

# FANCL Corporation

## Consolidated Financial Statements for the Fiscal Year Ended March 31, 2018

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, 2018

**FANCL CORPORATION**

**April 26, 2018**

www.fancl.jp/en/

Stock exchange listings: Tokyo 1<sup>st</sup> section, code number 4921  
 Contact: Yukihiro Ishigami  
 Executive Director, General Manager, Group Support Center  
 Telephone: +81-45-226-1200

President, Representative Director: Kazuyuki Shimada

Scheduled date for distribution of dividends: June 25, 2018

Scheduled date for regular shareholders' meeting: June 23, 2018

Appendix materials prepared to accompany this report: Yes

Scheduled date for submission of the financial report: June 25, 2018

Investor conference call: Yes (For investors and analysts)

### 1. Consolidated results for the fiscal year April 1, 2017 to March 31, 2018

#### (1) Sales and Income

*Millions of yen, rounded down*

	FY ended March 31, 2018		FY ended March 31, 2017	
		Change (%)		Change (%)
Net sales .....	109,019	13.2	96,305	6.0
Operating income.....	8,448	276.4	2,244	86.3
Ordinary income .....	8,650	262.6	2,385	67.8
Net income attributable to owners of the parent company.....	6,191	20.3	5,146	884.4
Net income per share (¥).....	97.66	--	81.92	--
Fully diluted earnings per share (¥).....	96.56	--	80.91	--
Return on equity .....	8.5	--	7.3	--
Ratio of ordinary income to total capital.....	9.7	--	2.8	--
Ratio of operating income to net sales .....	7.7	--	2.3	--

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

Comprehensive income: FY ended March 31, 2018: ¥6,076 million (18.5%) FY ended March 31, 2017: ¥5,128 million (--)

Gain from investments in subsidiaries and affiliates accounted for by the equity method:

FY ended March 31, 2018: -- million FY ended March 31, 2017: -- million

#### (2) Consolidated Financial Position

*Millions of yen, rounded down*

	As of March 31, 2018		As of March 31, 2017	
	Total assets .....	92,380		85,677
Shareholders' equity .....	75,597		72,402	
Equity ratio (%) .....	81.0%		83.6%	
Shareholders' equity per share (¥).....	¥1,176.80		¥1,137.14	

Shareholders' equity: FY ended March 31, 2018: ¥74,805 million FY ended March 2017: ¥71,630 million

#### (3) Cash Flows

*Millions of yen, rounded down*

	FY ended March 31, 2018	FY ended March 31, 2017
Net cash provided by operating activities .....	10,531	2,192
Net cash used in investing activities.....	(2,392)	5,976
Net cash used in financing activities .....	(3,126)	(2,552)
Cash and cash equivalents at end of year.....	36,641	31,609

### 2. Dividends

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018	Fiscal year ending March 31, 2019 (forecast)
Interim dividend per share (¥) .....	29.0	29.0	30.0
Year-end dividend per share (¥).....	29.0	29.0	30.0
Annual dividend per share (¥) .....	58.0	58.0	60.0
Total dividend payment ( <i>millions of yen</i> ).....	3,652	3,683	
Consolidated dividend payout ratio (%) .....	70.8%	59.4%	60.0%
Dividend to net assets ratio (%).....	5.2	5.0	

Breakdown of interim dividend for the FY ended March 31, 2018: Ordinary dividend: ¥17.00; special dividend: ¥12.00

Breakdown of year-end dividend for the FY ended March 31, 2018: Ordinary dividend: ¥17.00; special dividend: ¥12.00

### 3. Consolidated forecasts for the fiscal year ending March 31, 2019 (April 1, 2018 to March 31, 2019)

*Millions of yen*

	Interim period ending September 30, 2018		FY Ending March 31, 2019	
		Change %		Change %
Net sales.....	54,740	5.6	114,500	5.0
Operating income.....	3,800	1.7	9,500	12.5
Ordinary income.....	3,850	0.2	9,600	11.0
Profit (loss) attributable to owners of parent.....	2,600	4.6	6,600	6.6
Net income per share (¥) .....	41.27		104.77	

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): Yes

Two companies:

