone sales staff and deploy employees with specialized knowledge
- Fully launch the preventative health domain, by establishing mail order sales and offering services (health promotion programs) to corporations and associations.

Strategy for each sales channel

In domestic channels, reinforce the sales organization to optimize the effectiveness of investment in marketing.

1. Directly managed store sales

- Create an environment that makes it easy for customers to purchase products, approximately doubling the network to 350 stores
- Strengthen area marketing, using marketing channels matched to different regions to increase rebrand awareness and attract customers to directly managed stores

2. Wholesale sales

- Expand the number of stores handling our products through advertising-linked promotional campaigns, exclusive products and other such initiatives
- Direct customers to stores that sell the Company’s products through wholesale channel promotions that are aligned with area marketing initiatives

3. Internet sales

- Based on analysis of customer purchasing behaviors, conduct web-based marketing activities closely aligned with individual customers’ preferred items to create an omni-channel environment

4. Overseas strategy

・Pursue significant growth by increasing the number of stores handling FANCL’s botanical skin care brand *boscia* promoted by FANCL INTERNATIONAL, INC., newly consolidated as a group company in FY2016

Reinforce business foundation

1. Reduce unit costs

- Make maximal use of existing manufacturing equipment and increase productivity while working to reduce unit costs

2. Develop personnel

- Train the additional employees needed for the active expansion of the store network and develop people with the skills necessary for in-store sales and telephone sales, supporting higher customer satisfaction and loyalty.

3. Pursue R&D

- Strengthen basic and foundational research by positioning FANCL's second R&D center, scheduled to open in FY2017, as an 'innovation research center' to research health food evidence and search for new materials for cosmetics and health foods

3. Basic Rationale on Selection of Accounting Standards

FANCL Group currently prepares consolidated financial accounts based on Japanese accounting standards, having considered such factors as suitability for year-on-year comparisons of results and the low need to procure funding from overseas markets.

The Group will continue to assess the situation domestically and abroad with regard to the adoption of International Financial Reporting Standards (IFRS) and will respond appropriately.

4. Consolidated Financial Statements

1) Consolidated Balance Sheet

Millions of yen, rounded down

	As of March 31, 2016	As of March 31, 2015
ASSETS		
I. Current assets:		
Cash and cash equivalents	18,034	18,652
Notes and accounts receivable	9,997	8,721
Marketable securities	8,006	12,006
Merchandise and products	3,548	3,030
Work in progress	26	21
Raw materials and supplies	3,787	3,034
Deferred tax assets	1,352	1,058
Others	1,616	1,475
Allowance for doubtful accounts	(51)	(49)
Total current assets	46,317	47,951
II. Fixed assets:		
Tangible fixed assets		
Buildings and structures	25,355	25,007
Accumulated depreciation and accumulated impairment loss	(14,513)	(13,896)
Buildings and structures (net)	10,841	11,111
Machinery and transport equipment	7,552	6,870
Accumulated depreciation and accumulated impairment loss	(6,282)	(5,938)
Machinery and transport equipment (net)	1,270	931
Furniture, tools and fixtures	7,600	7,111
Accumulated depreciation and accumulated impairment loss	(6,490)	(6,018)
Furniture, tools and fixtures (net)	1,109	1,092
Land	11,951	11,951
Lease assets	386	384
Accumulated depreciation and accumulated impairment loss	(227)	(228)
Lease assets (net)	158	155
Construction in progress	1,230	622
Total tangible fixed assets	26,562	25,865
Intangible fixed assets		
Other intangible fixed assets	2,639	2,980
Total intangible fixed assets	2,639	2,980
Investments and other assets		
Investments securities	5,656	6,087
Long-term loans	300	--
Deposits and guarantee money	1,128	1,073
Long-term prepaid expense	153	104
Deferred tax assets	850	470
Others	183	803
Allowance for doubtful accounts	(24)	(24)
Total investments and other assets	8,248	8,514
Total fixed assets	37,449	37,360
Total assets	**83,767**	**85,311**

1) Consolidated Balance Sheet (continued)

