Annual Report 2012

For the Year Ended March 31, 2012

FANCL

Rebranding from the Inside

Contents

Cautionary Note Regarding Forward-Looking Statements

Statements made in this annual report with respect to FANCL's current plans, strategies, estimates, and beliefs, as well as other statements that are not historical facts, are forward-looking statements about the future performance of FANCL. These statements are based on management's beliefs in light of information available to it at the time of the writing of this report. The actual performance of the Company could differ significantly from these forward-looking statements as a result of unpredictable factors such as changes in customer preferences, social conditions, and economic conditions. Moreover, FANCL is under no obligation to revise forward-looking statements, irrespective of new data, future events, or other developments. Readers should therefore not place undue reliance on them.

Financial Highlights

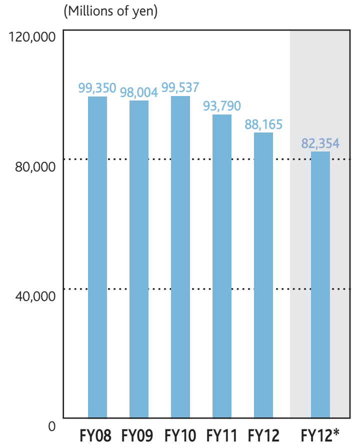
FANCL CORPORATION and Consolidated Subsidiaries
For the years ended March 31

	Millions of yen				Thousands of U.S. dollars (Note 1)
	2012 (A)	2012 (Note 2)	2011 (B)	Change (A) – (B)	2012
For the year:					
Net sales	**¥ 88,165**	¥82,354	¥93,790	¥(5,625)	**$1,072,701**
Operating income	**4,017**	4,093	7,118	(3,101)	**48,871**
Net income	**2,454**	1,845	2,850	(395)	**29,862**
Net cash provided by operating activities	**6,322**	–	6,311	10	**76,913**
Net cash used in investing activities	**(7,009)**	–	(922)	(6,086)	**(85,277)**
Net cash used in financing activities	**(2,316)**	–	(2,278)	(38)	**(28,176)**
	Millions of yen				Thousands of U.S. dollars (Note 1)
At year-end:					
Total assets	**¥ 91,739**	¥ –	¥94,030	¥(2,291)	**$1,116,186**
Equity	**78,454**	–	78,270	184	**954,539**
	Yen				U.S. dollars (Note 1)
Per share:					
Net income	**¥ 37.8**	¥ –	¥ 43.9	¥ (6.1)	**$ 0.46**
Equity	**1,209.1**	–	1,205.3	3.8	**14.71**
Cash dividends	**34.0**	–	34.0	0.0	**0.41**
	%				
Ratio:					
Operating income margin (%)	**4.6**	5.0	7.6	(3.0)	
Advertising and sales promotion expense ratio (%)	**22.0**	21.1	20.8	1.2	
ROE (%)	**3.1**	–	3.7	(0.6)	

Notes: 1. U.S. dollar amounts are the yen equivalent, calculated, for convenience only, at a rate of ¥82.19 = U.S.$1, the approximate Tokyo foreign exchange rate as of March 31, 2012.
2. On February 1, 2012, FANCL released IIMONO OHKOKU Co., Ltd. from consolidation. To ensure the most accurate analysis, figures have been calculated as if IIMONO OHKOKU Co., Ltd. had remained a consolidated subsidiary.

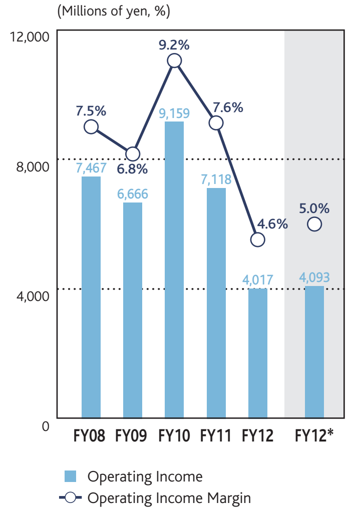
Net Sales

(Millions of yen)



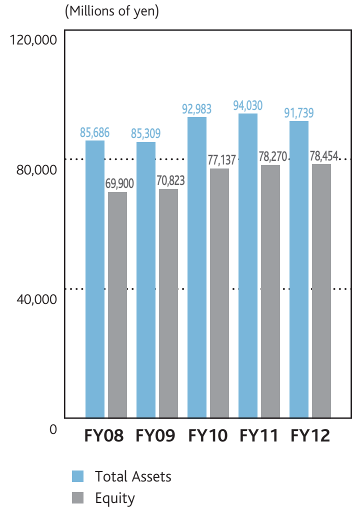
Operating Income and Operating Income Margin

(Millions of yen, %)



Total Assets and Equity

(Millions of yen)



*Figures exclude the effects of IIMONO OHKOKU on consolidated performance.

Brand-new Corporate Logo and Products

New Corporate Logo

FANCL

The new logo projects an image of high quality and aesthetic intellectuality, a brand that elicits the radiant beauty within, with elongated vertical lines to express the ability to absorb moisture.

New Products ~Launch of New *Mutenka Skincare* Line~

FANCL renovated its line of preservative-free (“*mutenka*”) products in March 2012, consolidating research results and production technologies for preservative-free cosmetics to offer products tailored for different ages and types of skin problems, in order to better resolve the skin issues faced by each customer. The new line is sold through mail order and directly operated retail stores.

Concept:

“Skincare to Beautify Bare Skin”

Malvidin-containing flower extract, the component that beautifies bare skin,
1) removes skin-damaging agents,
2) revitalizes weakened skin cells, and
3) restores damaged skin cells.

Why Did we Decide to Rebrand Now?

The necessity for the rebranding program launched in 2012 can be understood from the course of FANCL's 30-year history. In this section, we explain why we decided to rebrand at this point.

See next page ▶▶

FANCL's 30-year History

1980–1989 The Origin of "Preservative-Free" Cosmetics

Japan's cosmetics industry continued to grow rapidly in the post-war period, but around 1978–79 cases of skin irritation began to arise as a result of cosmetics use. Public trust in major cosmetics manufacturers was shaken. The cause of this skin trouble was determined to be the additives in cosmetics, such as preservatives, antioxidants, germicides, and fragrances.

"Safe cosmetics that do not cause skin irritation"

An aspiration to make safe cosmetics that do not cause skin irritation

FANCL founder Kenji Ikemori's wife was one of those adversely affected by conventional cosmetics, and, in 1980, he set up his own cosmetics sales business with the aim of alleviating such skin problems. This was the aspiration that continues today in FANCL's corporate philosophy of eliminating such "negatives" in society as uncertainty and inconvenience.

Kenji Ikemori (Founder)

"Preservative-Free" Cosmetics

➤ The Origin of "Preservative-Free" Cosmetics

"If preservatives are bad for the skin, then the answer is to make cosmetics without them." FANCL's preservative-free cosmetics arose from this completely novel concept, which was nonexistent in the cosmetics industry at the time. It was decided to put a manufacturing date on the product, so that customers would always be using fresh cosmetics. Since there are no preservatives, the cosmetics were sold in small vials that could be consumed within a week. The decision to utilize mail order as a sales channel was a further strategy to ensure product freshness.

Our founder's passion to convey the "value of preservative-free" to customers can be seen in the "Skin Beauty News" flyers produced at the time.

"Skin Beauty News"

Cosmetics in 5 ml bottles

➤ Explosive Popularity and Rapid Sales Growth

FANCL's preservative-free cosmetics were eagerly embraced by women at the time suffering from skin problems, and they became fiercely loyal customers. Growth was swift, with the number of customers exceeding 30,000 by 1982, just two years after the Company's founding. Sales roughly doubled over the three-year period between 1983 and 1985.

"0→30,000 Customers"

1990–2000 Diversification of Business and Sales Channels and Growing Trust

FANCL further expanded its cosmetics business during this period, including through growth of the high-quality, low-cost ATTENIR Cosmetics line. It was an era during which the launch of the health foods business and sales through directly operated retail stores provided product diversification and enhanced sales capacity, and customer numbers increased sharply.

Ceremony to commemorate FANCL's listing on the first section of the Tokyo Stock Exchange

"Diversification"

As the Company expanded, over-the-counter trading of shares began in 1998, and, 13 months later, FANCL listed on the first section of the Tokyo Stock Exchange. The rising social presence of FANCL as a company and the considerable growth in trust were symbolic of this era.

"Health Foods Business"

➤ Price-Slashing Entry into the Health Foods Market

FANCL entered the health foods business in 1994 with the launch of mail-order sales of nutritional supplements. The majority of health foods sold in Japan at the time were extremely expensive, as if to suggest that a high price implied effectiveness.

FANCL's position was that supplements are most effective when taken daily, and the Company sought to offer health foods at an affordable price. The health foods business, begun under this banner of price slashing, meshed well with the needs of consumers at the time, and the Company was flooded with orders. The health foods business later came to stand beside the cosmetics business as one of the two pillars of FANCL's earnings. The germinated brown rice business was launched in 1999, and the kale juice business in 2000.

Vitamin C

"Retail Store Sales"

➤ Launch of Directly Operated Retail Stores

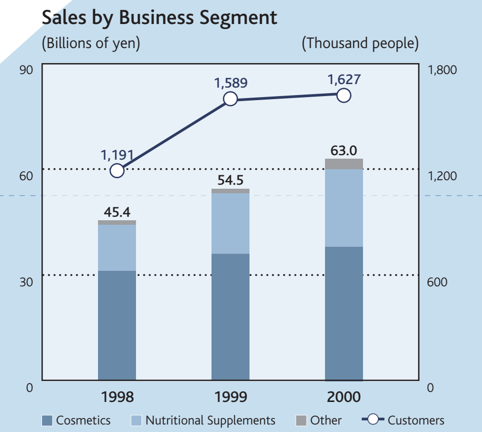
FANCL opened its first directly operated retail store, FANCL HOUSE, in Shizuoka, Japan, in 1995. A FANCL HOUSE location in Hong Kong was opened in 1996. For the health foods business, in 1999, FANCL began selling nutritional supplements at 7-Eleven convenience stores in Japan. The retail store sales channel also got underway.

An interior view of a present-day FANCL shop

➤ Record High Customer Numbers and Sales

This period was truly an era of rapid business development for FANCL. In the fiscal year ended March 31, 2000, customer numbers increased to 1.6 million, and sales reached ¥63.0 billion.

"¥63.0 Billion in Sales"



2001–2011 The Search for New Value and Rising Awareness of Difficulties

FANCL's business continued to expand around the two pillars of beauty and health, with directly operated retail outlets in every prefecture in Japan, and the establishment of the FANCL Hatsuga Genmai (germinated brown rice) Nagano Plant in 2002 and the FANCL B&H Shiga Plant in 2003. Net sales in the fiscal year ended March 31, 2007 reached ¥101.1 billion.

Around this time, however, the Company's steadily rising growth began to show signs of slowing. Despite bolstering the product lineup, sales capabilities and other enhancements, FANCL entered a difficult period during which no amount of effort would translate into sales growth.

"Plateau of Growth"

➤ Continued Expansion of the Product Lineup and Sales Base

FANCL implemented a proactive program to renew and refurbish its cosmetics products, including the popular *Mild Cleansing Oil*, as well as the *Basic Skincare*, *Facial Washing Powder*, and hair care product series. For health foods, the Company launched the *FANCL CLINICAiD* line of supplements for medical professionals, while in recent years the diet supplement *Calorie Limit* and the beauty supplement *HTC Collagen* have grown to become star products.

Mild Cleansing Oil

Calorie Limit

In 2004, FANCL began operating in China, and as of March 31, 2012, had a network of 148 stores nationwide. This rapid overseas expansion has brought attention to the concept of preservative-free in mainland China and Hong Kong, and spurred FANCL's growth into a recognized, premium brand in these markets.

Dazhongsi wangfujing department store (Beijing, Chaina)

Concerns that Consumers No Longer Properly Recognize the "Value of Preservative-Free"

As sales grew rapidly in mainland China and Hong Kong, FANCL began to become concerned that customers in Japan were no longer properly recognizing the "value of preservative-free" that the Company provided, and conducted a large-scale customer survey on its corporate image. The survey revealed that while FANCL's name recognition was over 90%, the extensive range of businesses and products meant that only existing customers had a clear idea of what FANCL was about. In essence, it was evident that the impression of the cosmetics and health foods businesses had blurred in customers' minds, and that our communication was not being received in an organized fashion.

Customers' understanding of "preservative-free" was similar. Even if they recognized that it meant safe and gentle for the skin, the value that FANCL should have been conveying—that it is precisely because these products are preservative-free that they allow women to be more beautiful—was not being fully communicated, and so many potential customers never had the urge to try FANCL's preservative-free products.

Based on this customer perception, FANCL clearly separated its cosmetics and health foods product line and renewed its focus on the value of preservative-free in its cosmetics. This is the reason for the rebranding program launched in 2012.

"Rebranding"

Net Sales (Millions of yen)

100,000 / 80,000 / 60,000 / 40,000 / 20,000 / 0

101,065 (Record sales)

88,165

1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012

We Will Cultivate the “Value of Preservative-Free” to Elevate FANCL to a Global Premium Brand.

Yoshifumi Narimatsu,
C.E.O. and Representative Director

Overview

Overview

Fiscal 2012, ended March 31, 2012, was a difficult year for FANCL, during which revenue and earnings declined year on year as a result of the modification or suspension of various sales campaigns in the wake of the Great East Japan Earthquake, and the ownership transfer of the IIMONO OHKOKU Mail-Order Business. However, we were able to move decisively forward with final preparations for the rebranding program launched this year.

While earnings were strained during fiscal 2012, the aspect of our performance that I am most pleased with personally is the considerable year-on-year growth for our mainstay products *Mild Cleansing Oil* and *Facial Washing Powder*, which had been sluggish during fiscal 2011.

In terms of shareholder returns, FANCL paid a dividend of ¥34 per share, the same as in the previous fiscal year. We are maintaining our profit return policy of a payout ratio of 40% or more on a consolidated basis, the acquisition of FANCL shares in order to improve capital efficiency, and the retirement of treasury stock when the amount exceeds 10% of total issued shares.

During fiscal 2012, we announced the launch of two new initiatives that will be extremely important for FANCL going forward. These are our rebranding program and our new three-year, medium-term business plan.

Three-Year Medium-Term Business Plan

I would next like to talk about the three-year medium-term business plan initiated in fiscal 2013.

This plan was formulated to put FANCL's businesses back on a growth track, and to make us a global corporation. It outlines a three-year strategy to realize our long-term vision, and includes priority measures for four specific areas—the cosmetics business, the health business, overseas operations, and the strengthening of our management base. Through these measures, we aim to achieve consolidated net sales of ¥101.0 billion in fiscal 2015, with an operating income of ¥8.0 billion. We also plan to secure 15% of net sales from outside Japan by accelerating growth in overseas markets.

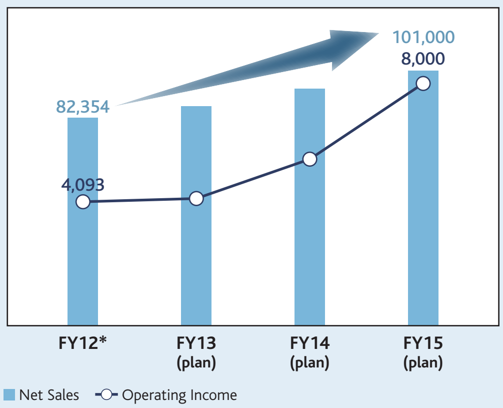
In the pages that follow, I will explain the strategic priorities for the business plan.

Overview of the Three-Year Medium-Term Business Plan

Numerical Targets

	Net sales	Operating income	Operating income margin
FY2015	¥101.0 billion	¥8.0 billion	8%

Net Sales and Operating Income
(Millions of yen)



* Figures exclude the effects of IIMONO OHKOKU on consolidated performance

Sales Growth and Overseas Sales as a Percentage of Net Sales

	FY2012*		FY2015
Cosmetics	¥45.7 billion (13%)	7% (CAGR) →	**¥57.5 billion (18%)**
Nutritional Supplements	¥27.0 billion (7%)	5% (CAGR) →	**¥32.2 billion (15%)**

( )Overseas sales as a percentage of net sales

Long-term Vision

Cosmetics Business

Establish position as a Global Premium Brand centered on the value proposition "making beauty possible—preservative-free"

Health Business

Realize "Good Aging," where each customer enjoys the state of health they desire, as a partner in creating good health across customers' life course

Basic Policies for Priority Initiatives

Cosmetics Business

Raise brand value and enhance the business base through concepts, products and communication that embody preservative-free science

Health Business

Reconfigure business to offer personalized products and services backed by the FANCL Original Health Philosophy

Overseas Business

Steadily roll out rebranding in cosmetics
Draft roadmaps for growth in existing markets and entry into new markets

Strengthening Our Management Base

Completion of next-generation customer management system, store development, cost reductions, R&D, and HR development

Cosmetics – Products

The rebranding program for the cosmetics business launched in April 2012 incorporates my goal for customers to properly appreciate the "value of preservative-free." In conjunction with the launch of the rebranding program, we have redesigned our corporate logo, and formulated a brand statement for the cosmetics business that expresses the essence of preservative-free.