FANCL COSMETICS CORPORATION

FANCL HEALTH SCIENCE CORPORATION

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

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

3) **Number of shares outstanding (ordinary shares)**

1. Number of shares outstanding (including treasury shares):

As of March 31, 2018: 65,176,600

As of March 31, 2017: 65,176,600

2. Number of treasury shares:

As of March 31, 2018: 1,610,007

As of March 31, 2017: 2,184,389

3. Average number of shares during the period:

FY ended March 31, 2018: 63,403,486

FY ended March 31, 2017: 62,831,621

#### Reference: Outline of Non-consolidated Financial Results

**Non-consolidated operating results for the fiscal year ended March 31, 2018**

1) **Non-consolidated Operating Results**

*Millions of yen, rounded down*

	FY ended March 31, 2018		FY ended March 31, 2017	
		(% change)		(% change)
Sales .....	92,764	36.3	68,036	9.6
Operating income .....	6,364	--	(1,624)	--
Ordinary income .....	7,415	--	344	(66.6)
Net income .....	7,111	89.5	3,752	860.4
Earnings per share (¥) .....	112.16		59.72	
Fully diluted earnings per share (¥) .....	110.91		58.99	

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

2) **Non-Consolidated financial position**

	As of March 31, 2018	As of March 31, 2017
Total assets ( <i>millions of yen</i> ) .....	76,497	73,943
Net assets ( <i>millions of yen</i> ) .....	62,252	58,022
Equity ratio (%) .....	80.3%	77.4%
Net assets per share (¥) .....	966.87	908.87

**Reference:** Shareholders' equity:

FY ended March 2018: ¥61,460 million

FY ended March 2017: ¥57,251 million

**\*This financial report is not subject to audit procedures by a certified public accountant or auditor**

**\*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 (4) Forecasts for the fiscal year ending March 31, 2019

## Contents

### 1. Operating Results

(1) Summary of Business Performance.....	5
(2) Summary of Consolidated Financial Position.....	7
(3) Summary of Cash flows.....	7
(4) Forecasts for the fiscal year ending March 31, 2019.....	7

2. Basic Rational on Selection of Accounting Standards.....	8
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### 3. Consolidated Financial Statements

(1) Consolidated Balance Sheet.....	9
(2) Consolidated statement of income and Consolidated statement of comprehensive income...	11
Consolidated Statement of Income.....	11
Consolidated Statement of Comprehensive Income.....	13
(3) Changes in Shareholders' Equity During the Period.....	14
(4) Consolidated Statement of Cash Flows.....	16
(5) Notes to the Consolidated Financial Statements.....	18
Items related to a going concern.....	18
Transfer of important subsidiaries during the period.....	18
Segment Information.....	19
Per Share Information.....	21
Important information after the preparation of this report.....	21

# 1. Operating Results

## (1) Summary of Business Performance (consolidated)

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

### 1) Overview of the consolidated financial year under review

In the consolidated financial year under review, the Japanese economy continued to show a mild recovery amid ongoing improvements in employment and income conditions and solid trends in consumer spending. However, an uncertain outlook remains amid geopolitical risk in Asia and unstable financial markets.

Overall consolidated sales increased 13.2% to ¥109,019 million due to an increase in sales in the core cosmetics and nutritional supplements businesses. Operating income increased 276.4% to ¥8,448 million due to an increase in gross profit from increased sales, as well as higher composition of sales the high-profit cosmetics business. Ordinary income increased 262.6% to ¥8,650 million, and net income attributable to owners of the parent company increased 20.3% to ¥6,191 million.

Segment results are as follows:

### 2) Status of operations

#### (1) Cosmetics Business

##### Sales

Cosmetics sales increased 16.0% compared to the previous year, to ¥66,048 million.

