



## Second Medium-term Business Plan

**Yokohama, May 1, 2006**—At a board meeting held today, the directors of FANCL Corporation (“FANCL”) formalized the adoption of *FANCL Change & Challenge Plan Phase 2* (“*CC Phase 2*”), the Company’s three-year medium-term business plan for the period April 1, 2006 through March 31, 2009.

Since its foundation, FANCL’s management approach has been based on identifying and resolving negative consumer issues. Through products such as preservative-free cosmetics, nutritional supplements, germinated brown rice and kale juice, FANCL has pushed the boundaries of conventional industry thinking.

FANCL’s current medium-term business plan—*FANCL Change & Challenge Plan Phase 1* (“*CC Phase 1*”)—covers the three-year period ending March 31, 2007, and was formulated with the aim of restoring growth and shifting the Company to a new operating structure. Under this plan FANCL has returned to growth and profitability, with FANCL’s management team focusing on clarifying the position and strategy of each business and optimizing products and sales channels.

*CC Phase 2* overlaps *CC Phase 1* by one year. As such, management is seeking to continue growing the Company at the same time as generating *steady growth in profitability*. To support growth over the long term, further initiatives will be undertaken to strengthen FANCL’s structure and business foundation. Further information regarding progress under *CC Phase 1* and the specific targets of *CC Phase 2* follows.

FY ending:	March 05	March 06	March 07	March 08	March 09
CC Phase 1	 <i>FANCL Change &amp; Challenge Plan Phase 1</i> RETURNING TO GROWTH				
CC Phase 2			 <i>FANCL Change &amp; Challenge Plan Phase 2</i> STEADY GROWTH IN PROFITABILITY		

### A. Progress on FANCL Change & Challenge Plan Phase 1

#### 1. CC Phase 1: Medium-term Business Plan for the period April 1, 2004 through March 31, 2007

Under *CC Phase 1*, FANCL has been taking steps to restore growth and profitability by reforming the Company internally, putting in place a new organizational structure, optimizing the allocation of personnel and creating a new corporate culture.

Cosmetics and Nutritional Supplements have been positioned as the Company’s core businesses, and sales growth has been pursued through reviewing FANCL’s marketing strategy and focusing on the retail store sales channel.

As a result of these initiatives FANCL's business performance has improved considerably, evidenced by results such as a recovery in mail-order customer numbers and 24 consecutive months of sales growth at existing stores (compared with respective months in the previous year) since April 2004. Sales and earnings from Cosmetics and Nutritional Supplements have increased according to plan. Results in Other Businesses, which fell short of targets in the first year, have since recovered to be largely in line with target figures for the second year of the plan, and losses in this business area have been reduced.

## 2. Trends in key management indices (consolidated)

Unit: billion yen, %

	Net sales	Operating income	Ordinary income	ROA
FY ended March 31, 2005	<b>87.9</b>	<b>5.4</b>	<b>6.2%</b>	<b>6.9%</b>
Plan	88.0	5.2	5.9%	-
FY ended March 31, 2006	<b>95.3</b>	<b>9.1</b>	<b>9.6%</b>	<b>11.1%</b>
Plan	95.0	8.0	8.4%	-
FY ending March 31, 2007 Plan	105.0	12.0	11.4%	13.5%
As revised*	102.5	11.0	10.7%	12.5%

\* Note: Revised forecasts were issued on May 1, 2006

## **B. FANCL Change & Challenge Plan Phase 2**

**1. The theme of FANCL's Change & Challenge Plan is *returning to growth*. Under Phase 2 of the Plan, FANCL is also targeting *steady growth in profitability***

### Strategy by business segment

- In **cosmetics**, FANCL will continue developing competitive products with an emphasis on unique functionality. FANCL's foundation cosmetic brands will be revitalized and the Company will aim to increase its share of the market for sensitive skin products.
- In **nutritional supplements**, FANCL will seek to produce products with high added value. The Company will strengthen its operations in supplements that support beauty while also developing products for older customer groups.
- In **other businesses**, FANCL will seek to restore profitability. In germinated brown rice and kale juice the Company will seek to grow sales and return to profit by enhancing the product lineup. In mail-order sales at IIMON OHKOKU the Company will pursue higher earnings margins by improving the product mix and reducing expenses.

### Strategy by sales channel

- FANCL will seek to make maximal use of the strengths of each channel and derive clear synergy benefits.
- The Company will strengthen its highly profitable internet sales channel, along with its retail network and overseas development.
- In internet sales, the processing capability will be improved and higher sales targeted through the introduction of fully-fledged services.
- In the retail store network, initiatives to revitalize existing stores will continue along with the opening of new stores. Our target to expand our network to 300 stores by March 2007 will be rescheduled to March of 2009 in order to preserve the quality of our training including the training of store staff.
- Overseas development will focus on establishing a presence in China.

## 2. Quantitative goals (consolidated)

	Net sales	Operating income	Ordinary income ratio	ROA	ROE
FY to March 31, 2009	¥115.0 bn	¥15.0 bn	13%	15%	10%

Targets for the first year of CC Phase 2, ending March 31, 2007, are for consolidated net sales to increase 7.5% year on year to ¥102.5 billion, with consolidated ordinary income rising 20.7% to ¥11.0 billion and net income increasing 19.6% to ¥6.2 billion.

**++ Ends ++**

**For further information in English please contact:**

Chisa Hayakawa  
Investor Relations Group  
Tel. +81 45 226-1470  
Email: [official@fancl.co.jp](mailto:official@fancl.co.jp)