For the cosmetics business, we aim to properly convey the value of FANCL cosmetics, "making beauty possible—preservative-free," and to establish a position as a Global Premium Brand by winning new customers, enhancing brand loyalty, and strengthening our business foundation. To accomplish this FANCL will escalate its product, brand communication, and sales strategies.

Let me begin by examining our product strategies for cosmetics.

New Mutenka Skincare Line

During fiscal 2012, FANCL drew on its extensive experience in research and manufacturing technologies for preservative-free ("*mutenka*") products to introduce in Japan the world's first high-performance skincare products. The concept for these products is "skincare to beautify bare skin." In other words, these products eliminate the skin-damaging agents that are the root cause of troubled skin, while enhancing the skin's vigor. This kind of preservative-free skincare more effectively improves troubled skin.

In keeping with the product concept, we increased the number of skincare product lines from four to six in order to better suit different age groups and skin issues. Specifically, along with improved moisturizing and anti-aging products in our existing *Mutenka Skincare* and *DX* lines, we introduced a new line of skin whiteners, called Whitening in Japan, to more precisely address the needs of women in their 30s and 40s, who comprise the majority of customers, along with the *BC* line of high-end products for the seniors market to address of a mixture of skin problems.

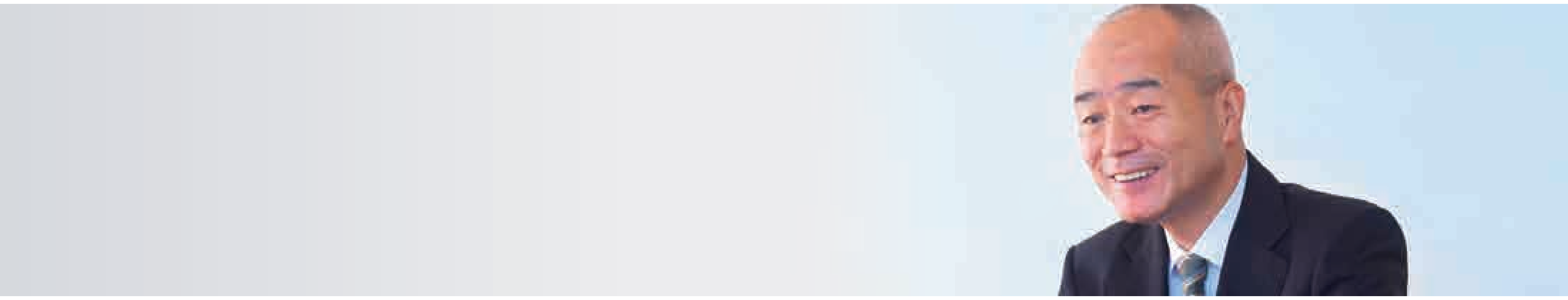
The *BC* line targets women aged 50 and older. Prior to this FANCL did not have any products to address the mixture of skin problems facing older women, and one of the issues we faced was that the rate of continuous use fell off sharply for customers over 40 years old. With this rebranding and the introduction of the *BC* line, we have now filled that gap. The Whitening line was launched to meet the high expectations for skin whitening products from customers in Asia, which we discovered in the course of our global expansion. As a result, these two product lines have received broad support from customers well beyond our expectations.

Future Product Development

Starting with the *Mutenka Skincare* line described above, we will implement a full renewal of all FANCL cosmetics by 2014.

Specifically, in fall 2012, we will launch *Mutenka Body Care* to provide the optimal care for each problem area of the body, *Mutenka Hair Care* to maintain the ideal moisture balance between hair and scalp, and *Mutenka Baby Care*, with a focus on ceramide which is important for infants, to emphasize gentleness and safety. A renewal of *Mutenka Makeup* and *Mutenka FDR** is planned for sometime in fall 2013. Further, in fall 2014, we plan to draw on preservative-free science to the greatest extent possible to introduce a personal cosmetics brand utilizing skin counseling technologies.

* *Mutenka FDR*: a preservative-free skincare series developed through joint research with dermatologists. The name "FDR" is a combination of FANCL ("F") and doctor ("DR"). The line is designed to be gentle on the skin, while caring for it with skin protection and moisture retention.



Product Strategy

FANCL is growing its base of new and existing customers by offering effective, preservative-free cosmetics that enhance natural beauty, derived from progress in the preservative-free research diligently pursued since its founding.

☐ Realignment of Skincare Lines by Customer Age and Problem Area

Whitening
Spots and freckles

Aging care
Sags and wrinkles

Moisturizing
Rough and dry skin

Acne care
Pimples and breakouts

BC
Dry skin, sags, wrinkles, and dull spots

☐ Renewal of All FANCL Cosmetics by 2014

Fall 2012

Mutenka Body Care
Offer optimal solutions for achieving moisture-rich skin based on problem areas at specific parts of the body

Mutenka Hair Care
Foster healthy hair by maintaining ideal moisture balance between hair and scalp

Mutenka Baby Care
Emphasize gentleness and safety that mothers can trust, with a focus on ceramide, a chemical compound important for infants

Fall 2013

Mutenka Makeup
Leverage skincare concepts (technology) to offer makeup that enables and preserves transparent moisture

Mutenka FDR
Mild skincare with excellent moisturizing properties for people with sensitive and atopic skin

Fall 2014

Mutenka Personal Cosmetics
Draw on preservative-free science to the greatest extent possible to offer a new brand that uses skin counseling technology to address individual problem areas

Cosmetics – Sales / Brand

Next I will talk about our sales and brand communication strategies for the cosmetics business.

Sales Strategies

We will revise our communication by sales channel, such as mail-order, retail store and Internet shopping, and provide customer service that is seamless and personalized across channels.

Personal Counseling Program

In tandem with the introduction of our new skincare lines, we also launched a personal counseling program. The FANCL Skin Beauty Check is a service to provide counseling regarding skin's anti-stress and beauty levels, conducted through medical interviews and skin checkups based on FANCL's unique preservative-free concept. Customers can use the service through any sales channel, including the Internet, directly operated retail stores, and telephone-order services. Data on the results of each person's counseling and their purchase history is managed in a seamless way across channels, allowing FANCL to suggest recommended products and skincare methods anywhere and at any time. More detailed counseling is provided at directly operated retail stores, utilizing special equipment. Specifically, we use a tablet computer equipped with digital beauty charts to suggest ideal products and skincare methods.

New Store Design

FANCL has developed and is steadily implementing a new store design to facilitate the Personal Counseling Program.

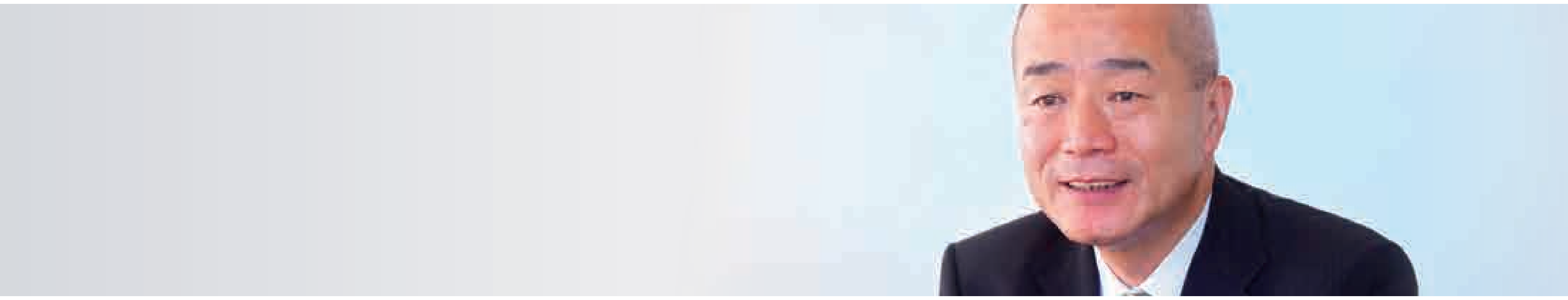
There are two types of new store design, envisioned primarily for the cosmetics floors of urban department stores. The "full counseling style" allows staff to provide counseling sales of cosmetics in a casual and relaxed atmosphere. The "self & counseling style," meanwhile, emphasizes sales of all FANCL products, including cosmetics and health products. At present, we have opened 16 new stores, mainly in department stores in the Tokyo metropolitan area, and plan to renovate 188 stores with the new design schemes by fiscal 2015.

Brand Communication Strategies

As I noted previously, FANCL redesigned its corporate logo and formulated a new Brand Statement. To enhance recognition and promote the new brand, we are being more aggressive with advertising than we have been in the past, and will make a concerted effort to acquire new customers.

At the same time that we introduced the new skincare lines, we also revamped the FANCL general website. This website introduces the concepts and commitments of each business, along with products and research results, in order to convey to all stakeholders the global outlook of our businesses and our business activities.

We will conduct a large-scale promotional campaign in fiscal 2013 to publicize the launch of our new skincare lines. The campaign will center on spot advertising on television, together with other media including magazines, newspapers, and transportation ads. We will also offer trial skin beauty checks and counseling events for more than 300,000 consumers nationwide, in order to attract customers to our nationwide network of retail stores and website.



Sales Strategy

Develop a Personal Counseling Program Seamlessly Across Channels

☐ FANCL Skin Beauty Check

Check skin's anti-stress and beauty levels to offer personal counseling proposing optimal skincare lines and care approaches

Internet
Check and receive skin beauty results anytime

Directly operated stores
Receive detailed skin beauty information using special equipment

Telephone order service
Determine skin beauty level and ask personal advice from a Beauty Advisor

At directly operated retail stores, FANCL uses special equipment and tablet computers equipped with digital beauty charts to offer more detailed counseling and suggest ideal skincare products and methods.

☐ New Store Design

Full Counseling Style
Design focused on counseling sales of cosmetics
Introduce on cosmetics floors of department stores in large urban areas

Self & Counseling Style
Design focused on sales of all FANCL products (cosmetics and health foods)
Add counseling function based on location and customer base

Brand Communication Strategy

Advertise in all media formats and approach customers using cosmetics other than FANCL

FANCL
Nothing but Beauty

Advertising investment (FY2013):

¥5.4 billion
(up ¥1.2 billion year on year)

Advertising investment will remain at the same level for FY2014

Nutritional Supplements

FANCL has exerted a strong presence in the fiercely competitive health products market up to now mainly by adopting a price-slashing strategy. However, changes in the market in recent years have made this strategy less effective, and it became apparent that we had no alternative approach to provide new value.

Recognizing this issue, in order to realize our long-term vision of "Good Aging," or maintaining good physical and mental health, we decided to rebrand the health products businesses (nutritional supplements, kale juice and germinated brown rice) as "FANCL Health Science" starting in January 2013, and revise and update our health philosophy, sales methods, and products.

The FANCL Original Health Philosophy

Boosting the body's natural strength and maintaining an overall health balance is important to realizing "Good Aging." However, many people today rapidly lose their natural strength as a result of nutritional deficiencies, stress, aging and other factors, and suffer a breakdown in their health balance. FANCL's aim is to provide customers with products that focus on three types of components—"base components" to boost the body's natural strength, "anti-aging components" to mitigate the aging process, and "support components" to establish a health balance—and, in doing so, achieve "Good Aging" for its customers. This is FANCL's Original Health Philosophy.

Based on this philosophy, FANCL will improve customer satisfaction by providing added-value services not available from other companies.

Sales Methods

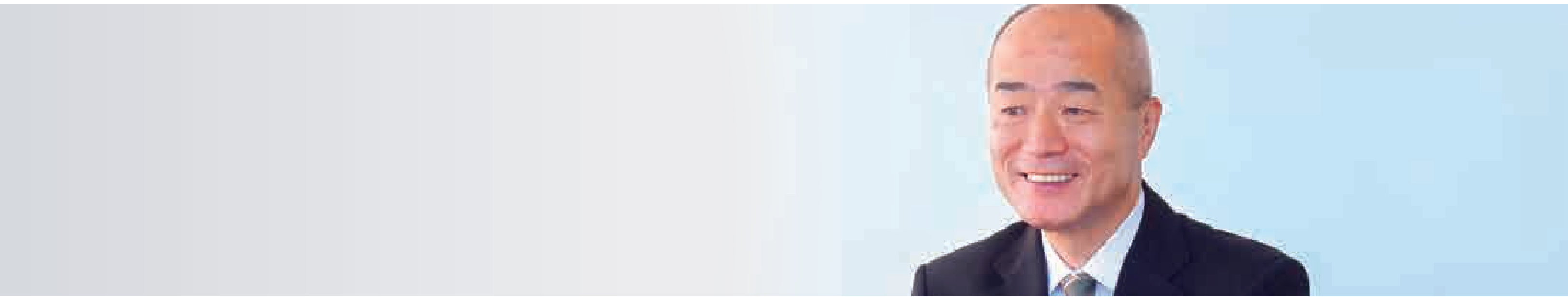
FANCL pursues research in preventative medicine. We operate the FANCL Wellness Counseling Clinic to provide leading-edge supplements and health services specialized for preventative medicine, and have maintained ongoing sales of FANCL CLINICAiD supplements for medical institutions, developed based on advice from doctors.

We plan to draw on the expertise we've gained in the preventative medicine field, and provide it to ordinary customers through diverse sales channels as a personal counseling service. Specifically, we plan to begin providing services in spring 2013 through mail-order sales channels.

Products

In conjunction with its Personal Counseling Service, FANCL will launch two new product lines for middle-aged and older customers. The first is PSG combination supplements. PSG (pre-germinated brown rice-derived steryl glycosides) is a new functional component discovered in germinated brown rice, and is effective for treating lifestyle-related disorders. Utilizing the functionality of PSG to "rejuvenate aged cells," we are introducing supplements to help prevent the aging of intestines and blood vessels, and to enhance the body's natural recovery and resistance. The other new product line is the High Grade vitamin series. Bioavailability, such as the absorption rate and time remaining in the body for drugs and other substances, declines with age. We are launching a highly functional series that enhances bioavailability.

We are also drawing on FANCL's strengths to more aggressively target the women's market, where beauty needs are high. Specifically, in summer 2012, we will launch an improved version of *Calorie Limit*, and, in spring 2013, a new version of *HTC Collagen* with enhanced functionality.



Product Strategy

☐ New Brand Name

FANCL Health Science

Realize "Good Aging," where each customer enjoys the state of health they desire,
as a partner in creating good health across customers' life course

Boosting the body's natural strength and maintaining an overall health balance is important to realizing "Good Aging" (long-term maintenance of good physical and mental health)

Factors that impair health (Stress) → Rapid loss of body's own natural strength ← Aging

Three Perspectives in Approaches to "Good Aging"

Draw out body's natural strength (base components)	Mitigate effects of aging (anti-aging components)	Maintain health balance (support components)

Raise customer satisfaction by offering added-value services not available from other companies, backed by FANCL's Original Health Philosophy.

Sales Strategy

Attract new customers in the women's market, a FANCL strength, where beauty needs are high.

Beauty supplements

Diet supplements

Launch of the new and improved *HTC Collagen* with enhanced functionality in spring 2013

Easier-to-drink powdered drink mix, plus sale of new forms of the product

Launch of new high-performance drinks richly infused with beauty-enhancing ingredients

Sale of the new and improved *Calorie Limit* in summer 2012

Infused with new ingredients for enhanced diet support

Adds more variation to the *Calorie Limit* series

Global Strategy

After establishing operations in Hong Kong in 1996, FANCL advanced into Singapore, Taiwan, China and other Asian markets. Today, FANCL has a network of more than 200 brand stores in Asia, and sells products in the United States under the boscia brand.

Going forward, we will further concentrate efforts in the overseas business in order to establish a position as a Global Premium Brand in line with our long-term vision for the cosmetics business. Specifically, we will unify the FANCL brand globally, and gradually roll out the rebranding of cosmetic products overseas beginning in spring 2013.

In our overseas business development, we will formulate and manage business strategies for each country from a central base in Japan. In the countries where we already operate, we intend to pursue a full-scale mail-order business centered on Internet sales, diversify our network of sales channels, and explore opportunities to enter other markets, principally in Asia.

FANCL will also focus on establishing a foundation for intellectual property, patent applications, risk management and other business essentials, actively investing in human resources in overseas divisions, and building a global personnel management system.

Our basic strategies for specific regions are as follows.

China and Hong Kong

FANCL had 145 stores in the rapidly growing Chinese market at the end of December 2011. We will continue to actively pursue new store openings and establish a position as a premium cosmetics brand.

We are considering several options for the future, including investing in new brands and developing Internet sales. We are further exploring the possibility of entering the supplements market.

Taiwan and Singapore

Sales capacity in Taiwan and Singapore has risen dramatically as a result of efforts to strengthen counseling sales. Sales for the *Skincare* series have also grown.

We plan to set up an Internet sales site in Singapore in fall 2012, and renovate our website in Taiwan at the same time. This will help establish a seamless flow between store and Web operations. We will also focus on enhancing brand and earnings capacity by opening shops in high-end department stores.