(Millions of yen)

	FY ended March 31, 2018		FY ended March 31, 2017		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
FANCL Cosmetics	51,091	77.4	44,992	79.0	13.6
ATTENIR Cosmetics	11,041	16.7	8,869	15.6	24.5
boscia	3,119	4.7	2,258	4.0	38.1
Others	795	1.2	805	1.4	(1.2)
Totals	66,048	100.0	56,926	100.0	16.0

	FY ended March 31, 2018		FY ended March 31, 2017		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Mail order sales	27,408	41.5	24,748	43.5	10.7
Retail store sales	23,822	36.1	20,227	35.5	17.8
Wholesales and others	6,638	10.0	5,300	9.3	25.3
Overseas sales	8,179	12.4	6,649	11.7	23.0
Totals	66,048	100.0	56,926	100.0	16.0

Sales of **FANCL cosmetics** increased 13.6% to ¥51,091 million, due to the renewal of *Mild Cleansing Oil*, an increase in customer numbers of basic skincare products, and contributions from *Beauty BOUQUET* cosmetics for the mature market.

Sales of **ATTENIR cosmetics** increased 24.5% to ¥11,041 million, as a result of strong sales of core product *SkinClear Cleanse Oil*, the effects of new product additions such as *ATTENIR MIDNIGHT MOISTURIZER*, and a significant increase in customers resulting from a web-based communications strategy.

Results by **sales channels**: mail order sales increased 10.7% year on year to ¥27,408 million, retail store sales increased 17.8% to ¥23,822 million, wholesale sales increased 25.3% to ¥6,638 million, while overseas sales increased 23.0% to ¥8,179 million.

##### Operating income

Operating income increased 74.2% to ¥9,150 million due to an increase in gross profit resulting from higher sales, as well as effective promotions utilizing the internet.

## (2) Nutritional Supplements Business

### Sales

Nutritional supplement sales increased 12.0% year on year to ¥35,933 million.

(Millions of yen)

	FY ended March 31, 2018		FY ended March 31, 2017		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Mail order sales	13,622	37.9	13,083	40.8	4.1
Retail store sales	10,366	28.9	7,828	24.4	32.4
Wholesales and others	9,925	27.6	9,595	29.9	3.4
Overseas sales	2,018	5.6	1,577	4.9	28.0
Totals	35,933	100.0	32,085	100.0	12.0

Revenues from **product sales** increased due to strong trends in sales of the *Calolimit* series of Foods with Function Claims, *Age Bracket-Based Supplements*, and *Deep Charge Collagen* (formerly named *HTC COLLAGEN DX*).

Results by **sales channels** were: mail order sales increased 4.1% year on year to ¥13,622 million, retail store sales increased 32.4% to ¥10,366 million, while wholesale sales increased 3.4% to ¥9,925 million and overseas sales increased 28.0% to ¥2,018 million.

### Operating income

Operating income was ¥864 million, compared to a ¥865 million operating loss in the previous comparable period, due to an increase in gross profit from higher sales, as well as an improvement in the gross profit margin resulting from growth in sales of core products, and the efficient use of marketing expenses.

## (3) Other Businesses

Sales in Other businesses decreased 3.5% year on year to ¥7,037 million

(Millions of yen, rounded down)

	FY ended March 31, 2018	FY ended March 31, 2017	Change (%)
Hatsuga genmai business	2,248	2,490	(9.7)
Kale juice business	2,615	2,711	(3.6)
Other	2,174	2,092	3.9
Totals	7,037	7,294	(3.5)

### Operating income

Operating income of ¥149 million was recorded, compared to an operating loss of ¥599 million last year, as a reduction in general administrative and selling expenses offset a decline in sales.

## (2) Summary of Consolidated Financial Position

### Assets, liabilities and net asset value

Assets increased ¥6,702 million to ¥92,380 million, compared with the end of the previous consolidated financial period. This was primarily the result of a ¥7,650 million increase in current assets and a ¥948 million decrease in fixed assets. The increase in current assets was largely the result of a ¥5,031 million increase in cash and cash equivalents, a ¥2,689 million increase in notes and accounts receivable. The decrease in fixed assets was largely due to a ¥739 million decrease in deferred tax assets.

Liabilities increased ¥3,507 million to ¥16,782 million, compared with the end of the previous consolidated financial period. This was primarily the result of a ¥4,113 million increase in current liabilities and ¥606 million decrease in long-term liabilities. The main factors contributing to the increase in current liabilities included a ¥2,064 million increase in accrued liabilities, and a ¥718 million increase in notes and accounts payable. The main factor contributing to the decrease in long-term liabilities was a ¥599 million decrease in retirement benefit liabilities.