Millions of yen, rounded down

	As of March 31, 2016	As of March 31, 2015
LIABILITIES		
I. Current liabilities:		
Notes and accounts payable	2,547	2,115
Lease obligations	88	82
Accrued liabilities	4,980	3,018
Accrued expenses	637	591
Accrued income taxes	898	1,612
Allowance for bonuses	1,074	966
Allowance for points	1,507	1,420
Others	410	587
Total current liabilities	12,143	10,394
II. Long-term liabilities:		
Lease obligations	81	84
Allowance for directors' retirement bonuses	--	88
Retirement benefit liabilities	1,324	1,063
Asset retirement obligations	385	359
Others	193	106
Total long-term liabilities	1,984	1,702
Total liabilities	14,128	12,096
NET ASSETS		
Shareholders' equity:		
Common stock	10,795	10,795
Capital reserve	11,706	11,706
Retained earnings	50,134	51,468
Treasury stock	(3,706)	(1,362)
Total shareholders' equity	68,930	72,607
Other comprehensive income		
Foreign currency translation adjustment	146	--
Total adjustments related to retirement benefits	(166)	27
Total other comprehensive income	(20)	27
Warrants	729	579
Total net assets	69,639	73,214
Total Liabilities and Net Assets	83,767	85,311

2) Consolidated Statement of Income

Millions of yen, rounded down

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2015
Net sales	90,850	77,632
Cost of sales	26,972	23,336
Gross profit	63,878	54,295
Selling, general and administrative expenses		
Sales promotion expenses	11,888	9,451
Packing and transport expenses	3,528	3,034
Advertising expenses	15,035	7,907
Sales commission fee	5,956	5,046
Communications expenses	1,781	1,616
Directors remuneration	679	603
Salaries and bonuses	9,337	8,972
Provision for accrued bonuses	916	825
Retirement benefit expenses	365	457
Provision for retirement benefits for directors and corporate auditors	4	20
Compulsory welfare expenses	1,397	1,259
Welfare expenses	229	312
Depreciation	2,294	2,145
Research and development expenses	1,245	933
Rent expenses	915	1,318
Provisions for allowance for bad debt	23	14
Other	7,073	6,374
Total selling, general and administrative expenses	62,673	50,294
Operating income	1,204	4,001
Non-operating income		
Interest income	10	18
Dividend income	0	1
Rent income	104	18
Foreign exchange gain	--	75
Compensation payments received	16	15
Gain on investments in silent partnerships	--	18
Refund of insurance premiums	--	0
Commissions earned	34	37
Other non-operating income	146	137
Total net operating income	312	324
Non-operating expenses		
Rent expenses on fixed assets	34	--
Allowance for bad debts	--	0
Loss on foreign exchange	29	--
Idle asset expense	5	12
Miscellaneous	25	30
Total net operating expenses	95	42
Ordinary income	1,421	4,283

2) Consolidated Statement of Income (continued)

Millions of yen, rounded down

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2015
Extraordinary income		
Gain from sale of fixed assets	0	0
Gain on investments in silent partnerships	36	--
Gain on reversal of subscription warrants	3	5
Gain from sale of investment securities	--	21
Gain on reversal of asset retirement obligations	--	18
Gain on reversal of allowance for business withdrawal	--	122
Total extraordinary income	40	168
Extraordinary expenses		
Loss on retirement of fixed assets	24	107
Impairment loss	124	17
Loss on store closures	46	75
Other extraordinary expenses	15	168
Total extraordinary expenses	210	368
Income before income taxes	1,252	4,083
Income taxes	1,273	1,574
Adjustment for income taxes	(544)	207
Total income before income taxes	729	1,781
Income before minority interests	522	2,301
Net income	**522**	**2,301**

Consolidated Statement of Comprehensive Income

Millions of yen, rounded down

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2015
Income before minority interests	522	2,301
Other comprehensive income		
Net unrealized holding gain on other securities	--	(5)
Foreign currency translation adjustment	0	--
Adjustments related to retirement benefits	(194)	13
Total other comprehensive income	(194)	8
Comprehensive income	328	2,309
(Breakdown)		
Comprehensive income attributable to owners of the parent company	328	2,309
Comprehensive income attributable to minor interests	--	--

3) Changes in Shareholders' Equity during the Period

April 1, 2015 to March 31, 2016 *Millions of yen, rounded down*

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	10,795	11,706	51,468	(1,362)	72,607
Cumulative effect of changes in accounting policy	--	--	--	--	--
Balance at beginning of current period reflecting changes in accounting policy	10,795	11,706	51,468	(1,362)	72,607
Changes of items during period					
Dividends of surplus	--	--	(2,152)	--	(2,152)
Net income	--	--	522	--	522
Purchase of treasury shares	--	--	--	(2,489)	(2,489)
Disposal of treasury shares	--	--	(26)	146	119
Change in scope of consolidation	--	--	322	--	322
Translation adjustments resulting from change in scope of consolidation	--	--	--	--	--
Net changes of items other than shareholders' equity	--	--	--	--	--
Total changes of items during period	--	--	(1,333)	(2,343)	(3,677)
Balance at end of current period	10,795	11,706	50,134	(3,706)	68,930