United States

In the United States, our business efforts are centered on the boscia brand, a line of natural cosmetics developed to suit the preferences of U.S. consumers. We will expand the number of shops carrying the brand, and explore the possibility of launching new lines. We also have plans for business development in Europe and Asia.

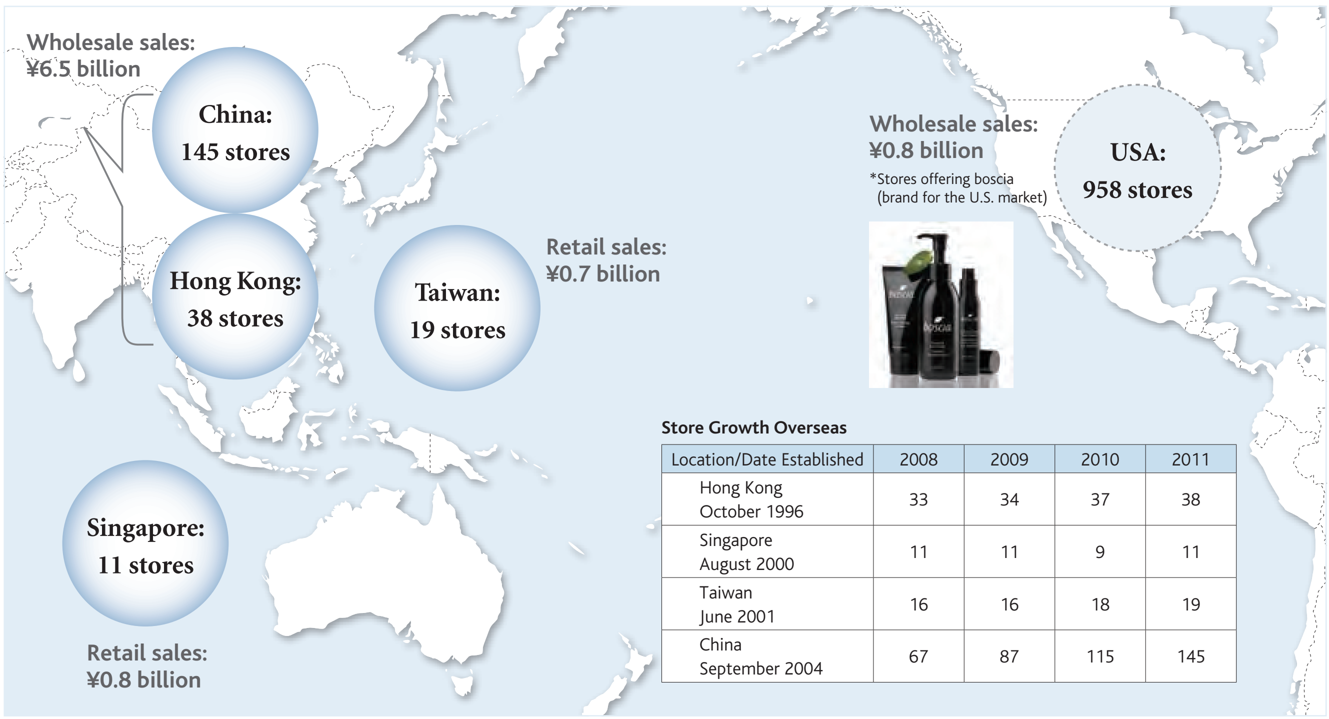
New Markets

In Asia, FANCL is creating a roadmap for entering growth markets such as Malaysia, Vietnam, Thailand and Indonesia.

We have also begun exploring entry into Russia, eastern Europe, and other areas. Russia in particular has an established culture of cosmetics. Interest in skincare is high, and we recognize that there is a strong affinity for the FANCL brand.

Overseas Business

Network of Over 200 Stores Outside Japan as of December 31, 2011



Store Growth Overseas

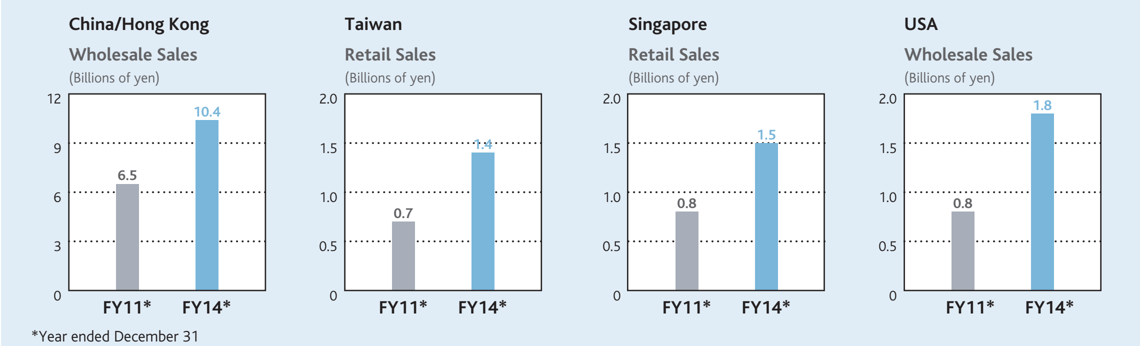
Location/Date Established	2008	2009	2010	2011
Hong Kong October 1996	33	34	37	38
Singapore August 2000	11	11	9	11
Taiwan June 2001	16	16	18	19
China September 2004	67	87	115	145

Successive Start to Cosmetics Rebranding Overseas Beginning Spring 2013

Policy for Overseas Business Activities

- Formulate, manage and develop business strategies for each country from the central base in Japan
- Develop full-scale Internet operations and promote a global, multi-channel approach
- Establish a foundation for intellectual property, patent applications, risk management and other essentials
- Double the workforce in overseas divisions and strengthen coordination and management functions
- Build a global personnel management system

Overseas Sales Growth



*Year ended December 31

Management Base

Next, I would like to describe efforts to strengthen our management base in order to support our business strategies.

Systems

FANCL is stepping up efforts to develop a next-generation customer management system to provide a seamless service that utilizes, to the fullest extent, the strength of the Company's multiple sales channels, including stores, Internet and telephone-order services. The system is already partially operational, and we expect to complete it by fall 2013.

We are also building system platforms that provide flexibility for overseas business expansion and advances in IT technology.

Store Development

As I noted earlier, retail stores are a growing part of our cosmetics sales strategy, and we are planning renovations to create a new store design at 188 locations by fiscal 2015. We anticipate a capital investment of ¥900 million for this development effort.

Cost Reductions

FANCL is reducing costs by ¥1.0 billion over three years by innovating product planning, research, development, procurement and production processes.

Research & Development

FANCL is bolstering its research and development to support future growth.

In the cosmetics business, we are further cultivating preservative-free technologies, establishing original technologies to enhance efficacy, and developing technologies for personalized care.

In the health business, we are developing potential hit products with noticeable health benefits, as well as developing and improving preventative medicine counseling and personal supplements.

Human Resources

The rapid and forceful realization of the overseas business strategies FANCL is planning will require many globally-capable employees and the establishment of internal systems. Accordingly, we are actively selecting and nurturing personnel for global roles and conducting international personnel exchanges.

In the case of Taiwan and Singapore, for example, where FANCL already has a presence, these regions are different from Japan in various ways. I think that overseas expansion following the same business style as in Japan is not the proper direction. To develop FANCL's "preservative-free" brand in a way best suited to a particular country requires local partners and personnel. It is important for us to carefully select and hire local employees, and to create a system to conduct marketing tailored to the region.

At the same time, global personnel need to have the capability to convey to overseas consumers the “value of preservative-free” and the brand loyalty cultivated in Japan. In essence, they need to have a thorough management perspective, as well as an understanding of the culture and characteristics of the region. We plan to nurture and develop personnel with these qualities who are able to adeptly coordinate local operations.

Finally, I would like to share some of my own thoughts on FANCL’s value.

FANCL has maintained a commitment to being absolutely preservative-free, from research and development through manufacture. The gentleness on the skin and the safety provided by “preservative-free” are of considerable value. And while this is widely recognized by Japanese customers in particular, it is just one small aspect of the whole. The concept of “making beauty possible—preservative-free” is the principal “value of preservative-free” that FANCL should seek to convey. The “value of preservative-free” is certainly not something to be experienced only by people in Japan and other limited regions, but should instead be shared around the world. I believe that the mission of FANCL is to more deeply cultivate the “value of preservative-free,” and to foster customers who share this feeling both in Japan and broadly throughout the world. FANCL has taken a new first step toward growth, with the aim of securing a position as a Global Premium Brand. We appreciate your continued support as we move forward.

Yoshifumi Narimatsu,
C.E.O. and Representative Director

September 2012

“We will drive FANCL’s rebranding

“FANCL’s *Mutenka Skincare* line embodies the new concept of beautifying bare skin. We are confident that these cosmetics have the quality needed to provide full beauty support for large numbers of women.

The “skin beautification” concept means that our cosmetics not only avoid putting any stress on the skin, but now enhance skin health every time they are used by removing skin damage itself. We intend to communicate this concept in Japan and the rest of the world, and will continue to refine these products so that people will be glad they remained loyal users of preservative-free cosmetics.”

NAOTAKA HATAMOTO
Manager, Product Planning Group No. 3, Cosmetics Business Department

“Extensive research over many years has revealed the fact that the root cause of skin problems is skin stress. Our skincare line has Malvidin-containing flower extract, an ingredient that has the power to beautify bare skin. These products were developed in the course of directly addressing the root cause of skin problems.

We also paid close attention to how our skincare line feels when used and the product packaging. This is to ensure that customers can better appreciate how the product will benefit their skin, in addition to merely conveying the ingredients.”

AKI KOTAKA
Manager, Prescription Development Group No. 1, Cosmetics Research Institute

program forward.”

“I am currently taking part in training on the rebranding program, which is already off to a great start in Japan.

We aim to have customers appreciate the “value of preservative-free” concept, which means that beauty can be achieved through the use of preservative-free cosmetics. To do so, we must first develop a proper understanding of the products ourselves. From there, we intend to promote the “value of preservative-free” concept around the world.”

ELAINE LOW
Singapore Marketing Manager

“Ever since the new *Mutenka Skincare* line was launched, customers have actually felt that the more they use these products, the more the health of their skin improves. Customers have noted that the product permeates the skin quickly, and has an immediate moisturizing effect, and that their skin has become softer.

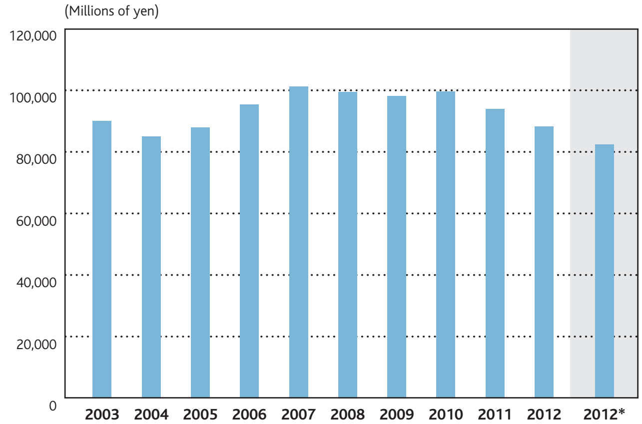
We also provide regular skin beauty checks that have delighted customers. Customers have told us that the tests have helped them to understand which product line they need at the present. They have also expressed satisfaction with being able to see photographs of the condition of their skin on previous visits.”

MIYAKO NAGAOKA
Manager, Ofuna LUMINE WING Store

Business Overview

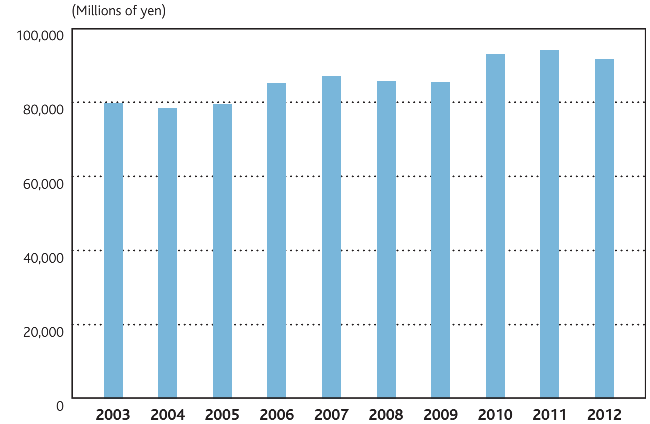
The FANCL Group comprises 16 subsidiaries and three affiliates. Its principal business is the manufacture and sale of cosmetics and nutritional supplements. Sales are conducted through three main channels: mail order (including online sales), directly operated retail stores, and wholesale.

Net Sales
(Millions of yen)



*Data exclude the effects of IIMONO OHKOKU on consolidated performance

Total Assets
(Millions of yen)



Net sales in fiscal 2012 (ended March 31, 2012) amounted to ¥88,165 million, down 6.0% from the previous fiscal year. This was due mainly to the modification or suspension of certain marketing campaigns in the wake of the Great East Japan Earthquake, Chinese government restrictions on food product imports, and the ownership transfer of the IIMONO OHKOKU Mail-Order Business. Total net assets for the period amounted to ¥91,739 million (down 2.4% year on year).

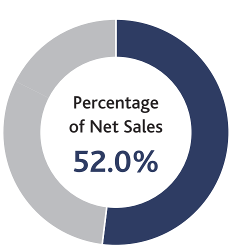
Cosmetics Business

FANCL Cosmetics sells preservative-free cosmetics, with mail-order, retail store and wholesale sales as the primary sales channels.
ATTENIR Cosmetics is a cosmetics company focused mainly on mail-order sales of high-quality, low-cost products.

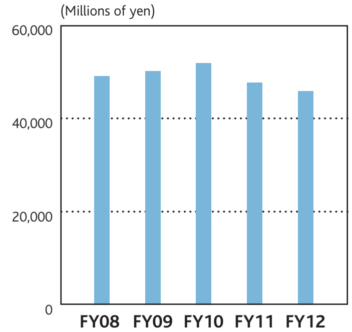
MOISTURIZING | AGING CARE | WHITENING | ACNE CARE | BC LINE | ATTENIR Cosmetics

Cosmetic Business sales in fiscal 2012 declined 3.9% year on year to ¥45,824 million, accounting for 52% of net sales.

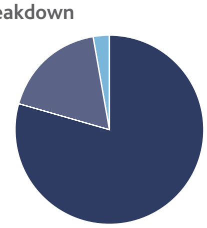
Net Sales Composition



Five-year Trend
(Millions of yen)

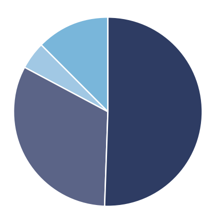


Cosmetics Business Breakdown



FANCL Cosmetics	79.5%
ATTENIR Cosmetics	17.9%
Others	2.6%

Sales Channel Breakdown



Mail-Order Sales	50.6%
Retail Store Sales	32.3%
Wholesale Sales	4.6%
Overseas Sales	12.5%

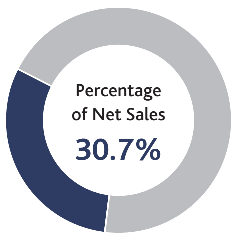
Nutritional Supplements Business

FANCL sells an array of products as the leader in Japan's nutritional supplements market. The Company's original lineup of beauty and diet supplements enjoys a particularly strong following among female consumers.

HTC Collagen | Calorie Limit | Multivitamin & Mineral | Coenzyme Q10 | Calcium | Joint Support | Vision Support

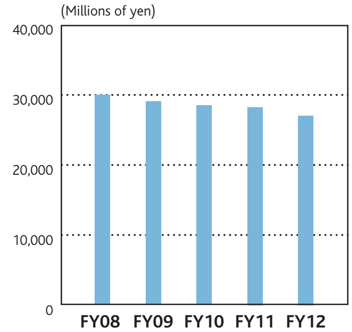
In fiscal 2012, sales in the Nutritional Supplements Business declined 4.3% year on year to ¥27,037 million, and accounted for 30.7% of net sales.

Net Sales Composition

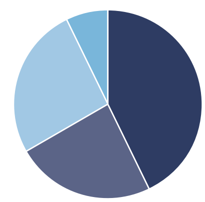


Five-year Trend

(Millions of yen)



Breakdown by Sales Channel



Mail-Order Sales	42.8%
Retail Store Sales	24.0%
Wholesale Sales	26.0%
Overseas Sales	7.2%

Germinated Brown Rice, Kale Juice and Other Businesses

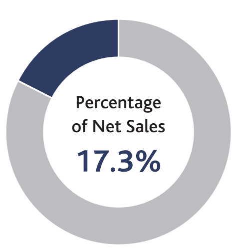
Operations in this segment include the production and sale of germinated brown rice and kale juice, mail-order sales of lifestyle goods, undergarments and other merchandise, and the beauty salon business.

Germinated Brown Rice Cereal Bars | Germinated Brown Rice | Kale Juice | Frozen Kale Juice

Sales in fiscal 2012 declined 14.3% year on year to ¥15,304 million, and accounted for 17.3% of net sales.