Net assets increased ¥3,195 million to ¥75,597 million, compared with the end of the previous consolidated financial period. The primary contributing factors were a ¥6,191 million increase in retained earnings due to the recording of net income attributable to owners of the parent, and a ¥3,667 million decrease in retained earnings due to dividend payments.

As a result, the shareholders' equity ratio decreased 2.6 percentage points from the end of the previous consolidated fiscal year to 81.0%.

### (3) Summary of Cash flows

Cash and cash equivalents ("funds") as of March 31, 2018, were ¥36,641 million, ¥5,031 million higher 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, 2018 are as follows:

#### Cash flows from operating activities

Cash flow gained from operating activities during the period under review was ¥10,531 million, compared with an inflow of ¥2,192 million in the previous consolidated fiscal year. Factors increasing operating cash flow included income before income taxes of ¥8,440 million, and depreciation of ¥2,826 million. The main factor decreasing operating cash flow was an increase in accounts receivable of ¥2,699 million.

#### Cash flows from investing activities

Cash flow used in investing activities during the period under review was ¥2,392 million, compared with an inflow of ¥5,976 million in the previous consolidated fiscal year. This was primarily due to outlays of ¥1,489 million for acquisitions of tangible fixed assets, and outlays of ¥986 million for acquisitions of intangible fixed assets.

#### Cash flows from financing activities

Cash flow used in financing activities during the period under review was ¥3126 million, compared with an outflow of ¥2,552 million in the previous consolidated fiscal year. Factors increasing cash flow from financing activities included inflows of ¥630 million for the disposal of treasury stock. Factors reducing cash flow from financing activities included ¥3,661 million for dividend payments.

### (4) Forecasts for the fiscal year ending March 31, 2019

Looking ahead, although the economic environment in Japan is maintaining a gradual recovery trend, with improvements in corporate profits and employment and income conditions, and a recovery in corporate investment and consumer spending, conditions are expected to remain uncertain, reflecting the impact of economic trends in overseas markets including China and emerging countries, as well as geopolitical risk.

Amid such conditions, FANCL Group will aim to realize sustainable growth and profitability based on the policies set out in its Medium-term Management Plan for the three-year period starting FY2019.

The FANCL Cosmetics business plans to strengthen sales of products in the basic skin care, make-up and hair care categories, as well as *Beauty BOUQUET* cosmetics products targeting mature-aged customers, and also launch a 20<sup>th</sup> anniversary campaign for *Mild Cleansing Oil*. The business will aim to achieve growth in customers of ATTENIR cosmetics through the continued introduction of unique and innovative products, and in boschia brand products, will work to further strengthen North American sales as well as positioning FY2019 as the first year of the brand's globalization, expanding into Europe and the Middle and Near East. Through the above initiatives, the Company forecasts an increase in sales in the Cosmetics business.

The Nutritional Supplements Business expects to grow sales through the ongoing reinforcement of sales of the *Calolimit* series and *Enkin*, both Foods with Function Claims, as well as developing *Naishi Support* into a star product.

In light of the above, in the year ending March 31, 2019, the Company forecasts an increase in sales of 5.0% to ¥114,500 million, an increase in operating income of 12.5% to ¥9,500 million, an increase in ordinary income of 11.0% to ¥9,600 million, and an increase in net income attributable to owners of the parent company of 6.6% to ¥6,600 million.