	Other comprehensive income				New share warrants	Total net assets
	Change in revaluation of marketable securities	Foreign currency translation adjustment	Cumulative adjustments related to retirement benefits	Total other comprehensive income		
Balance at beginning of current period	--	--	27	27	579	73,214
Cumulative effect of changes in accounting policy	--	--	--	--	--	--
Balance at beginning of current period reflecting changes in accounting policy	--	--	27	27	579	73,214
Changes of items during period					--	
Dividends of surplus	--	--	--	--	--	(2,152)
Net income	--	--	--	--	--	522
Purchase of treasury shares	--	--	--	--	--	(2,489)
Disposal of treasury shares	--	--	--	--	--	119
Change in the scope of consolidation	--	--	--	--	--	322
Translation adjustments resulting from change in scope of consolidation	--	146	--	146	--	146
Net changes of items other than shareholders' equity	--	0	(194)	(194)	149	(44)
Total changes of items during period	--	146	(194)	(47)	149	(3,574)
Balance at end of current period	--	146	(166)	(20)	729	69,639

April 1, 2014 to March 31, 2015 *Millions of yen, rounded down*

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	10,795	11,706	51,043	(1,917)	71,626
Cumulative effect of changes in accounting policy	--	--	296	--	296
Balance at beginning of current period reflecting changes in accounting policy	10,795	11,706	51,339	(1,917)	71,923
Changes of items during period					
Dividends of surplus	--	--	(2,162)	--	(2,162)
Net income	--	--	2,301	--	2,301
Purchase of treasury shares	--	--	--	(3)	(3)
Disposal of treasury shares	--	--	(10)	558	547
Change in scope of consolidation					
Translation adjustments resulting from change in scope of consolidation	--	--	--	--	--
Net changes of items other than shareholders' equity	--	--	--	--	--
Total changes of items during period	--	--	128	555	683
Balance at end of current period	10,795	11,706	51,468	(1,362)	72,607

		Other comprehensive income			New share warrants	Total net assets
	Change in revaluation of marketable securities	Foreign currency translation adjustment	Cumulative adjustments related to retirement benefits	Total other comprehensive income		
Balance at beginning of current period	5	--	14	19	508	72,154
Cumulative effect of changes in accounting policy	--	--	--	--	--	296
Balance at beginning of current period reflecting changes in accounting policy	5	--	14	19	508	72,450
Changes of items during period						
Dividends of surplus	--	--	--	--	--	(2,162)
Net income	--	--	--	--	--	2,301
Purchase of treasury shares	--		--	--	--	(3)
Disposal of treasury shares	--	--	--	--	--	547
Change in the scope of consolidation	--	--	--	--	--	--
Translation adjustments resulting from change in scope of consolidation	--	--	--	--	--	--
Net changes of items other than shareholders' equity	(5)	--	13	8	71	79
Total changes of items during period	(5)	--	13	8	71	763
Balance at end of current period	--	--	27	27	579	73,214

4) Consolidated Statement of Cash Flows

Millions of yen, rounded down

	FY ended March 31, 2016	FY ended March 31, 2015
Cash flows from operating activities		
Income before income taxes	1,252	4,083
Depreciation	3,207	2,973
Impairment loss	124	17
Stock compensation expense	187	183
Increase (decrease) in allowance for doubtful accounts	1	(10)
Increase (decrease) in allowance for bonuses	107	(84)
Increase (decrease) in allowance for points	87	13
Increase (decrease) in retirement benefit related obligation	(18)	(42)
Increase (decrease) in allowance for directors' retirement bonuses	(88)	11
Increase (decrease) in allowance for loss on business withdrawal	--	(212)
Interest and dividend income	(11)	(19)
Loss (gain) from foreign exchange	54	(123)
Loss (gain) on investments in silent partnerships	(36)	(18)
Loss (gain) on valuation of investment securities	--	(21)
Loss (gain) from sale of fixed assets	(0)	(0)
Loss on disposal of fixed assets	24	107
Loss on store closures	46	75
Gain on reversal of subscription rights to shares	(3)	(5)
Decrease (increase) in accounts receivable	(979)	1,689
Decrease (increase) in inventories	(950)	(1,117)
Decrease (increase) in other current assets	146	(624)
Decrease (increase) in other fixed assets	4	110
Decrease (increase) in accounts payable	350	(143)
Increase (decrease) in other current liabilities	1,832	(635)
Increase (decrease) in other fixed liabilities	11	43
Others	(5)	(123)
Sub-total	5,342	6,124
Interest and dividends received	11	23
Dividends received from anonymous associations	--	18
Income taxes paid	(2,184)	(219)
Net cash provided by (used in) operating activities	**3,170**	**5,946**