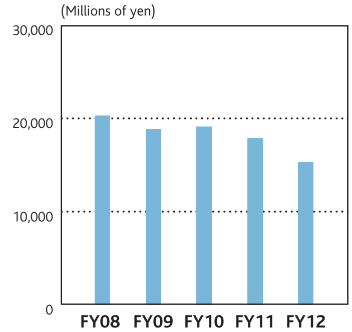
Note:
The IIMONO OHKOKU Mail-Order Business was sold on February 1, 2012. Accordingly, the ¥5,667 million in net sales for this business reflects the performance between April 1, 2011 and January 31, 2012.

Net Sales Composition

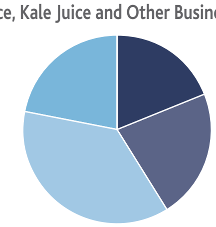


Five-year Trend

(Millions of yen)



Breakdown of Germinated Brown Rice, Kale Juice and Other Businesses



Germinated Brown Rice	19.1%
Kale Juice	22.1%
IIMONO OHKOKU Mail-Order Business*	37.0%
Other Businesses	21.8%

Directors and Officers

(As of June 16, 2012)

Directors

left: **Chairman and Representative Director**

Kazuyoshi Miyajima

2001 Joined FANCL Corporation

2003 Managing Director in Charge of Office of President and Head of Office of President, FANCL Corporation

2008 Chairman and Representative Director, FANCL Corporation (Current)

right: **C.E.O. and Representative Director**

Yoshifumi Narimatsu

1993 Joined FANCL Corporation

1999 Executive Officer and General Manager of Food Business Department, FANCL Corporation

2002 Managing Director, General Manager of Sales Division No. 2 and Head of Cosmetics Business Department, Sales Division No. 2

2008 C.E.O., Representative Director, FANCL Corporation

2012 C.E.O. and Representative Director and General Manager of Overseas Business Division, FANCL Corporation (Current)

Executive Managing Officers and Directors

Kazuyuki Shimada

2003 Joined FANCL Corporation

2007 Executive Officer and Director, General Manager of Corporate Strategy Division and Head of Corporate Planning Department, FANCL Corporation

2011 Executive Managing Officer and Director, and General Manager of Administration Division, FANCL Corporation (Current)

Haruki Murakami

2004 Joined FANCL Corporation

2008 Executive Officer and Director, and President of Health Food Company, FANCL Corporation

2011 Executive Managing Officer and Director, and General Manager of Corporate Communication Division, FANCL Corporation (Current)

Executive Officers and Directors

Kenichi Sugama

1990 Joined FANCL Corporation

2004 Executive Officer and Director, and General Manager of Cosmetics Business Division, FANCL Corporation

2007 Executive Officer and Director, and General Manager of Retail Sales Division, FANCL Corporation

2009 Executive Officer and Director, President of Retail Company, and General Manager of Overseas Business Promotion Department, FANCL Corporation

2010 Executive Officer and Director, and General Manager of Sales Division, FANCL Corporation (Current)

Mayuko Yamaoka

1995 Joined FANCL Corporation

2008 Executive Officer and Director, and President of Cosmetics Company, FANCL Corporation

2011 Executive Officer and Director, and General Manager of Business Development Promotion Division, FANCL Corporation (Current)

Toru Tsurusaki

2005 Joined FANCL Corporation

2010 Executive Officer and Director, General Manager of Business and Product Strategy Division, and Head of Supplement Business Department, FANCL Corporation

2011 Executive Officer and Director, and General Manager of Product Strategy Division, FANCL Corporation (Current)

Directors

Jyunji Iida

1992 Joined FANCL Corporation

2007 Director, FANCL Corporation (Current)

Akihiro Yanagisawa

1993 Joined FANCL Corporation

2010 Director, FANCL Corporation (Current)

Norito Ikeda*[1]

2003 Director, The Bank of Yokohama, Ltd. and Chairman and Representative Director, Yokohama Capital Co., Ltd.

2003 President and Chief Executive Officer, The Ashikaga Bank, Ltd. (Representative Director)

2009 Director, FANCL Corporation (Current)

Statutory Auditors

Seiichiro Takahashi

2004 Joined FANCL Corporation

2012 Statutory Auditor, FANCL Corporation (Current)

Akira Tobishima*[2]

1985 President, Tobishima Corporation (Construction)

2005 Statutory Auditor, FANCL Corporation

2006 Statutory Auditor, Ryoyo Electro Corporation and Statutory Auditor, Yozan, Inc.

2009 Full-time Statutory Auditor, FANCL Corporation (Current)

Katsunori Koseki*[2]

1986 Registered with the Tokyo-Chiho Certified Public Tax Accountants Association

1989 Established the Katsunori Koseki Certified Public Tax Accountant Office (Current)

1996 Statutory Auditor, FANCL Corporation (Current)

Masako Maeda*[2]

2003 Deputy Mayor of the City of Yokohama

2009 Statutory Auditor, FANCL Corporation (Current)

2010 Professor, Hirao School of Management, Konan University

Executive Officers

Yasushi Sumida

Norihiro Shigematsu

Yoshihisa Hosaka

Yoshiyuki Nishi

Mitsuko Yazaki

*[1] Outside director
*[2] Outside statutory auditor

Corporate Governance

FANCL regards the enhancement of corporate governance as an important management issue in gaining the trust of shareholders and other stakeholders. Our basic policy is to achieve business efficiency and transparency through rigorous adherence to corporate ethics and relevant laws, and through enhancements to our internal control system, including risk management.

Corporate Governance Structure

Company with a Board of Statutory Auditors

FANCL has adopted the Company with a Board of Statutory Auditors system. One outside director and three outside statutory auditors have been appointed to provide opinions and recommendations from diverse points of view, introducing an outside perspective that we utilize in the conduct of management. The auditing structure is further strengthened and enhanced through coordination between the Board of Statutory Auditors and the Internal Audit Office. Accordingly, we believe that the current system is the most rational framework in terms of enhancing the effectiveness of FANCL's corporate governance.

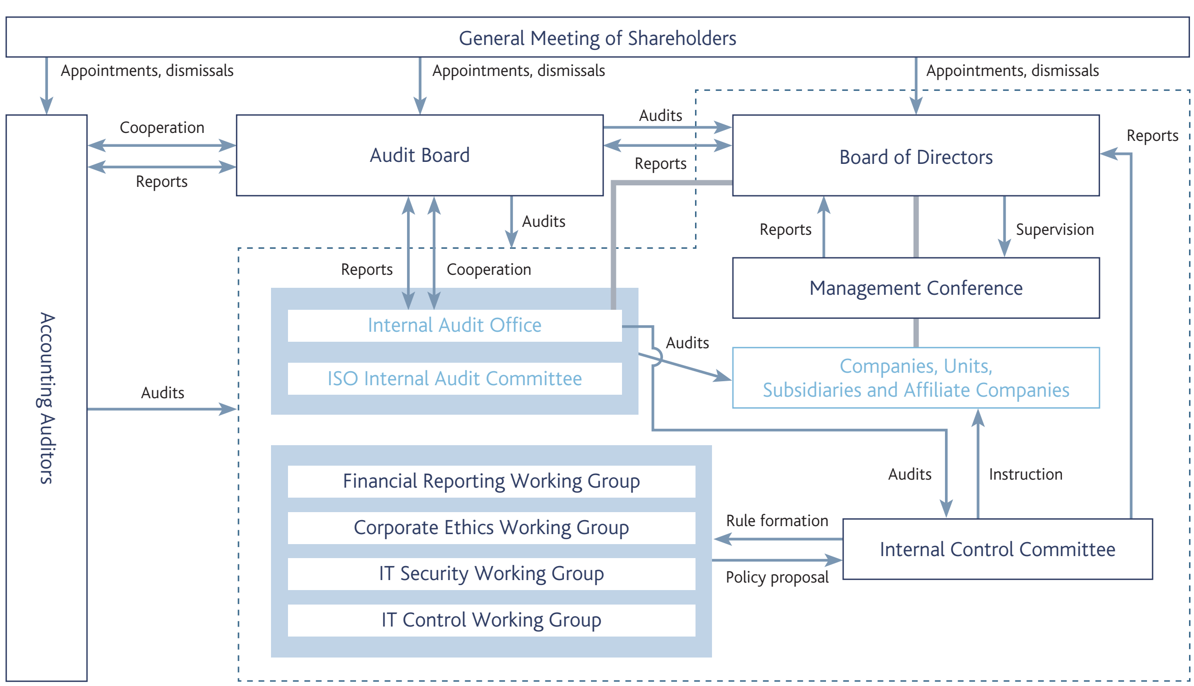
FANCL has also introduced the executive officer system. The term of office for directors is one year.

Statutory Auditors

FANCL has adopted the statutory auditor system. Three of the four statutory auditors are from outside the Company. Statutory auditors attend meetings of the Board of Directors, Management Conferences and other important meetings, expressing opinions as necessary in order to enhance the effectiveness of auditing regarding management's decision making. Auditors also exchange opinions with senior management on a regular basis, providing an impartial management monitoring system.

* Statutory auditors conduct both operational audits regarding whether the directors are executing their duties in compliance with the law and the Articles of Incorporation, and also accounting audits regarding the appropriateness of financial documents. The statutory auditors are appointed by the General Meeting of Shareholders.

Corporate Governance System



Board of Directors

The Board of Directors comprises 10 directors, one of whom is an outside director. The board makes decisions on important issues regarding the execution of business and other statutory matters and receives reports on and supervises the status of execution of business at the Company and its subsidiaries.

Management Conference

The Management Conference comprises directors, statutory auditors, and executive officers. The Management Conference conducts preliminary deliberations on matters for decision by the Board of Directors, and deliberates on important matters regarding management, within the scope of authority granted by the Board of Directors.

Executive Compensation

Directors' Compensation

The compensation of directors comprises a base remuneration and compensation at the time of retirement (stock compensation-type stock options).

The base remuneration is paid on a monthly basis, with the amount determined by the C.E.O. and Representative Director, with approval from the Board of Directors, according to such factors as whether the director is full or part-time, the position held and other duties, as well as business performance.

The compensation at the time of retirement is intended to provide an incentive for directors to increase shareholder value during their term. It is a stock price-linked compensation paid to directors who concurrently serve as executive officers. The Board of Directors determines the specifics of the share options conferred as follows.

The exercise price per share is set at one yen, and options may only be exercised within ten days after the director's retirement. The number of share options conferred for a single fiscal year is determined by taking an amount obtained by multiplying the director's monthly compensation at the time the options are conferred (base remuneration divided by 12) by a coefficient based on the director's position, and dividing this by a fair price for the share options to be conferred.

Statutory Auditors' Compensation

Compensation for statutory auditors consists of base remuneration only, with the amount determined by agreement with auditors in accordance with their duties and responsibilities.

Fiscal 2012 Compensation Packages for Directors and Statutory Auditors

Recipient	Total compensation (millions of yen)	Total compensation by type (millions of yen)		Number of recipients
		Base remuneration	Stock options	
Directors (excl. outside directors)	263	205	58	7
Statutory auditors (excl. outside statutory auditors)	12	12	–	1
Outside directors and statutory auditors	35	35	–	4

Outside Directors and Statutory Auditors

FANCL appoints outside directors and outside statutory auditors in order to introduce outside perspectives through opinions and recommendations from diverse points of view, and utilize these in management.

Outside directors attend meetings of the Board of Directors from an independent perspective, drawing on their wealth of experience and insight to supervise management from diverse points of view. Outside statutory auditors maintain a framework for conveying information through the full-time statutory auditor, including monthly meetings of the Board of Statutory Auditors. The Internal Audit Office also has a system to coordinate auditing practices with outside statutory auditors.

Message from an Outside Statutory Auditor

Akira Tobishima
Outside Statutory Auditor

Q1. Please tell us about your background.

Since graduating from university, I have spent my entire 40-plus year career working in the private sector.

My experience in business began in export and import operations at a trading company. After that, I worked in the overseas construction contracts business and overseas real estate investment business for a construction company. I worked in the marketing and sales departments at both a property and casualty insurance company and a telecom company as well as the top management of a big company. In these last several years, I have been assigned as a statutory auditor for several companies. FANCL marks my first experience working in the manufacturing sector, but the duties of a statutory auditor are similar across all industries, so I don't feel out of place or sense any particular difficulties.

Q2. How do you view FANCL's corporate governance?

Of the four statutory auditors, each of the three outside auditors has a different background, and we are quite vocal at Board of Directors meetings and other important company meetings. Also, the second half of the monthly auditors' meeting is a chance for us to discuss issues with the C.E.O. and other directors, and we talk about important business initiatives as well as the overall business situation.

I think that an open corporate culture and the willingness of management to listen to differing opinions are important in order to enhance corporate governance.

Q3. What are you particularly conscious of in performing your duties as an outside statutory auditor at FANCL?

For a company to grow, it needs to always try new initiatives. However, there are always possible risks when it tries something new. FANCL is bold in entering overseas markets, establishing new businesses, as well as pushing into new fields through M&A. I personally try to utilize my knowledge and past experiences in other sectors and fields in my role as a statutory auditor of the company.

Q4. What are your hopes for FANCL's business and its business strategy going forward? Also, what are some issues you think the Company faces?

FANCL has not yet developed a third business pillar after the cosmetics and health foods businesses.

It is, however, making efforts to launch new businesses in line with its three-year medium-term management plan, and I hope that we will soon start to see results from these initiatives.

The desire to eliminate such negatives issues as uncertainty and inconvenience from the world has been the driving force for FANCL since its founding. The FANCL Group's CSR activities are also driven by this ideal. We will continue to make a concerted effort as a corporate group with regard to CSR in order to further strengthen our bond with stakeholders.

Global Environment

Customers

Society

The FANCL Group,

to further strengthen the bonds it has built with stakeholders,
will make a concerted effort as a corporate group with regard to CSR activities.
We will also pursue CSR that deepens public trust.

Suppliers

Shareholders

Employees

Our Aspiration

For Customers

We thoroughly address the individual concerns of customers.

Asako Noda
Beauty and Health Consulting Department,
Beauty Consulting Group

For Suppliers

FANCL places great importance on coexistence and mutual prosperity with suppliers.

Yuhei Komine
General Affairs Department, Purchasing Group

For the Global Environment

FANCL, in mutual cooperation with employees and their families, promotes unique eco-activities in which employees can take an active part.

Kenichi Kayama
General Affairs Department, CSR Group

For Shareholders

FANCL strives to provide outstanding hospitality at the General Meeting of Shareholders and other shareholder gatherings.

Toshiyuki Minono
General Affairs Department, General Affairs

For Society

FANCL hosts seminars that community members can take part in and enjoy.

Takashi Yoshino
Safety and Quality Research Center,
Dermatology Group

For Employees

FANCL assists employees in attaining good physical and mental health.

Misuzu Neya
Nurse, HR Planning Group

CSR Topics

Tohoku Beauty and Health Project

FANCL implemented a project to utilize its health and beauty products, and unique technologies, to promote better physical and mental health for all those affected by the Great East Japan Earthquake. We provided beauty services and hand massages, gave out kale juice in affected areas, as well as helped to remove debris, clean houses and prepare meals.

Beauty services in area affected by the earthquake and tsunami
(Rikuzentakata, Iwate Prefecture)

Commended by the Local Community

The environmental activities of an individual employee were recognized by the local community (recipient of the Kanagawa Global Environment Award).

(Right) Kanagawa Prefecture Governor Yuji Kuroiwa
(Left) Kazuyoshi Miyajima, Chairman and Representative Director

R&D

FANCL is known for preservative-free cosmetic products, a new field of cosmetics that we pioneered in Japan. Today, FANCL consistently proposes new value through the development of high-quality cosmetics and nutritional supplements with no additives or other preservatives. Underpinning these value proposition capabilities are FANCL's clear R&D policy and structure.

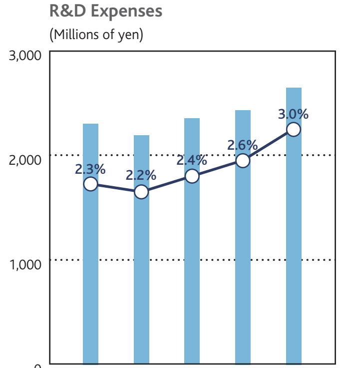
R&D Basic Policy and Structure

FANCL began by selling preservative-free cosmetics by mail order, and has continued to offer new products, including, in the health foods field, a range of supplements with exceptional functionality, kale juice, and germinated brown rice.

Underlying these business activities is FANCL's universal corporate philosophy of eliminating such negatives as dissatisfaction, uncertainty and inconvenience from the world. It is the driving force for FANCL as an R&D-oriented company.

Eliminating negatives from the world requires that we consistently deliver products that offer true value to customers. Ideas that defy conventional wisdom and a cutting-edge technical approach are essential to achieve this.

The FANCL Research Institute plays a pivotal role in this effort. Through key technological research and product development for cosmetics, nutritional supplements, germinated brown rice and kale juice, the Institute pursues research on safety and functionality, with an emphasis on safety, and conducts evidence-based product development. We use a special system to collect and analyze the feedback received directly from our consultation service and incorporate this into product development. The Institute is involved in a broad range of research activities, including joint projects with many different research institutions in Japan and abroad, and participates in collaborative projects involving industry, government and academic partners. FANCL's research staff of 138 people includes scientists with doctorate degrees in fields such as agriculture, pharmaceuticals, and other sciences, and we plan to reinforce our R&D framework through additional hires and other means going forward. Total R&D expenses in fiscal 2012 amounted to ¥2,647 million.