## **2. 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.



### 3. Consolidated Financial Statements

#### (1) Consolidated Balance Sheet

Millions of yen, rounded down

	As of March 31, 2018	As of March 31, 2017
<b>ASSETS</b>		
<b>I. Current assets:</b>		
Cash and cash equivalents .....	36,641	31,609
Notes and accounts receivable.....	13,791	11,101
Merchandise and products .....	4,109	3,833
Work in progress.....	21	23
Raw materials and supplies.....	4,169	3,763
Deferred tax assets.....	1,633	1,598
Others .....	965	1,675
Allowance for doubtful accounts .....	(155)	(79)
<b>Total current assets .....</b>	<b>61,176</b>	<b>53,526</b>
<b>II. Fixed assets:</b>		
<b>Tangible fixed assets</b>		
Buildings and structures.....	27,402	27,156
Accumulated depreciation and accumulated impairment loss.....	(15,665)	(14,985)
Buildings and structures (net).....	11,736	12,170
Machinery and transport equipment.....	8,541	8,408
Accumulated depreciation and accumulated impairment loss.....	(6,831)	(6,534)
Machinery and transport equipment (net).....	1,709	1,874
Furniture, tools and fixtures.....	8,204	8,025
Accumulated depreciation and accumulated impairment loss .....	(7,088)	(6,772)
Furniture, tools and fixtures (net).....	1,116	1,252
Land .....	11,607	11,607
Lease assets .....	301	268
Accumulated depreciation and accumulated impairment loss.....	(170)	(148)
Lease assets (net)	131	119
Construction in progress .....	302	25
<b>Total tangible fixed assets .....</b>	<b>26,603</b>	<b>27,049</b>
<b>Intangible fixed assets</b>		
Other intangible fixed assets.....	2,465	2,045
<b>Total intangible fixed assets .....</b>	<b>2,465</b>	<b>2,045</b>
<b>Investments and other assets</b>		
Investments securities .....	126	128
Long-term loans .....	205	305
Deposits and guarantee money .....	1,137	1,173
Long-term prepaid expense .....	87	106
Deferred tax assets .....	444	1,183
Others .....	158	183
Allowance for doubtful accounts.....	(26)	(24)
<b>Total investments and other assets .....</b>	<b>2,134</b>	<b>3,056</b>
<b>Total fixed assets.....</b>	<b>31,203</b>	<b>32,151</b>
<b>Total assets.....</b>	<b>92,380</b>	<b>85,677</b>

**(1)****Consolidated Balance Sheet (continued)***Millions of yen, rounded down*

	As of March 31, 2018	As of March 31, 2017
<b>LIABILITIES</b>		
<b>I. Current liabilities:</b>		
Notes and accounts payable .....	3,025	2,307
Lease obligations .....	77	65
Accrued liabilities .....	6,146	4,082
Accrued expenses .....	950	641
Accrued income taxes .....	1,230	1,088
Allowance for bonuses .....	1,343	1,030
Allowance for points .....	1,576	1,617
Asset retirement obligations	--	2
Others .....	1,074	475
<b>Total current liabilities .....</b>	<b>15,424</b>	<b>11,310</b>
<b>II. Long-term liabilities:</b>		
Lease obligations .....	63	62
Retirement benefit liabilities .....	703	1,303
Asset retirement obligations .....	409	416
Others .....	182	182
<b>Total long-term liabilities .....</b>	<b>1,358</b>	<b>1,965</b>
<b>Total liabilities .....</b>	<b>16,782</b>	<b>13,275</b>
<b>NET ASSETS</b>		
<b>Shareholders' equity:</b>		
Common stock .....	10,795	10,795
Capital reserve .....	11,706	11,706
Retained earnings .....	54,796	52,339
Treasury stock .....	(2,338)	(3,170)
<b>Total shareholders' equity .....</b>	<b>74,959</b>	<b>71,670</b>
<b>Other comprehensive income</b>		
Foreign currency translation adjustment .....	89	119
Total adjustments related to retirement benefits .....	(243)	(159)
<b>Total other comprehensive income .....</b>	<b>(154)</b>	<b>(39)</b>
<b>Warrants .....</b>	<b>791</b>	<b>771</b>
<b>Total net assets .....</b>	<b>75,597</b>	<b>72,402</b>
<b>Total Liabilities and Net Assets .....</b>	<b>92,380</b>	<b>85,677</b>

**(2) Consolidated Statement of Income and Consolidated Statement of comprehensive income  
Consolidated Statement of Income**