Consolidated Statement of Cash Flows (continued)

Millions of yen, rounded down

	FY ended March 31, 2016	FY ended March 31, 2015
II. Cash flows from investing activities		
Payment for acquisition of tangible fixed assets	(2,638)	(6,724)
Income from sale of tangible fixed assets	0	0
Payment for acquisition of intangible fixed assets	(1,087)	(888)
Income from sale and redemption of investment securities	40	1,000
Income from repayment of investments in silent partnerships	620	--
Payments of loans receivable	(300)	--
Other payments	(229)	(122)
Other proceeds	204	762
Net cash used in investing activities	(3,389)	(5,972)
III. Cash flows from financing activities		
Proceeds from disposal of treasury stock	85	441
Payment for purchase of treasury stock	(2,489)	(3)
Cash dividends paid	(2,149)	(2,158)
Others	(92)	(100)
Net cash used in financing activities	(4,647)	(1,820)
IV. Effect of exchange rate changes on cash and cash equivalents	(54)	129
V. Net increase in cash and cash equivalents	(4,920)	(1,717)
VI. Cash and cash equivalents at the beginning of the period	30,659	32,377
VII. Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	**301**	**--**
VIII. Cash and cash equivalents at end of period	**26,040**	**30,659**

5) Notes to the Consolidated Financial Statements

Items related to a going concern

None

Significant items for the Preparation of Consolidated Financial Statements

Except for the items stated below, items are omitted for any information that did not change significantly in the period since the most recent Securities Report (filed June 22, 2015).

1. Changes to the scope of consolidation

In the consolidated fiscal year under review, U.S. subsidiaries FANCL INTERNATIONAL, INC. and boscia, LLC have been included in the scope of consolidation as they became more material.

2. Items regarding the fiscal year end of consolidated subsidiaries

The fiscal year end of FANCL INTERNATIONAL, INC. and boscia, LLC is December 31. Because this is within three months of the consolidated fiscal year end, their financial statements as of March 31, 2015 have been used in the preparation of the consolidated quarterly financial statements.
All necessary adjustments have been made for significant transactions that occurred in the period up until the end of the fiscal period.

Changes in Accounting Policies

The Accounting Standard for Business Combinations (Accounting Standards Board of Japan (ASBJ) Statement No.21) of September 13, 2013, the Accounting Standard for Consolidated Financial Statements (ASBJ Statement No.22) of September 13, 2013, and the Accounting Standard for Business Divestitures (ASBJ Statement No.7) of September 13, 2013, have been applied from the consolidated fiscal period under review, and a change in presentation has been made to 'net income' for the financial results. To reflect these changes in presentation, the consolidated financial statements for the previous consolidated fiscal year have been restated.

Segment Information

1) Overview of Reportable Segments

The reportable segments of the Group consist of business components for which separate financial statements are available. The reportable segments are the subject of periodical review by board of directors' meetings for the purpose of making decisions on the allocation of business resources and evaluating business performance.

The Corporate Group is engaged in a wide range of businesses focusing primarily on the manufacture and sale of cosmetics and nutritional supplements. Within the Company and its consolidated subsidiaries, there are some companies that do not manufacture a single product, but rather manufacture and sell multiple products, and the Corporate Group pursues it business by formulating overriding strategies for Japan and overseas for each product handled.

Therefore, the Corporate Group is comprised of segments delineated by product based on the products handled, and the Group has three reportable segments, Cosmetics-related Business, Nutritional Supplement-related Business and Other Businesses.

Cosmetics-related Business consists of the manufacture and sale of cosmetics and supply for OEMs. Nutritional Supplement-related Business comprises the manufacture and sale of nutritional supplements. Other Businesses comprise of sundries, personnel effects, comfort undergarments, Hatsuga genmai (germinated brown rice), and kale juice.