R&D Activities by Business Segment

FANCL R&D activities by business segment are highlighted below.

(1) Cosmetics Business

The Cosmetics Business conducts a broad range of research relating to product development for FANCL Cosmetics and ATTENIR Cosmetics, from exploratory research on materials to research on safety and efficacy and development of formulations and containers.

For FANCL Cosmetics, we are working toward further advancements in preservative-free technologies to prevent skin problems, an area in which we have continued since our founding, as well as actively conducting research to generate and sustain beautiful skin for a lifetime.

R&D expenses in this segment in fiscal 2012 amounted to ¥1,347 million.

(2) Nutritional Supplements Business

The Nutritional Supplements Business conducts R&D in the two areas of health and beauty. Research during fiscal 2012 included the commercialization of "*Hyakunen no Kenjin—Cistanche Deserticola*," a supplement to boost the body's natural resistance, which declines with age.

R&D expenses in this segment in fiscal 2012 amounted to ¥1,172 million.

(3) Other Businesses

The Other Businesses segment conducts R&D centered on germinated brown rice and kale juice. Research during fiscal 2012 included the commercialization of "*Germinated Brown Rice Cereal*" in the germinated brown rice business, and the renewal of *Beauty Green* in the kale juice business.

R&D expenses in this segment in fiscal 2012 amounted to ¥128 million.

R&D-Related Data

	FY2012	FY2011	FY2010	FY2009	FY2008
R&D expenses (Millions of yen)	2,647	2,429	2,351	2,189	2,302
Ratio to sales	3.0%	2.6%	2.4%	2.2%	2.3%
No. of researchers	138	134	134	128	121
No. of patent applications in Japan	50	57	55	62	42

* Any of the 102 ingredients that could cause dermatitis or other allergic reactions that companies were required to include on package labeling until March 2001. Current laws require all ingredients—including these 102—to be displayed on product labels.

Financial Section

Eleven-year Summary

FANCL CORPORATION and Consolidated Subsidiaries
For the years ended March 31

					Millions of yen	
	2012	2012 (Note 3)	2011	2010	2009	2008
For the year:						
Net sales	**¥88,165**	¥82,354	¥93,790	¥99,537	¥98,004	¥99,350
Cosmetics	**45,824**	45,688	47,678	51,902	50,081	49,062
Nutritional supplements	**27,037**	27,028	28,248	28,492	29,089	30,017
Others	**15,304**	9,637	17,864	19,142	18,834	20,271
Net sales, by sales channel						
Mail-order sales	**46,342**	40,451	50,318	53,259	54,680	56,301
Retail store sales	**22,252**	22,252	23,696	24,992	26,307	27,530
Wholesale and overseas	**19,571**	19,650	19,775	21,286	17,017	15,519
Gross profit	**58,997**	55,941	61,842	66,453	65,281	66,988
Gross profit margin (%)	**66.9**	67.9	65.9	66.8	66.6	67.4
Selling, general and administrative expenses	**54,980**	51,848	54,725	57,294	58,615	59,521
Selling, general and administrative expense ratio (%)	**62.4**	63.0	58.3	57.6	59.8	59.9
Operating income	**4,017**	4,093	7,118	9,159	6,666	7,467
Cosmetics	**4,685**	4,638	7,098	7,946	6,762	7,409
Nutritional supplements	**1,584**	1,579	2,125	3,250	2,929	3,506
Others	**(587)**	(460)	(506)	(488)	(981)	(1,385)
Operating income margin (%)	**4.6**	5.0	7.6	9.2	6.8	7.5
Net income	**2,454**	1,845	2,850	4,307	2,663	3,694
Net income to net sales (%)	**2.8**	2.2	3.0	4.3	2.7	3.7
ROE (%)	**3.1**	–	3.7	5.8	3.8	5.3
Advertising expenses	**¥ 8,540**	¥ 7,847	¥ 8,231	¥ 7,971	¥ 8,963	¥ 9,876
Sales promotion expenses	**10,861**	9,540	11,241	11,461	12,434	12,509
Research and development expenses	**2,647**	–	2,429	2,351	2,189	2,302
Capital expenditures	**4,001**	–	3,652	1,511	3,905	2,317
Depreciation and amortization	**3,438**	–	2,971	3,158	3,167	3,020
Net cash provided by operating activities	**¥ 6,322**	–	¥ 6,311	¥10,532	¥ 6,005	¥ 7,379
Net cash used in investing activities	**(7,009)**	–	(922)	(3,555)	(1,518)	(672)
Net cash provided by (used in) financing activities	**(2,316)**	–	(2,278)	432	(1,770)	(6,036)
Net increase (decrease) in cash and cash equivalents	**(3,049)**	–	3,059	7,670	2,672	650

					Yen	
Per share:						
Net income	**¥ 37.8**	¥ 28.4	¥ 43.9	¥ 68.3	¥ 43.5	¥ 58.4
Equity (Note 2)	**1,209.1**	–	1,205.3	1,188.3	1,155.7	1,141.6
Cash dividends	**34.0**	–	34.0	34.0	34.0	24.0

					Millions of yen	
At year-end:						
Total assets	**¥91,739**	–	¥94,030	¥92,983	¥85,309	¥85,686
Equity (Note 2)	**78,454**	–	78,270	77,137	70,823	69,900
Equity ratio (%)	**85.5**	–	83.2	83.0	83.0	81.6
Interest-bearing debt	**–**	–	–	–	–	–
Working capital	**38,675**	–	36,153	35,262	36,669	36,049

Number of stores	**193**		195	194	197	218
Number of consolidated subsidiaries	**7**		7	8	7	7

2007	2006	2005	2004	2003	2002
¥101,065	¥ 95,322	¥87,937	¥84,957	¥90,026	¥84,657
46,376	41,287	37,098	34,926	37,155	36,748
31,666	33,246	31,132	29,656	29,211	28,995
23,023	20,789	19,707	20,375	23,660	18,914
58,921	57,237	54,544	54,439	59,334	56,821
26,815	23,607	20,067	17,722	17,744	17,073
15,329	14,478	13,326	12,796	12,948	10,763
67,170	62,083	57,905	55,696	58,982	56,682
66.5	65.1	65.8	65.6	65.5	67.0
58,800	53,508	52,477	47,927	47,456	45,564
58.2	56.1	59.7	56.4	52.7	53.9
8,370	8,575	5,428	7,769	11,526	11,118
7,133	5,568	4,745	6,283	8,099	8,406
3,903	5,405	4,638	5,371	6,879	5,960
(898)	(762)	(1,967)	(1,821)	(1,646)	(1,681)
8.3	9.0	6.2	9.1	12.8	13.1
2,547	5,184	1,710	3,387	6,429	5,995
2.5	5.4	1.9	4.0	7.1	7.1
3.6	7.5	2.6	5.1	9.8	9.7
¥ 9,393	¥ 9,792	¥11,105	¥ 9,865	¥ 9,262	¥10,213
13,502	9,319	9,475	7,998	8,615	8,161
2,327	1,978	1,959	1,720	1,683	1,524
3,865	2,592	2,257	4,864	5,397	3,589
2,670	2,540	2,463	2,556	2,268	2,245
¥ 6,472	¥ 9,163	¥ 4,638	¥ 5,861	¥ 9,828	¥ 7,426
(1,734)	(10,280)	(4,807)	(4,117)	(5,582)	(5,416)
(2,495)	(22)	(1,090)	(4,533)	(5,432)	(2,456)
2,243	(1,139)	(1,254)	(2,809)	(1,213)	(437)

¥ 39.6	¥ 242.6	¥ 80.3	¥ 154.6	¥ 279.5	¥ 307.6
1,116.6	3,317.0	3,111.2	3,082.4	2,976.3	3,320.2
24.0	55.0	50.0	42.5	35.0	25.0

¥86,931	¥85,148	¥79,416	¥78,479	¥79,804	¥79,026
71,449	71,406	66,203	65,613	66,350	64,719
82.2	83.9	83.4	83.6	83.1	81.9
–	–	–	–	350	1,092
36,701	33,037	28,622	29,214	29,805	31,082

218	208	169	143	144	133
6	6	6	6	6	4

Notes:

1. As a service to customers, FANCL operates a points system whereby customers are refunded 5% of their mail orders or FANCL retail store purchases (inclusive of tax) as reward points. Customers can redeem these points, with 1 point equal to 1 yen, toward future purchases.

   Through fiscal 2006, these points were recognized as a cost when used and deducted from sales as an effective discount. However, from fiscal 2007, points will be booked as selling, general and administrative (SG&A) expenses when they are issued to customers. Accordingly, while amounts related to this points system in fiscal 2006 and prior years were charged as extraordinary losses, amounts associated with this change were booked as SG&A expenses in fiscal 2007.

   Compared to the previous accounting method, this change resulted in increases of ¥4,000 million in net sales, ¥3,717 million in SG&A expenses, and ¥283 million in ordinary income, as well as a decrease of ¥1,849 million in income before income taxes in fiscal 2007.

   As for operating results for fiscal 2007, the impact of the aforementioned change in accounting standards will be excluded from actual changes for line items from net sales through operating income.

2. Presented as shareholders' equity until fiscal 2006. Presented as equity from fiscal 2007 due to a change in accounting standards.

3. On February 1, 2012, FANCL released IIMONO OHKOKU Co., Ltd. from consolidation. To ensure the most accurate analysis, figures have been calculated as if IIMONO OHKOKU Co., Ltd. had remained a consolidated subsidiary.

Management's Discussion and Analysis

Business Overview and Basic Strategies

The FANCL Group comprises FANCL Corporation, 16 subsidiaries and three affiliates. Its principal business is the manufacture and sale of cosmetics and nutritional supplements. Sales are conducted through three main channels: mail order (including online sales), directly operated retail stores, and wholesale.

Cosmetics Business

FANCL's cosmetic products have so far earned a strong reputation in Japan as being gentle on the skin, safe, and worry-free. However, FANCL has been unable to adequately convey the value offered by its insistence on the concept of "preservative-free" from research through to production. In March 2012, we launched a rebranding program for FANCL Cosmetics that highlights the core value of "making beauty possible—preservative-free," with the aim of establishing FANCL as a "global premium brand." In terms of our product strategy, we will fully revamp all FANCL Cosmetics products by the fiscal year ending March 2015. By the same fiscal year, we also aim to launch Mutenka Personal Cosmetics, a line that represents the culmination of preservative-free technologies amassed by FANCL since its founding. Furthermore, we seek to establish a new "preservative-free" worldview by actively placing advertisements and renewing advertising expressions, along with disseminating information from the newly unveiled comprehensive FANCL website.

Nutritional Supplements Business

As a partner in creating good health across customers' life course, the Nutritional Supplements Business seeks to provide products and services that help to fulfill customers' desire for "Good Aging"—the continuation of good physical and mental health over many years. Our goal is to help each customer achieve the state of health that they seek.

In the Nutritional Supplements Business, our brand image has been widely dispersed and spread thin across our multiple businesses. In response, we will clearly separate our brands for cosmetic products and those for health-related businesses, including the germinated brown rice and kale juice businesses. In January 2013, the Nutritional Supplements Business will change its brand name to "FANCL Health Science" with the aim of winning middle-aged and older customers, who are the primary users of our nutritional supplements. In terms of our product strategy, we will use the changing of our brand name as an opportunity to launch nutritional supplement products made from FANCL's proprietary ingredients for middle-aged and elderly customers. These products will be developed into our core products for this market segment. FANCL will also continue to nurture its mainstay beauty and dietary supplement products, which have long been an area of strength, into star products. This will be achieved by revamping these products.

Germinated Brown Rice, Kale Juice and Other Businesses

In addition to the foregoing, our businesses also include the manufacture and sale of germinated brown rice; the consigned manufacture and sale of kale juice; the mail-order sales business for household goods, undergarments and other products; and the beauty salon business.

In the Germinated Brown Rice Business, FANCL will continue working to reduce costs, while enhancing profitability through marketing initiatives that promote the value of maintaining good health at home.

In the Kale Juice Business, we will work to enhance profitability through marketing initiatives touting the high nutritional content of kale juice due to the large volume of fresh leaves used, and the development of kale juice products with even higher nutritional content.

Cosmetics Business

	Millions of yen				
	2013 (plan)	**2012**	2012*1	2011	2010
Net sales	***¥48,700***	**¥45,824**	¥45,688	¥47,678	¥51,902
FANCL Cosmetics	***38,574***	**36,407**	36,200	37,453	40,780
ATTENIR Cosmetics	***8,219***	**8,219**	8,219	8,790	9,469
Others	***1,906***	**1,199**	1,270	1,436	1,653
Gross profit	***35,400***	**33,632**	33,480	34,798	38,315
Gross profit margin	***72.7%***	**73.4%**	73.3%	73.0%	73.8%
Selling, general and administrative expenses	***31,110***	**28,947**	28,842	27,700	30,369
Advertising expenses	***5,390***	**4,238**	4,214	3,597	4,064
Operating income	***4,290***	**4,685**	4,638	7,098	7,946
Operating income margin	***8.8%***	**10.2%**	10.2%	14.9%	15.3%

	Customers				
Number of active customers*2 at fiscal year-end:					
FANCL cosmetics (Mail order and retail store)	–	**1,191,570**	–	1,247,110	1,303,977
ATTENIR cosmetics (Mail order)	–	**368,142**	–	422,040	462,211

*1 On February 1, 2012, FANCL released IIMONO OHKOKU Co., Ltd. from consolidation. To ensure the most accurate analysis, figures have been calculated as if IIMONO OHKOKU Co., Ltd. had remained a consolidated subsidiary.
*2 Active customers: Customers making at least one purchase during the preceding seven months.

Nutritional Supplements Business

	Millions of yen				
	2013 (plan)	**2012**	2012*[1]	2011	2010
Net sales	***¥28,400***	**¥27,037**	¥27,028	¥28,248	¥28,492
Gross profit	***19,140***	**18,304**	18,294	18,664	19,420
Gross profit margin	***67.4%***	**67.7%**	67.7%	66.1%	68.2%
Selling, general and administrative expenses	***17,380***	**16,720**	16,715	16,539	16,170
Advertising expenses	***3,110***	**2,941**	2,939	2,943	2,110
Operating income	***1,760***	**1,584**	1,579	2,125	3,250
Operating income margin	***6.2%***	**5.9%**	5.8%	7.5%	11.4%

	Customers				
Number of active customers*[2] at fiscal year-end:					
Mail order and retail store	–	**928,629**	–	1,052,012	896,959

*1 On February 1, 2012, FANCL released IIMONO OHKOKU Co., Ltd. from consolidation. To ensure the most accurate analysis, figures have been calculated as if IIMONO OHKOKU Co., Ltd. had remained a consolidated subsidiary.

*2 Active customers: Customers making at least one purchase during the preceding seven months.

Germinated Brown Rice, Kale Juice and Other Businesses

	Millions of yen				
	2013 (plan)	**2012**	2012*[1]	2011	2010
Net sales	***¥9,900***	**¥15,304**	¥9,637	¥17,864	¥19,142
Germinated brown rice	***3,000***	**2,917**	2,917	2,988	3,105
Kale juice	***3,400***	**3,377**	3,378	3,682	3,783
IIMONO OHKOKU mail-order	–	**5,667**	–	7,418	8,016
Others	***3,500***	**3,343**	3,342	3,775	4,237
Gross profit	***4,290***	**7,061**	4,166	8,380	8,718
Gross profit margin	***43.3%***	**46.1%**	43.2%	46.9%	45.5%
Selling, general and administrative expenses	***4,490***	**7,648**	4,626	8,886	9,206
Advertising expenses	***650***	**1,362**	694	1,691	1,797
Operating income (loss)	***(200)***	**(587)**	(460)	(506)	(488)
Operating income (loss) margin	***(2.0)%***	**(3.8)%**	(4.8)%	(2.8)%	(2.6)%

	Customers				
Number of active customers*[2] at fiscal year-end:					
Germinated brown rice (Mail order)	–	**192,539**	–	186,182	204,079
Kale juice (Mail order)	–	**89,496**	–	93,491	103,060

*1 On February 1, 2012, FANCL released IIMONO OHKOKU Co., Ltd. from consolidation. To ensure the most accurate analysis, figures have been calculated as if IIMONO OHKOKU Co., Ltd. had remained a consolidated subsidiary.

*2 Active customers: Customers making at least one purchase during the preceding seven months.

Statements of Income

Net Sales

Net sales declined ¥5,625 million, or 6.0%, year on year to ¥88,165 million. This outcome mainly reflected changes to and the cancellation of certain sales campaigns due to the impact of the Great East Japan Earthquake, as well as restrictions on the import of food products by the Chinese government and the Company's transfer of the IIMONO OHKOKU Mail-Order Business.