*Millions of yen, rounded down*

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2017
Net sales.....	109,019	96,305
Cost of sales .....	31,588	28,495
Gross profit.....	77,431	67,810
Selling, general and administrative expenses		
Sales promotion expenses .....	12,839	12,833
Packing and transport expenses.....	4,717	4,075
Advertising expenses .....	15,164	14,816
Sales commission fee .....	7,364	6,237
Communications expenses.....	1,779	2,037
Directors remuneration.....	567	599
Salaries and bonuses.....	10,817	9,829
Provision for accrued bonuses.....	1,156	810
Retirement benefit expenses.....	359	343
Compulsory welfare expenses.....	1,729	1,503
Welfare expenses .....	329	236
Depreciation .....	1,843	2,284
Research and development expenses .....	1,083	1,191
Rent expenses.....	1,188	1,002
Provisions for allowance for bad debt.....	69	49
Other .....	7,972	7,716
Total selling, general and administrative expenses .....	68,983	65,565
Operating income .....	8,448	2,244
Non-operating income		
Interest income.....	4	4
Dividend income.....	0	0
Rent income.....	103	103
Foreign exchange gain .....	27	--
Compensation payments received.....	21	22
Commissions earned .....	23	21
Other non-operating income.....	87	82
Total net operating income .....	267	234
Non-operating expenses		
Rent expenses on fixed assets.....	35	34
Loss on foreign exchange.....	--	27
Idle asset expense.....	--	4
Miscellaneous .....	29	27
Total net operating expenses.....	65	94
Ordinary income .....	8,650	2,385

## Consolidated Statement of Income (continued)

Millions of yen, rounded down

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2017
<b>Extraordinary income</b>		
Gain from sale of fixed assets .....	--	0
Gain on reversal of subscription warrants .....	3	37
Gain from sale of investment securities .....	--	4,440
Gain on transfer of retirement benefit plan .....	5	--
Total extraordinary income .....	9	4,479
<b>Extraordinary expenses</b>		
Loss on sale of fixed assets .....	0	0
Loss on retirement of fixed assets .....	68	38
Impairment loss .....	6	914
Loss on store closures .....	124	44
Other extraordinary expenses .....	18	40
Total extraordinary expenses .....	219	1,038
Income before income taxes .....	8,440	5,826
Income taxes .....	1,509	1,260
Adjustment for income taxes .....	739	(581)
Total income before income taxes .....	2,248	679
Income before minority interests .....	6,191	5,146
<b>Net income</b> .....	<b>6,191</b>	<b>5,146</b>

## Consolidated Statement of Comprehensive Income

Millions of yen, rounded down

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2017
Income before minority interests .....	6,191	5,146
<b>Other comprehensive income</b> .....		
Foreign currency translation adjustment .....	(30)	(26)
Adjustments related to retirement benefits .....	(84)	7
Total other comprehensive income.....	(115)	(18)
<b>Comprehensive income</b> .....	<b>6,076</b>	<b>5,128</b>
(Breakdown)		
Comprehensive income attributable to owners of the parent company.....	6,076	5,128
Comprehensive income attributable to minor interests.....	--	--

## (3)

## Changes in Shareholders' Equity during the Period

April 1, 2017 to March 31, 2018

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	52,339	(3,170)	71,670
Changes of items during period					
Dividends of surplus	--	--	(3,667)	--	(3,667)
Net income attributable to owners of the parent company	--	--	6,191	--	6,191
Purchase of treasury shares	--	--	--	(5)	(5)
Disposal of treasury shares	--	--	(67)	837	770
Net changes of items other than shareholders' equity	--	--	--	--	--
Total changes of items during period	--	--	2,457	832	3,289
Balance at end of current period	10,795	11,706	54,796	(2,338)	74,959

	Other comprehensive income			New share warrants	Total net assets
	Foreign currency translation adjustment	Cumulative adjustments related to retirement benefits	Total other comprehensive income		
Balance at beginning of current period	119	(159)	(39)	771	72,402
Changes of items during period					
Dividends of surplus	--	--	--	--	(3,667)
Net income attributable to owners of the parent company	--	--	--	--	6,191
Purchase of treasury shares	--	--	--	--	(5)
Disposal of treasury shares	--	--	--	--	770
Net changes of items other than shareholders' equity	(30)	(84)	(115)	20	(94)
Total changes of items during period	(30)	(84)	(115)	20	3,195
Balance at end of current period	89	(243)	(154)	791	71,597