Items related to changes in the classification of reporting segments

From the consolidated fiscal period under review, as a result of a review of reporting segments for the purpose of ensuring appropriate understanding of the financial situation and operating results of the Fancl Group, several business segments which were previously included in the “Other” business segment have now been grouped into the “Other Businesses” segment.

The results for the previous period are also presented using the new segment classification method

2) Accounting methods for sales, income and losses, assets and liabilities and other items in each reportable segment

Accounting methods for reportable segments are identical to those described in the “Significant items for the Preparation of Consolidated Financial Statements” in the most recent Annual Securities Report (submitted June 22, 2015.)

Reportable segment income figures are on an operating income basis.

Business Segments

For the fiscal year April 1, 2015 to March 31, 2016 *(Millions of yen, rounded down)*

	Reportable segments			Total	Adjustments*[2]	Consolidated*[3]
	Cosmetics Business	Nutritional Supplements Business	Other Businesses*[1]			
1. Sales and operating income:						
(1) Sales to external customers	55,016	28,612	7,221	90,850	--	90,850
(2) Inter-segment sales or transfers	--	--	--	--	--	--
Total sales	55,016	28,612	7,221	90,850	--	90,850
Segment income (loss)	6,275	(1,779)	(1,774)	2,721	(1,517)	1,204
Segment Assets	32,390	15,543	4,460	52,394	31,373	83,767
Others						
Impairment losses	1,977	723	116	2,817	351	3,168
Increase in tangible and intangible fixed assets	2,174	984	204	3,335	374	3,709

Notes:

1. Other businesses: Sundries, personnel effects, comfort undergarments, *Hatsuga genmai* (germinated brown rice), and Kale juice.
2. Adjustments are as follows
   (1) The adjustment amount on segment income (loss) of (¥1,517) 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.
   (2) The adjustment on segment assets of ¥31,373 million, include total company expenses not distributed to each reportable segment and consist primarily of cash and deposits, marketable securities, land, buildings, and investment securities of 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.

Business Segments

For the fiscal year April 1, 2014 to March 31, 2015 *(Millions of yen, rounded down)*

	Reportable segments			Total	Adjustments*2	Consolidated*3
	Cosmetics Business	Nutritional Supplements Business	Other Businesses			
1. Sales and operating income: (1) Sales to external customers	47,471	23,285	6,876	77,632	--	77,632
(2) Inter-segment sales or transfers	--	--	--	--	--	--
Total sales	47,471	23,285	6,876	77,632	--	77,632
Segment income (loss)	5,557	(4)	152	5,705	(1,704)	4,001
Segment Assets	33,375	13,774	4,386	51,535	33,775	85,311
Others						
Impairment losses	1,917	733	181	2,832	90	2,922
Increase in tangible and intangible fixed assets	1,652	844	197	2,694	5,032	7,726

Notes:

1. Other businesses: Sundries, personnel effects, comfort undergarments, *Hatsuga genmai* (germinated brown rice), and Kale juice.
2. Adjustments are as follows
   (3) The adjustment amount on segment income (loss) of (¥1,704) 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.
   (4) The adjustment on segment assets of ¥33,775 million, include total company expenses not distributed to each reportable segment and consist primarily of cash and deposits, marketable securities, land, buildings, and investment securities of 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.

Per Share Information

	FY Ended March 31, 2015	FY ended March 31, 2016
Net assets per share	¥1,134.49	¥1,100.39
Net income per share	¥36.11	¥8.31
Net income per share (diluted)	¥35.76	¥8.22

Note:
1. The basis for the calculation of net income (loss) per share and the net income per share after adjustment for residual securities is as follows.

	FY Ended March 31, 2015	FY ended March 31, 2016
Net income per share		
Net income (loss) (¥ million)	2,301	522
Amount not attributable to common shareholders (¥ million)	--	--
Net income (loss) attributable to common shares (¥ million)	2,301	522
Average number of outstanding common shares during the year (1,000 shares)	63,735,262	62,949,241
Fully diluted earnings per share		
Net income adjustments (¥ million)	--	--
Breakdown of additional common shares used for calculating net income per share (diluted) (1,000 shares)	621,099	641,000
Residual securities not included in the calculation of the net income after adjustment for residual securities due to the fact that these securities had no dilutive effect.	--	--

Important information after the preparation of this report

No applicable items.