Cosmetics Business net sales declined ¥1,854 million, or 3.9%, year on year to ¥45,824 million. Net sales of FANCL Cosmetics declined 2.8% to ¥36,407 million, as restrained purchasing prior to rebranding offset firm sales of *Mild Cleansing Oil*, *Facial Washing Powder* and other key products. In the ATTENIR cosmetics brand, sales decreased 6.5% to ¥8,219 million, as robust sales of *Class A Basic Skincare*, which was revamped and rereleased in September, were outweighed by weak sales of other products. By sales channel, mail-order sales decreased 4.9% to ¥23,173 million, retail store sales declined 3.6% to ¥14,802 million, and wholesale sales fell 11.9% to ¥2,113 million. Overseas sales, however, increased 3.5% to ¥5,736 million.

Net sales in the Nutritional Supplements Business declined ¥1,211 million, or 4.3%, year on year to ¥27,037 million. In terms of products, although sales of dietary supplement *Calorie Limit* marked substantial growth, sales of the beauty supplement *Tense Up* and other products suffered as a result of restrictions on the import of food products imposed by the Chinese government. By sales channel, mail-order sales decreased 3.6% to ¥11,551 million, retail store sales declined 10.6% to ¥6,493 million, wholesale sales increased 10.9% to ¥7,036 million, and overseas sales decreased 26.6% to ¥1,957 million.

Net sales in Other Businesses decreased ¥2,560 million, or 14.3%, year on year to ¥15,304 million. In the Germinated Brown Rice Business, net sales declined 2.4% to ¥2,917 million, as growth in wholesale sales was outweighed by weak sales in other channels. In the Kale Juice Business, while sales of fresh squeezed kale juice, the mainstay product in this business, were on par with the previous fiscal year, slumping sales in other products caused sales in this business to decline 8.3% to ¥3,377 million. In the IIMONO OHKOKU Mail-Order Business, net sales declined 23.6% to ¥5,667 million, in line with the transfer of this business that took place on February 1, 2012. In additional businesses, net sales declined 11.5% to ¥3,343 million, as the Company reconfigured its general merchandise business.

Gross Profit

The gross profit margin fell 1.0 percentage point year on year to 66.9%, lifted by sales growth for the dietary supplement *Calorie Limit* and improved profitability in the Germinated Brown Rice Business.

In the Cosmetics Business, the gross profit margin increased 0.4 of a percentage point to 73.4%. In the Nutritional Supplements Business, the gross profit margin rose 1.6 percentage points to 67.7%.

In Other Businesses, the gross profit margin declined 0.8 of a percentage point to 46.1%.

SG&A Expenses

The ratio of selling, general and administrative (SG&A) expenses to net sales worsened 4.0 percentage points to 62.4%. This outcome primarily reflected higher marketing expenses in the Cosmetics Business associated with the rebranding of FANCL Cosmetics.

Operating Income

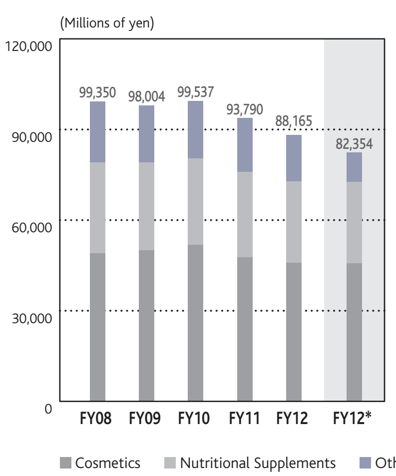
As a result of the aforementioned factors, operating income decreased 43.6% year on year to ¥4,017 million. The operating income margin was 3.0 percentage points lower at 4.6%.

In the Cosmetics Business, operating income decreased 34.0% to ¥4,685 million, the result of lower sales and proactive marketing activities accompanying rebranding. The operating income margin was 4.7 percentage points lower at 10.2%

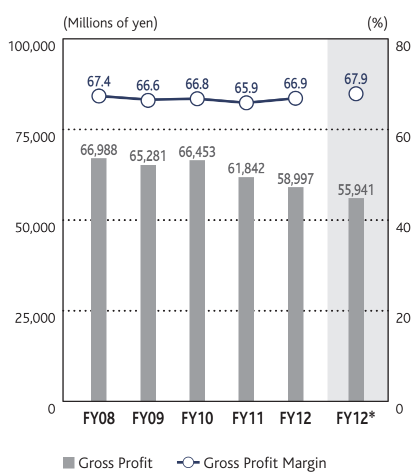
In the Nutritional Supplements Business, operating income fell 25.5% to ¥1,584 million, due to lower sales. The operating income margin was 1.7 percentage points lower at 5.9%.

Other Businesses posted an operating loss of ¥587 million, an increase of ¥82 million over the previous fiscal year, as greater profitability in the Germinated Brown Rice Business failed to offset a slump in the Kale Juice Business.

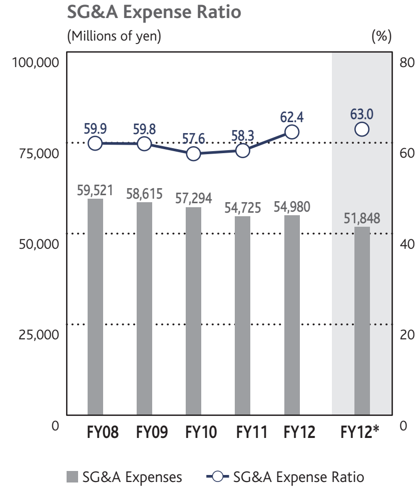
Net Sales by Business Segment



Gross Profit and Gross Profit Margin



SG&A Expenses and SG&A Expense Ratio



* Figures exclude the effects of IIMONO OHKOKU on consolidated performance.

Other Income (Expenses)

Other expenses were ¥14 million, improving ¥436 million year on year. In addition to the absence of a loss on equity-method investments posted in the previous fiscal year, this contraction owed to a decrease in provisions to the allowance for doubtful accounts.

Income Before Income Taxes and Minority Interests

Income before income taxes and minority interests decreased 35.5% year on year to ¥3,503 million. Income before income taxes and minority interests as a percentage of net sales was 4.0%, down 1.8 percentage points compared with the previous fiscal year.

Net Income

Net income decreased 13.9% year on year to ¥2,454 million, and the ratio of net income to net sales was down 0.3 of a percentage point to 2.8%.

Net income per share was ¥37.82.

Return on equity (ROE) decreased 0.6 of a percentage point to 3.1%.

Outlook for Fiscal 2013

FANCL will concentrate on customer base expansion and business base reinforcement in order to achieve the numerical objectives laid out in its latest three-year, medium-term business plan (April 2012 to March 2015).

In the Cosmetics Business, revenues are expected to increase from the smooth transition of existing customers over to the new *Mutenka Skincare* series released in March 2012, coupled with efforts to attract new customers.

In the Nutritional Supplements Business, several factors are expected to boost revenues, including the lifting in January 2012 of import restrictions on food products imposed by the Chinese government, a stronger lineup of supplements targeting middle-aged and elderly customers, and the sale of new products containing the compound PSG, which has anti-aging properties. In beauty and dietary supplements, FANCL, in June 2012, released a new and improved *Calorie Limit* that is more effective for dieting than ever. Plans call for using concentrated TV ad spots to increase sales for this product going forward. In Other Businesses, despite revenue growth in the Germinated Brown Rice and Kale Juice businesses, lower revenues appear likely primarily from the transfer of the IIMONO OHKOKU Mail-Order Business.

As a result, the Company is projecting consolidated net sales for fiscal 2013, ending March 31, 2013, of ¥87,000 million, down 1.3% year on year. In terms of earnings, operating income is forecast to increase 4.6% to ¥4,200 million, with ordinary income up 4.9% to ¥4,200 million, mainly atop revenue growth in the Nutritional Supplements Business. Net income, meanwhile, is projected to decline 14.4% year on year to ¥2,100 million.

Balance Sheet

Assets

[Current Assets]

Current assets amounted to ¥49,166 million, reflecting an increase in marketable securities.

[Property, Plant and Equipment, Net]

Property, plant and equipment, net totaled ¥22,369 million, down ¥1,184 million from the previous fiscal year-end, due largely to a decrease in buildings and structures accompanying corporate separation.

[Intangible Fixed Assets]

Intangible fixed assets rose ¥415 million year on year to ¥4,183 million, due to an increase in software.

[Investments and Other Assets]

Investments and other assets amounted to ¥16,022 million, down ¥2,392 million year on year, reflecting declines in long-term loans receivable and deferred tax assets.

Liabilities

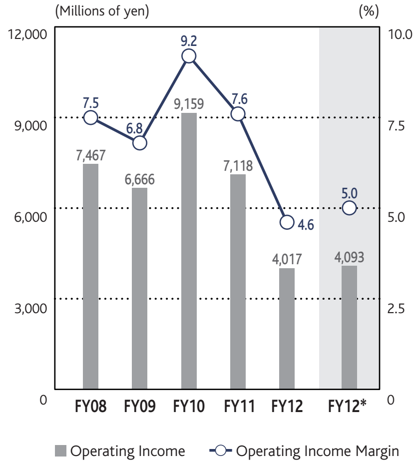
[Current Liabilities]

Current liabilities declined ¥1,651 million to ¥10,491 million, due mainly to a drop in notes and accounts payable coupled with a decrease in accrued income taxes.

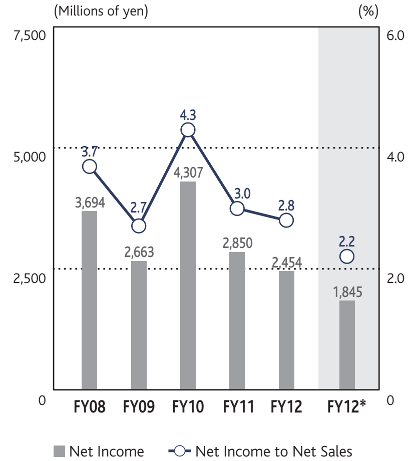
[Non-Current Liabilities]

Non-current liabilities amounted to ¥2,452 million, down ¥789 million

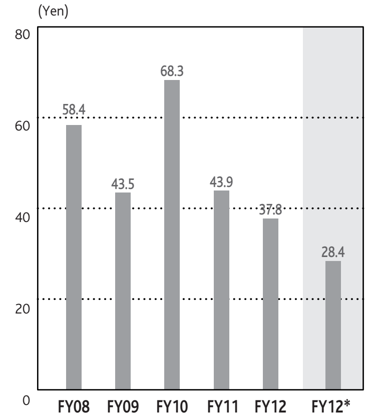
Operating Income and Operating Income Margin



Net Income and Net Income to Net Sales



Net Income per Share



* Figures exclude the effects of IIMONO OHKOKU on consolidated performance.

year on year, due to a decrease in deferred tax liabilities and the allowance for retirement bonuses.

Net Assets

[Total Net Assets]

Total net assets were ¥78,797 million, up ¥149 million from the previous fiscal year-end, due primarily to growth in retained earnings.

[Capital Expenditures]

Capital expenditures for the fiscal year under review totaled ¥4,001 million (including intangible fixed assets), and consisted mainly of investments in the customer management system infrastructure to centrally manage qualitative data and other customer information, as well as rebranding-related investments.

By product segment, capital expenditures in the Cosmetics Business amounted to ¥2,597 million, primarily for rebranding-related investments; ¥1,092 million in the Nutritional Supplements Business; and ¥313 million in Other Businesses. Capital expenditures common to all businesses included investments for the development of core infrastructure for a new customer management system, the opening of new stores, and the renovation of existing stores.

There were no noteworthy disposals or sales of major facilities during the year.

Cash Flows

Cash and cash equivalents as of March 31, 2012 were ¥25,056 million, ¥3,014 million lower than at the end of the previous fiscal year. The main contributing factors were as follows:

[Cash Flows From Operating Activities]

Cash provided by operating activities during the period under review was ¥6,322 million. The primary factors behind increased operating cash flow included an income before income taxes and minority interests of ¥3,503 million and ¥3,438 million in depreciation and amortization expenses. Factors reducing operating cash flow included income taxes paid of ¥2,041 million.

[Cash Flows From Investing Activities]

Cash used in investing activities during the period under review was ¥7,009 million. This was largely the result of outlays such as ¥7,000 million for the purchase of short-term investment securities, ¥2,085 million for the purchase of property, plant and equipment, and ¥1,863 million for the purchase of intangible fixed assets. Cash inflows mainly included ¥2,503 million from sale and redemption of securities.

[Cash Flows From Financing Activities]

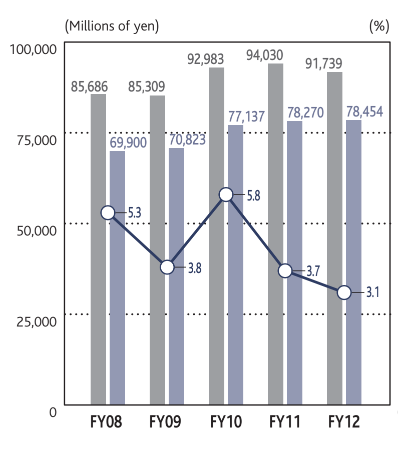
Cash used in financing activities during the period under review was ¥2,316 million. This was largely the result of an outlay of ¥2,201 million for the payment of dividends.

Trends in Cash Flow-Related Indices

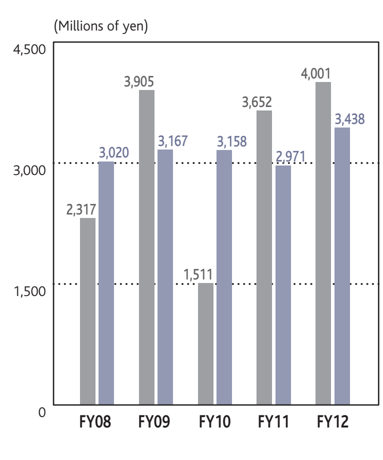
Years ended March 31	2012	2011	2010	2009	2008
Equity ratio (%)	**85.5**	83.2	83.0	83.0	81.6
Equity ratio based on market price (%)	**78.8**	80.5	123.7	80.2	98.2
Debt service coverage (%)	**–**	–	–	–	0.0
Interest coverage ratio (times)	**–**	–	1,182.3	34,577.9	1,635.2

Notes:
Equity ratio: Shareholders' equity/Total assets
Equity ratio based on market price: Market capitalization/Total assets
Debt service coverage: Interest-bearing debt/Operating cash flow
Interest coverage ratio: Operating cash flow/Interest paid
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. Operating cash flow is the Net Cash Provided From Operating Activities figure in the consolidated statements of cash flows.
4. Interest bearing debt includes all debt on which interest is paid recorded in the liabilities section of the consolidated balance sheet.

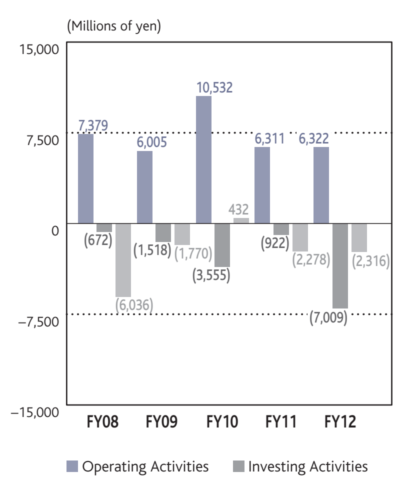
Total Assets, Equity and ROE



Capital Expenditures and Depreciation



Cash Flows



Business Risks

1. Product Development and Competitive Environment

In the FANCL Group's product development, the product planning and development division is responsible for formulating and proposing product plans based on customer needs and market research. In collaboration with related departments such as the FANCL Research Institute, it makes final decisions on commercialization. At present, the Group develops cosmetics and nutritional supplements using its own technology, but there is no guarantee that this will result in successful development and new products. Furthermore, in light of the increasing numbers of women with sensitive skin and greater health consciousness, there are more new entrants into the markets of cosmetics for sensitive skin and nutritional supplements and the appearance of similar products could operate to reduce the relative competitiveness of the FANCL lineup and hurt our growth potential and earning capabilities.

2. Product Manufacturing and Quality Assurance

The FANCL Group's cosmetics, nutritional supplements and germinated brown rice are manufactured at six directly managed domestic factories, while kale juice and undergarments production is outsourced to subsidiaries. Departments in charge of procurement manage all aspects of raw materials purchases and, working in cooperation with marketing departments, disperse purchases among multiple suppliers and coordinate purchases with suppliers. Nevertheless, unanticipated conditions due to external factors may make it impossible to procure planned quantities. A quality assurance department has been established to improve product quality. At quality conferences, it verifies the quality control situation with respective departments, and strives to maintain quality by conducting on-site plant inspections and other means. If a quality problem arises, it could impact negatively on the Group's operating results.

3. Disasters and Bad Weather

To minimize the effects of fire and natural disasters on its production system, the FANCL Group conducts periodic inspections and checks on all its facilities. Geographic dispersion of plants is intended to reduce risks. Nevertheless, there are no guarantees that the impact of fire or natural disaster can be fully prevented. The harvest volumes of rice and kale, the raw materials for germinated brown rice and kale juice, are subject to the vagaries of the weather. We therefore strive for dispersion of producing areas and raw material stockpiling, but weather factors can cause shortages and higher prices that impact adversely on the Group's operating results.