April 1, 2016 to March 31, 2017

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	50,134	(3,706)	68,930
Changes of items during period					
Dividends of surplus	--	--	(2,889)	--	(2,889)
Net income attributable to owners of the parent company	--	--	5,146	--	5,146
Purchase of treasury shares	--	--	--	(1)	(1)
Disposal of treasury shares	--	--	(52)	537	484
Change in scope of consolidation	--	--	--	--	--
Total changes of items during period	--	--	2,204	535	2,739
Balance at end of current period	10,795	11,706	52,339	(3,170)	71,670

	Other comprehensive income			New share warrants	Total net assets
	Foreign currency translation adjustment	Cumulative adjustments related to retirement benefits	Total other comprehensive income		
Balance at beginning of current period	146	(166)	(20)	729	69,639
Changes of items during period					
Dividends of surplus	--	--	--	--	(2,889)
Net income attributable to owners of the parent company	--	--	--	--	5,146
Purchase of treasury shares	--	--	--	--	(1)
Disposal of treasury shares	--	--	--	--	484
Net changes of items other than shareholders' equity	(26)	7	(18)	41	22
Total changes of items during period	(26)	7	(18)	41	2,762
Balance at end of current period	119	(159)	(39)	771	72,402

(4)

## Consolidated Statement of Cash Flows

*Millions of yen, rounded down*

	FY ended March 31, 2018	FY ended March 31, 2017
<b>Cash flows from operating activities</b>		
Income before income taxes .....	8,440	5,826
Depreciation .....	2,826	3,185
Impairment loss.....	6	914
Stock compensation expense .....	164	126
Increase (decrease) in allowance for doubtful accounts .....	77	27
Increase (decrease) in allowance for bonuses.....	312	(44)
Increase (decrease) in allowance for points.....	(41)	110
Increase (decrease) in retirement benefit related obligation.....	(721)	(9)
Interest and dividend income .....	(4)	(5)
Loss (gain) from foreign exchange .....	(17)	48
Loss (gain) on sale of investment securities .....	--	(4,440)
Loss (gain) from sale of fixed assets .....	0	(0)
Loss on disposal of fixed assets.....	68	38
Loss on store closures.....	124	44
Gain on reversal of subscription rights to shares .....	(3)	(37)
Decrease (increase) in accounts receivable .....	(2,699)	(1,122)
Decrease (increase) in inventories .....	(694)	(270)
Decrease (increase) in other current assets .....	136	440
Decrease (increase) in other fixed assets.....	(34)	9
Decrease (increase) in accounts payable.....	721	(239)
Increase (decrease) in other current liabilities.....	2,522	(644)
Increase (decrease) in other fixed liabilities .....	(0)	1
Others .....	(140)	(80)
Sub-total.....	11,044	3,877
Interest and dividends received .....	4	5
Income taxes paid .....	(1,185)	(1,890)
Income taxes refunded .....	668	201
<b>Net cash provided by (used in) operating activities .....</b>	<b>10,531</b>	<b>2,192</b>



**(4) Consolidated Statement of Cash Flows (continued)***Millions of yen, rounded down*

	FY ended March 31, 2018	FY ended March 31, 2017
<b>II. Cash flows from investing activities</b>		
Payment for acquisition of tangible fixed assets.....	(1,489)	(3,586)
Income from sale of tangible fixed assets.....	6	79
Payment for acquisition of intangible fixed assets.....	(986)	(488)
Income from sale and redemption of investment securities.....	--	9,785
Payments of loans receivable.....	--	(5)
Proceeds from liquidation of subsidiaries.....	--	183
Other payments.....	(147)	(117)
Other proceeds.....	224	126
<b>Net cash used in investing activities.....</b>	<b>(2,392)</b>	<b>5,976</b>
<b>III. Cash flows from financing activities</b>		
Proceeds from disposal of treasury stock.....	630	432
Payment for purchase of treasury stock.....	(5)	(1)
Cash dividends paid.....	(3,661)	(2,884)
Others.....	(90)	(98)
<b>Net cash used in financing activities.....</b>	<b>(3,126)</b>	<b>(2,552)</b>
<b>IV. Effect of exchange rate changes on cash and cash equivalents.....</b>	<b>18</b>	<b>(47)</b>
<b>V. Net increase in cash and cash equivalents.....</b>	<b>5,031</b>	<b>5,568</b>
<b>VI. Cash and cash equivalents at the beginning of the period.....</b>	<b>31,609</b>	<b>26,040</b>
<b>VIII. Cash and cash equivalents at end of period.....</b>	<b>36,641</b>	<b>31,609</b>