4. Limits of Intellectual Property Protection

The Group is moving forward with securing patents and other rights to its accumulated technology and other intellectual property, but this is an area in which the legal basis is not fully prepared and cannot cover all business development domains. And because it takes at least a year and a half from patent application to publication, there is the possibility that there may be development investment in technology for which other companies have already sought patents. In the future, after commercialization, other companies' patents could be published and involve the Company in patent infringement cases.

5. Legal Restrictions

The Cosmetics Business is governed by the Pharmaceutical Affairs Law to assure the quality, effectiveness and safety of pharmaceuticals, over-the-counter drugs, cosmetics and medical equipment. It is under this legislation that the FANCL Group manages its Pharmaceutical Control Division and sells cosmetics and related products. The Nutritional Supplements Business is subject to the Food Sanitation Law, which prescribes food standards, additives, sanitation surveillance and business permissions. For foods for sale, the Nutrition Improvement Law prescribes standards for display of nutritional elements and caloric values. Those of the Company's supplements that meet certain requirements are also subject to the regulations of the functional foods health system, which enables selection with assurance of foods corresponding to consumers' eating habits.

The Group is also governed by the Specified Commercial Transactions Law, whose objectives are fair conduct of mail-order businesses for protection of consumers, and by the Law for Prevention of Unfair Premiums and Unfair Labeling, intended to prevent customer inducement by those means. The Group has established a Compliance & Legal Division, responsible for compliance and ensuring more thoroughgoing observance of laws and regulations. Notwithstanding this, any violations that occur may adversely affect the Group's operating results.

6. Personal Information

The Group's use of mail order and the Internet as its main sales channels has resulted in possession of personal information about many individuals. The Group strictly observes the "Guidelines for Personal Data Protection" prescribed by the Japan Direct Marketing Association, and has established an all-Company committee to reinforce the information control system. Continuous efforts are also made with regard to employee education in this area. Nevertheless, should there occur leakage of such information outside the Company, a loss of customer trust could reduce sales and subject the Company to losses from payment of liability damages to customers.

7. Risk From Fluctuations in Currency Exchange Rates

The transactions of FANCL Group subsidiaries and affiliates based outside of Japan are denominated in non-yen currencies.

Furthermore, the financial statements of subsidiaries and affiliates based outside of Japan are converted into yen for the purpose of creating the consolidated financial statements.

Consequently, fluctuations in currency exchange rates could potentially have a significant impact on the operating results and financial position of the FANCL Group.

Consolidated Balance Sheets

FANCL CORPORATION and Consolidated Subsidiaries
As of March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars *(Note 2)*
Assets	**2012**	2011	**2012**
Current assets:			
Cash and bank deposits *(Notes 5 and 16)*	**¥ 18,149**	¥ 18,661	**$ 220,823**
Short-term investment securities *(Notes 5 and 6)*	**13,383**	10,911	**162,827**
Notes and accounts receivable—trade *(Notes 5 and 20)*	**9,289**	10,188	**113,019**
Less: Allowance for doubtful accounts *(Note 5)*	**(148)**	(189)	**(1,800)**
	9,141	9,998	**111,220**
Merchandise and products	**2,852**	3,090	**34,698**
Work in progress	**63**	34	**762**
Raw materials and supplies	**3,364**	3,178	**40,928**
Deferred income taxes *(Note 8)*	**1,077**	1,022	**13,103**
Other current assets	**1,137**	1,401	**13,836**
Total current assets	**49,166**	48,296	**598,196**
Property, plant and equipment, at cost *(Notes 11, 12 and 14)*:			
Land	**10,059**	10,885	**122,390**
Buildings and structures	**22,549**	23,184	**274,352**
Machinery, vehicles, tools, furniture and fixtures	**13,245**	11,794	**161,148**
Lease assets	**300**	286	**3,650**
Construction in progress	**75**	85	**914**
	46,228	46,234	**562,453**
Less: Accumulated depreciation	**(23,859)**	(22,682)	**(290,296)**
Property, plant and equipment, net	**22,369**	23,552	**272,157**
Intangible assets:			
Goodwill	**284**	398	**3,456**
Other intangible fixed assets	**3,899**	3,370	**47,435**
Intangible assets, net	**4,183**	3,768	**50,891**
Investments and other assets:			
Investment securities *(Notes 5 and 6)*:			
Non-consolidated subsidiaries and affiliates	**710**	710	**8,643**
Other investment securities	**11,151**	11,197	**135,677**
	11,862	11,907	**144,319**
Lease and guarantee deposits *(Note 5)*	**1,994**	2,329	**24,263**
Long-term loans receivable *(Note 5)*	**443**	966	**5,389**
Deferred income taxes *(Note 8)*	**682**	920	**8,295**
Other assets	**1,502**	3,020	**18,273**
Less: Allowance for doubtful accounts	**(460)**	(728)	**(5,597)**
Total investments and other assets	**16,022**	18,414	**194,942**
Total assets	**¥ 91,739**	¥ 94,030	**$1,116,186**

Liabilities and net assets	Millions of yen 2012	2011	Thousands of U.S. dollars (Note 2) 2012
Current liabilities:			
Notes and accounts payable—trade *(Note 5)*	**¥ 1,952**	¥ 3,367	**$ 23,752**
Accounts payable—other *(Note 5)*	**4,250**	3,505	**51,714**
Accrued income taxes *(Note 5)*	**682**	1,654	**8,297**
Reserve for customer awards	**1,380**	1,391	**16,791**
Other current liabilities	**2,226**	2,224	**27,088**
Total current liabilities	**10,491**	12,142	**127,643**
Long-term liabilities:			
Accrued retirement benefits *(Note 9)*	**1,721**	2,255	**20,937**
Other long-term liabilities	**731**	985	**8,891**
Total long-term liabilities	**2,452**	3,240	**29,828**
Net assets (Note 15):			
Shareholders' equity (Note 7):			
Common stock:			
Authorized—233,838,000 shares in 2012 and 2011			
Issued — 65,176,600 shares in 2012 and 2011	**10,795**	10,795	**131,344**
Capital surplus	**11,706**	11,706	**142,429**
Retained earnings	**56,317**	56,070	**685,208**
Less: Treasury stock 291,185 shares in 2012 and 240,901 shares in 2011	**(361)**	(307)	**(4,386)**
Total shareholders' equity	**78,458**	78,265	**954,594**
Accumulated other comprehensive income:			
Net unrealized holding gain (loss) on other securities	**(5)**	5	**(56)**
Total accumulated other comprehensive income	**(5)**	5	**(56)**
Warrants	**343**	378	**4,177**
Total net assets	**78,797**	78,647	**958,716**
Total liabilities and net assets	**¥91,739**	¥94,030	**$1,116,186**

See notes to consolidated financial statements.

Consolidated Statements of Income

FANCL CORPORATION and Consolidated Subsidiaries
For the years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (*Note 2*)
	2012	2011	**2012**
Net sales (*Note 20*)	**¥88,165**	¥93,790	**$1,072,701**
Cost of sales	**29,168**	31,947	**354,888**
Gross profit	**58,997**	61,842	**717,813**
Selling, general and administrative expenses (*Note 10*)	**54,980**	54,725	**668,942**
Operating income	**4,017**	7,118	**48,871**
Other income (expenses):			
Interest and dividend income	**82**	87	**995**
Loss on valuation of investment securities	**(7)**	(5)	**(86)**
Loss on valuation of stocks of subsidiaries and affiliates	**–**	(599)	**–**
Loss on impairment of fixed assets (*Note 12*)	**(483)**	(175)	**(5,871)**
Loss on adjustment for changes of accounting standard for asset retirement obligations	**–**	(309)	**–**
Loss on closing of stores	**(135)**	(114)	**(1,641)**
Other, net	**29**	(575)	**356**
Income before income taxes and minority interests	**3,503**	5,428	**42,624**
Income taxes (*Note 8*):			
Current	**1,039**	2,776	**12,644**
Deferred	**10**	(197)	**118**
	1,049	2,579	**12,762**
Income before minority interests	**2,454**	2,848	**29,862**
Minority interests	**–**	(1)	**–**
Net income (*Note 15*)	**¥ 2,454**	¥ 2,850	**$ 29,862**

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

FANCL CORPORATION and Consolidated Subsidiaries
For the years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (*Note 2*)
	2012	2011	**2012**
Income before minority interests	**¥2,454**	¥2,848	**$29,862**
Other comprehensive income:			
Net unrealized holding gain (loss) on other securities	**(10)**	(5)	**(119)**
Foreign currency translation adjustment	**–**	5	**–**
Share of other comprehensive income of affiliates accounted for by the equity method	**–**	99	**–**
Total other comprehensive income (loss) (*Note 21*)	**(10)**	99	**(119)**
Comprehensive income	**¥2,445**	¥2,947	**$29,743**
Total comprehensive income (loss) attributable to:			
Shareholders of the parent company	**¥2,445**	¥2,948	**$29,743**
Minority interests	**–**	(1)	**–**

See notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

FANCL CORPORATION and Consolidated Subsidiaries
For the years ended March 31, 2012 and 2011

	Thousands	Millions of yen										
	Common stock											
	Number of shares	Amount	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized holding (loss) gain on other securities	Translation adjustments	Total accumulated other comprehensive income	Warrants	Minority interests	Total net assets
April 1, 2010	65,176	¥10,795	¥11,706	¥55,065	¥(336)	¥77,231	¥ 10	¥(104)	¥(94)	¥342	¥ 117	¥77,596
Cash dividends	–	–	–	(2,207)	–	(2,207)	–	–	–	–	–	(2,207)
Net income	–	–	–	2,850	–	2,850	–	–	–	–	–	2,850
Purchase of treasury stock	–	–	–	–	(1)	(1)	–	–	–	–	–	(1)
Sale of treasury stock	–	–	–	(0)	30	30	–	–	–	–	–	30
Other net changes during the year	–	–	–	362	–	362	(5)	104	99	35	(117)	380
April 1, 2011	65,176	10,795	11,706	56,070	(307)	78,265	5	0	5	378	0	78,647
Cash dividends	–	–	–	**(2,207)**	–	**(2,207)**	–	–	–	–	–	**(2,207)**
Net income	–	–	–	**2,454**	–	**2,454**	–	–	–	–	–	**2,454**
Purchase of treasury stock	–	–	–	–	**(54)**	**(54)**	–	–	–	–	–	**(54)**
Sale of treasury stock	–	–	–	**(0)**	**0**	**0**	–	–	–	–	–	**0**
Other net changes during the year	–	–	–	–	–	–	**(10)**	–	**(10)**	**(34)**	–	**(44)**
March 31, 2012	**65,176**	**¥10,795**	**¥11,706**	**¥56,317**	**¥(361)**	**¥78,458**	**¥ (5)**	**¥ 0**	**¥ (5)**	**¥343**	**¥ 0**	**¥78,797**

	Thousands of U.S. dollars *(Note 2)*										
	Common stock										
	Amount	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized holding (loss) gain on other securities	Translation adjustments	Total accumulated other comprehensive income	Warrants	Minority interests	Total net assets
April 1, 2011	$131,344	$142,429	$682,198	$(3,732)	$952,239	$ 64	$0	$ 64	$4,595	$0	$ 956,898
Cash dividends	–	–	**(26,852)**	–	**(26,852)**	–	–	–	–	–	**(26,852)**
Net income	–	–	**29,862**	–	**29,862**	–	–	–	–	–	**29,862**
Purchase of treasury stock	–	–	–	**(657)**	**(657)**	–	–	–	–	–	**(657)**
Sale of treasury stock	–	–	**(0)**	**2**	**2**	–	–	–	–	–	**2**
Other net changes during the year	–	–	–	–	–	**(119)**	–	**(119)**	**(418)**	–	**(537)**
March 31, 2012	**$131,344**	**$142,429**	**$685,208**	**$(4,386)**	**$954,594**	**$ (56)**	**$0**	**$ (56)**	**$4,177**	**$0**	**$958,716**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

FANCL CORPORATION and Consolidated Subsidiaries
For the years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars *(Note 2)*
	2012	2011	**2012**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥ 3,503**	¥ 5,428	**$ 42,624**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	**3,438**	2,971	**41,825**
Loss on impairment of fixed assets	**483**	175	**5,871**
Share-based payments	**105**	66	**1,277**
Amortization of goodwill	**114**	114	**1,382**
(Reversal of) provision for reserve for customer awards	**(11)**	39	**(138)**
Increase (decrease) in allowance for doubtful accounts	**43**	326	**520**
Accrued retirement benefits, net of payments	**(449)**	209	**(5,464)**
Loss on valuation of investment securities	**7**	5	**86**
Loss (gain) on sales of investment securities	**8**	0	**92**
Loss on valuation of stocks of subsidiaries and affiliates	**–**	599	**–**
Income from investment in a silent partnership	**(22)**	(22)	**(264)**
Loss (gain) on sales of noncurrent assets	**150**	30	**1,828**
Loss on disposal of fixed assets	**17**	51	**212**
Loss on adjustment for changes of accounting standard for asset retirement obligations	**–**	309	**–**
Loss on closing of stores	**135**	114	**1,641**
Loss (gain) on extinguishment of tie-in shares	**143**	–	**1,740**
Gain on reversal of subscription rights to shares	**(139)**	–	**(1,695)**
Gain on transfer from business divestiture	**(214)**	–	**(2,604)**
Changes in operating assets and liabilities:			
Notes and accounts receivable—trade	**278**	52	**3,382**
Inventories	**(328)**	(108)	**(3,990)**
Other current assets	**331**	(195)	**4,026**
Other fixed assets	**57**	(198)	**690**
Accounts payable—trade	**(294)**	9	**(3,580)**
Other current liabilities	**1,028**	(172)	**12,507**
Other long-term liabilities	**(3)**	(46)	**(34)**
Income taxes paid	**(2,041)**	(3,545)	**(24,839)**
Other, net	**(15)**	102	**(185)**
Net cash provided by operating activities	**6,322**	6,311	**76,913**
Cash flows from investing activities:			
Payment by receipt of time deposit	**(500)**	–	**(6,083)**
Proceeds from cancellation of time deposits	**1,500**	1,000	**18,250**
Purchases of property, plant and equipment	**(2,085)**	(1,712)	**(25,369)**
Purchases of intangible assets	**(1,863)**	(1,593)	**(22,670)**
Proceeds from collection of long-term loans receivable	**28**	31	**340**
Purchases of short-term investment securities	**(7,000)**	(6,500)	**(85,169)**
Proceeds from sales and redemption of securities	**2,503**	8,499	**30,448**
Proceeds from sales of property, plant and equipment	**579**	68	**7,047**
Proceeds from sales and redemption of investment securities	**35**	0	**430**
Purchase of shares in affiliates	**–**	(172)	**–**
Payments for loans receivable	**(90)**	(97)	**(1,095)**
Payment for business divestiture *(Note 16)*	**(365)**	–	**(4,447)**
Other, net	**250**	(445)	**3,040**
Net cash used in investing activities	**(7,009)**	(922)	**(85,277)**
Cash flows from financing activities:			
Purchases of treasury stock	**(54)**	(1)	**(657)**
Proceeds from sale of treasury stock	**0**	0	**2**
Cash dividends paid	**(2,201)**	(2,203)	**(26,780)**
Other, net	**(61)**	(75)	**(741)**
Net cash provided by (used in) financing activities	**(2,316)**	(2,278)	**(28,176)**
Effect of foreign exchange rate changes on cash and cash equivalents	**(45)**	(52)	**(554)**
Net (decrease) increase in cash and cash equivalents	**(3,049)**	3,059	**(37,093)**
Cash and cash equivalents at beginning of the year	**28,070**	25,011	**341,526**
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries *(Note 16)*	**35**	–	**422**
Cash and cash equivalents at end of the year *(Note 16)*	**¥25,056**	¥28,070	**$304,855**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

FANCL CORPORATION and Consolidated Subsidiaries
For the years ended March 31, 2012 and 2011

1. Summary of Significant Accounting Policies

(a) Basis of preparation

FANCL CORPORATION (the "Company") and its domestic consolidated subsidiaries maintain their books of account in accordance with accounting standards generally accepted in Japan, and its overseas consolidated subsidiary maintains its book of accounts in conformity with those of its country of domicile. The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and have been compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan. Certain reclassifications have been made to present the accompanying consolidated financial statements in a format which is familiar to readers outside Japan. Certain prior-year amounts have been reclassified to conform to the current year's presentation.

(b) Basis of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its consolidated subsidiaries (collectively, the "Group") over which substantial control is exerted through either majority ownership of voting stock and/or by other means. All significant intercompany balances and transactions have been eliminated in consolidation. Investments in non-consolidated subsidiaries and other affiliates are stated at cost because of their immateriality.

All assets and liabilities of the subsidiaries are revalued at their respective fair value upon acquisition, if applicable, and the excess of cost over the underlying net assets at the date of acquisition is amortized over a period based on an estimated useful life on a straight-line basis. However, if such excess is insignificant, it is charged to income when incurred.