## **(5) Notes to the Consolidated Financial Statements**

### **Items related to a going concern**

No applicable items

### **Transfer of important subsidiaries during the period**

From the consolidated fiscal year under review, consolidated subsidiaries and special subsidiaries FANCL COSMETICS CORPORATION and FANCL HEALTH SCIENCE CORPORATION were removed from the scope of consolidation due to their dissolution following an absorption-type merger, with FANCL Corporation as the surviving company.

## 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 its 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 Business, Nutritional Supplements 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.

### 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 19, 2017.)

Reportable segment income figures are on an operating income basis.

### 3) Sales, income and losses, assets and liabilities and other items by reportable segment

For the fiscal year April 1, 2017 to March 31, 2018

(Millions of yen)

	Reportable segments			Total	Adjustments* <sup>2</sup>	Consolidated* <sup>3</sup>
	Cosmetics Business	Nutritional Supplements Business	Other Businesses* <sup>1</sup>			
<b>1. Sales and operating income:</b>						
(1) Sales to external customers	66,048	35,933	7,037	109,019	--	109,019
(2) Inter-segment sales or transfers	--	--	--	--	--	--
Total sales	66,048	35,933	7,037	109,019	--	109,019
Segment income (loss)	9,150	864	149	10,165	(1,717)	8,448
Segment Assets	32,231	17,357	2,460	52,049	40,331	92,380
Others						
Depreciation	1,377	899	133	2,409	370	2,780
Impairment losses	4	2	0	6	--	6
Increase in tangible and intangible fixed assets	1,546	805	159	2,511	321	2,833

Notes:

- Other businesses: Sundries, personnel effects, comfort undergarments, *Hatsuga genmai* (germinated brown rice), and Kale juice.
- Adjustments are as follows
  - The adjustment amount on segment income (loss) of (¥1,717 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.
  - The adjustment on segment assets of ¥40,331 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.
- Segment income (loss) is adjusted for operating income (loss) as recorded in the consolidated financial statements.

For the fiscal year April 1, 2016 to March 31, 2017

(Millions of yen)

	Reportable segments			Total	Adjustments* <sup>2</sup>	Consolidated* <sup>3</sup>
	Cosmetics Business	Nutritional Supplements Business	Other Businesses* <sup>1</sup>			
<b>1. Sales and operating income:</b>						
(1) Sales to external customers	56,926	32,085	7,294	96,305	--	96,305
(2) Inter-segment sales or transfers	--	--	--	--	--	--
Total sales	56,926	32,085	7,294	96,305	--	96,305
Segment income (loss)	5,253	(865)	(599)	3,788	(1,544)	2,244
Segment Assets	33,267	17,206	3,544	54,018	31,659	85,677
Others						
Depreciation	1,741	894	123	2,759	385	3,145
Impairment losses	67	42	804	914	--	914
Increase in tangible and intangible fixed assets	1,433	2,200	101	3,735	422	4,158

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 (¥1,544 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 ¥31,659 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, 2018	FY Ended March 31, 2017
Net assets per share	¥1,176.80	¥1,137.14
Net income per share	97.66	81.92
Net income per share (diluted)	96.56	80.91

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, 2018	FY Ended March 31, 2017
Net income per share		
Net income (loss) (¥ million)	6,191	5,146
Amount not attributable to common shareholders (¥ million)	--	--
Net income (loss) attributable to common shares (¥ million)	6,191	5,146
Average number of outstanding common shares during the year (1,000 shares)	63,403,486	62,831,621
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)	716,597	779,236
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