There are seven consolidated subsidiaries, namely ATTENIR CORPORATION, IIMONO FUDOSAN Co., Ltd., FANCL Hatsuga Genmai Co., Ltd., FANCL ASIA (PTE) LTD., FANCL B&H Co., Ltd., NICOSTAR BEAUTECH Co., Ltd. and NEUES, K.K.

On February 1, 2012, mail order business in IIMONO OHKOKU Co., Ltd. was transferred to a newly-established company and all shares of the newly-established company were sold to Mr. Kenji Ikemori, as described in Note 17. In this connection, IIMONO OHKOKU Co., Ltd. was renamed IIMONO FUDOSAN Co., Ltd.

(c) Foreign currency translation

All assets and liabilities denominated in foreign currencies of the Company and its domestic consolidated subsidiaries are translated at the current exchange rates in effect at each balance sheet date when not hedged by forward foreign exchange contracts, or at the contracted rates of exchange when hedged by forward foreign exchange contracts. The resulting foreign exchange gain or loss is recognized as other income or expense.

Assets and liabilities of the Company's one overseas consolidated subsidiary are translated at the current exchange rate in effect at each balance sheet date and its revenue and expense accounts are translated at the average rate of exchange in effect during the year.

Differences arising from translation are presented as translation adjustments and minority interests in the consolidated balance sheets.

(d) Cash equivalents

All highly liquid investments, generally with a maturity of three months or less when purchased, which are readily convertible into known amounts of cash and which are so near maturity that they represent only an insignificant risk of any change in their value attributable to changes in interest rates, are considered cash equivalents.

Under the accounting standard governing statements of cash flows, the definition of cash and cash equivalents in the statement of cash flows and that of cash and bank deposits in the balance sheet differs with respect to certain components. A reconciliation between the cash definitions referred to above is presented in Note 16.

(e) Securities

All securities owned by the Company and its consolidated subsidiaries are considered to be available-for-sale securities and are classified as "other" securities, one of the three categories (trading, held-to-maturity and other) defined in the Accounting Standard for Financial Instruments.

Other securities with quoted market prices are carried at fair market value. The difference between the acquisition cost and the carrying value of other securities, net of taxes, is recognized as a component of net assets and is reflected as "Net unrealized holding gain (loss) on other securities." The cost of other securities sold is computed by the average method. Other securities without quoted market prices are stated at cost by the average method.

Investment in a silent partnership is stated at an amount accounted for by the equity method based on its net assets at the closing date nearest to the Company's year end.

(f) Inventories

Finished goods, merchandise, work in process and raw materials are stated at cost by the average method. Supplies are stated at cost by the last purchase price method.

In case of a decrease in profitability, the book-value-reduction method is used.

(g) Depreciation and amortization

	Buildings	Assets other than buildings
Acquired prior to April 1, 1998	Declining-balance method*1	Declining-balance method*1
Acquired during the period from April 1, 1998 to March 31, 2007	Straight-line method*1	Declining-balance method*1
Acquired on or after April 1, 2007	Straight-line method*2	Declining-balance method*2

*1 Represents the methods permitted under the Corporation Tax Law of Japan prior to the revision made to such law which went into effect on April 1, 2007.
*2 Represents the methods permitted under the revised Corporation Tax Law stated in *1 above.

The following summarizes the estimated useful lives of property, plant and equipment by major category:

Buildings and structures	2 – 50 years
Machinery, vehicles, tools, furniture and fixtures	2 – 22 years

Effective the year ended March 31, 2009, the residual value of property, plant and equipment, which were acquired before April 1, 2007 and have been fully depreciated to their respective depreciable limits under the Corporation Tax Law, is to be depreciated to nil over a period of five years.

Intangible assets are amortized by the straight-line method. The cost of software intended for internal use is amortized by the straight-line method over an estimated useful life of 5 years.

(h) Leases

The Company and its consolidated subsidiaries lease certain equipment under non-cancelable lease agreements referred to as finance leases.

Finance leases other than those which transfer the ownership of the leased assets to the lessee are depreciated to nil over the period of the lease term. Finance leases transactions in which ownership is not transferred to the lessee commencing on or before March 31, 2008 are not capitalized but are accounted for by a method similar to that applicable to operating leases.

(i) Research and development expenses

Research and development expenses are charged to income when incurred.

(j) Allowance for doubtful accounts

The allowance for doubtful accounts is provided at an amount sufficient to cover possible losses on the collection of receivables and is determined based on the historical experience with write-offs plus an estimated amount for probable doubtful accounts after a review of the collectibility of individual receivables.

(k) Allowance for employees' bonuses

The allowance for employees' bonuses represents a provision for the future payment of employees' bonuses.

(l) Reserve for customer awards

The reserve for customer awards is provided at an amount which is reasonably estimated to be used in the future based on the historical experience with respect to the usage of customer awards against the unused customer awards at the balance sheet date.

(m) Retirement benefits

The Group has severance benefit plans which entitle its employees upon retirement to either a lump-sum payment or pension annuity payments for life, or a combination of both, based on their length of service, salary at the time of retirement and number of years of participation in the plans.

Accrued retirement benefits for employees have been provided based on an estimate of the retirement benefit obligation and the pension fund assets.

Unrecognized actuarial net gain or loss is amortized by the straight-line method over 5 years, a period which falls within the average remaining years of service of the active participants in the plans, commencing the year following the year in which the gain or loss was incurred.

The domestic consolidated subsidiaries also provide an accrual for retirement allowances for directors and statutory auditors at the full amount which would be required to be paid if all directors and statutory auditors retired at the balance sheet date based on their respective internal regulations.

(n) Deferred income taxes

Deferred income taxes are recognized by the asset and liability method under which deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities, and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(o) Derivatives

Derivative financial instruments are stated at fair value.

2. U.S. Dollar Amounts

For the convenience of the reader, the accompanying consolidated financial statements with respect to the year ended March 31, 2012 have been presented in U.S. dollars by translating all yen amounts at ¥82.19 = U.S.$1.00, the exchange rate prevailing on March 31, 2012. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

3. Changes in Methods of Accounting

Effective the fiscal year under review, the Company has adopted the "Accounting Standard for Earnings Per Share" (ASBJ Statement No. 2; June 30, 2010), and the "Guidance on Accounting Standard for Earnings Per Share" (ASBJ Guidance No. 4, June 30, 2010).

As a result, for stock options that vest after a specified service period, the Company now includes the portion of the stock options' fair value attributable to future service when calculating the cash proceeds assumed to be receivable upon exercise of the stock options.

The effect of this change is immaterial.

4. Additional Information

For accounting changes made on or after April 30, 2011 and for correction of part errors, the "Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Statement No. 24, December 4, 2009) and the "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No. 24, December 4, 2009) were applied.

5. Financial Instruments

1. Matters relating to financial instruments

(1) Basic policy on financial instruments

With respect to managing surplus funds, the Group limits such management to short-term deposits and highly safe financial assets, based on internal regulations governing fund management.

With regard to derivatives, the Group's policy is to avoid speculative transactions. As such, the Group had no derivative transactions during the fiscal year ended March 31, 2012.

(2) Description, risks and risk management framework regarding financial instruments

Notes and accounts receivable, which are operating receivables, are exposed to the credit risk of counterparties. In confronting such risk, the Group, in line with internal regulations for managing credit exposure, manages the accounts and remaining balances for each customer at the appropriate closing date. The Group also has a system for assessing the credit status of major customers on an annual basis.

Shares, which are investment securities, are exposed to the risk from fluctuations in market prices. These shares, however, consist mainly of those of holdings in companies for business purposes, with fair value periodically assessed and reported to the Board of Directors.

Deposits and guarantee money set aside for rental properties are exposed to the credit risk of corporate counterparties. To mitigate this risk, the Group researches the credit standing of corporate counterparties—the parties covered under guarantees—at the time that the FANCL Group opens stores.

(3) Supplementary explanation to matters regarding fair values of financial instruments

Fair values of financial instruments are based on market price. If market price is not available, other reasonable valuation techniques are used. Such techniques include variable factors and the results of valuation may change depending on the assumptions used.

2. Matters regarding fair values of financial instruments

The following table represents the amounts of financial instruments recorded in the consolidated balance sheet and their fair values, as well as the differences between the balance sheet amounts and the fair values. Financial instruments whose fair values are deemed extremely difficult to assess are not included (refer to "Note ii" below).

	Millions of yen			Thousands of U.S. dollars		
As of March 31, 2012	Carrying value	Fair value	Unrealized gain (loss)	Carrying value	Fair value	Unrealized gain (loss)
(1) Cash and bank deposits	¥18,149	¥18,149	¥ –	$220,823	$220,823	$ –
(2) Notes and accounts receivable—trade	9,289			113,019		
Allowance for doubtful accounts	(93)			(1,135)		
	9,196	9,196	–	111,884	111,884	–
(3) Short-term investment securities	13,383	13,383	–	162,827	162,827	–
(4) Investment securities						
Other investment securities	1,046	1,046	–	12,729	12,729	–
(5) Lease and guarantee deposits						
Store deposits and guarantee money	1,669	1,472	(197)	20,310	17,913	(2,397)
(6) Long-term loans receivable	443	23	(419)	5,389	286	(5,103)
Total assets	¥43,886	¥43,270	¥(616)	$533,962	$526,462	$(7,500)
(1) Notes and accounts payable—trade	¥ (1,952)	¥ (1,952)	¥ –	$ (23,752)	$ (23,752)	$ –
Total liabilities	¥ (1,952)	¥ (1,952)	¥ –	$ (23,752)	$ (23,752)	$ –

As of March 31, 2011	Millions of yen		
	Carrying value	Fair value	Unrealized gain (loss)
(1) Cash and bank deposits	¥18,661	¥18,661	¥ –
(2) Notes and accounts receivable—trade	10,188		
Allowance for doubtful accounts	(189)		
	9,998	9,998	–
(3) Short-term investment securities	10,911	10,911	–
(4) Investment securities			
Other investment securities	1,089	952	(137)
(5) Lease and guarantee deposits			
Store deposits and guarantee money	1,997	1,743	(255)
(6) Long-term loans receivable	966	255	(711)
Total assets	¥43,624	¥42,521	¥(1,103)
(1) Notes and accounts payable—trade	¥ 3,367	¥ 3,367	¥ –
(2) Accounts payable—other	3,505	3,505	–
(3) Accrued income taxes	1,654	1,654	–
Total liabilities	¥ 8,527	¥ 8,527	¥ –

(Note i) Methods for calculating fair value of financial instruments and matters regarding short term investment securities and derivatives

Assets

(1) Cash and bank deposits and (2) notes and accounts receivable—trade

Due to short-term settlement, the fair value for these items is largely the same as their book value. As such, the book value represents the fair value.

Notes and accounts receivable are deducted by the relating allowance for doubtful accounts.

(3) Short-term investment securities

For short-term investment securities, the fair value of bonds is based largely on the price quoted by the financial institution involved in the transaction.

(4) Investment securities

For investment securities, the fair value of shares is the market price. For bonds, fair value is based largely on the price quoted by the financial institution involved in the transaction.

For notes on marketable securities owned for holding purposes, refer to Note 6 “Investment Securities.”

(5) Lease and guarantee deposits

Fair value for lease and guarantee deposits accompanying store openings is calculated using a reasonable discount rate based on the average number of years before store closure typically occurs.

(6) Long-term loans receivable

Fair value is measured as present value calculated by discounting the combined total of principal and interest by an assumed interest rate for similar new borrowings.

Regarding potentially doubtful receivables, the estimated amount considered doubtful is calculated based on the estimated amount deemed recoverable. Since the value derived after deduction of the amount presently deemed doubtful from the carrying value listed on the balance sheet is nearly the same as fair value, this amount is used to represent the fair value.

Liabilities

(1) Notes and accounts payable—trade, (2) accounts payable—other and (3) accrued income taxes

Due to short-term settlement, the fair value of these items is largely the same as their book value. As such, the book value represents the fair value.

(Note ii) Financial instruments whose fair values are deemed extremely difficult to assess

	Millions of yen		Thousands of U.S. dollars
March 31,	**2012**	2011	**2012**
Category	Carrying value		
1 Unlisted equity securities*1	**¥10,815**	¥10,817	**$131,591**
2 Other lease and guarantee deposits*2	**325**	331	**3,953**

*1 The fair value of unlisted equity securities is not disclosed because their market prices are not available and future cash flows cannot be estimated, making their fair values extremely difficult to assess.

*2 “Other lease and guarantee deposits,” included under “lease and guarantee deposits,” is not disclosed because market prices are not available, and because of the extreme difficulty of estimating both the actual deposit period from the time that a store opens until its eventual closure, as well as any reasonable cash flows, making the value difficult to assess.

(Note iii) Projected redemption amounts for monetary receivables and securities with maturity after account closing date

	Millions of yen				Thousands of U.S. dollars			
As of March 31, 2012	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and bank deposits	**¥18,107**	**¥ –**	**¥ –**	**¥–**	**$222,306**	**$ –**	**$ –**	**$–**
Notes and accounts receivable	**9,289**	**–**	**–**	**–**	**113,019**	**–**	**–**	**–**
Marketable and investment securities								
Other securities held to maturity:								
(1) Bonds (corporate bonds)	**6,000**	**–**	**1,000**	**–**	**73,002**	**–**	**12,167**	**–**
(2) Other	**7,407**	**–**	**–**	**–**	**90,119**	**–**	**–**	**–**
Long-term loans receivable*	**135**	**373**	**–**	**–**	**1,648**	**4,535**	**–**	**–**
Total	**¥40,938**	**¥373**	**¥1,000**	**¥–**	**$498,093**	**$4,535**	**$12,167**	**$–**

* Excluded an amount of ¥70 million ($852 thousand) considered unredeemable.

	Millions of yen			
As of March 31, 2011	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and bank deposits	¥18,601	¥1,500	¥ –	¥ –
Notes and accounts receivable	10,188	–	–	–
Marketable and investment securities				
Other securities held to maturity:				
(1) Bonds (corporate bonds)	4,000	–	1,000	–
(2) Other	6,909	–	–	–
Long-term loans receivable*	27	656	44	196
Total	¥39,725	¥2,156	¥1,044	¥196

* Excluded an amount of ¥70 million considered unredeemable.

(Note iv) Projected repayment amounts for corporate bonds, long-term loans, lease obligations and other interest-bearing debt after the account closing date

Details of Bonds

None

Details of Borrowings

	Millions of yen		Thousands of U.S. dollars		%	
	Balance at beginning of year	Balance at end of year	Balance at beginning of year	Balance at end of year	Average interest rate	Maturity
Short-term loans	¥ –	¥ –	$ –	$ –	–	–
Current portion of long-term loans	–	–	–	–	–	–
Current portion of long-term lease obligations	57	41	694	500	–	–
Long-term loans (excluding current portion)	–	–	–	–	–	–
Lease obligations (excluding current portion)	75	55	913	671	–	From 2013 to 2015
Other interest-bearing debt	–	–	–	–	–	–
Total	¥132	¥96	$1,607	$1,170	–	–

Notes: 1. Average interest rates on lease obligations are not presented as the amount before deducting the amount equivalent to interest expenses comprised in the total lease payment is recorded as lease obligations on the balance sheet.

2. The repayment schedule of lease obligations, excluding the current portion, within five-year period subsequent to March 31, 2012

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2013	¥36	$433
2014	19	230
2015	1	8
2016	–	–

6. Investment Securities

(1) Information regarding investment securities with quoted market prices classified as other securities at March 31, 2012 and 2011 is summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
As of March 31, 2012	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Stocks	¥ 23	¥ 19	¥ 3	$ 278	$ 236	$ 42
Bonds	1,023	1,011	12	12,448	12,296	152
Other	–	–	–	–	–	–
Subtotal	1,046	1,030	16	12,726	12,533	193
Securities whose acquisition cost exceeds their carrying value:						
Stocks	0	0	(0)	3	3	(1)
Bonds	6,000	6,000	–	72,998	72,998	–
Other	7,383	7,407	(24)	89,829	90,119	(290)
Subtotal	13,383	13,407	(24)	162,830	163,120	(290)
Total	¥14,429	¥14,437	¥ (8)	$175,556	$175,653	$ (97)

	Millions of yen		
As of March 31, 2011	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stocks	¥ 21	¥ 19	¥ 2
Bonds	1,028	1,012	16
Other	–	–	–
Subtotal	1,049	1,032	18
Securities whose acquisition cost exceeds their carrying value:			
Stocks	40	49	(8)
Bonds	4,002	4,002	(0)
Other	6,909	6,909	–
Subtotal	10,952	10,960	(8)
Total	¥12,001	¥11,991	¥ 9

(2) Other securities sold during the following consolidated fiscal years

Fiscal year ended March 31, 2012

	Millions of yen			Thousands of U.S. dollars		
As of March 31, 2012	Sales amount	Gains on sales	Losses on sales	Sales amount	Gains on sales	Losses on sales
Stocks	¥35	¥0	¥8	$430	$2	$94
Bonds	–	–	–	–	–	–
Other	–	–	–	–	–	–
Total	¥35	¥0	¥8	$430	$2	$94

Fiscal year ended March 31, 2011

	Millions of yen		
As of March 31, 2011	Sales amount	Gains on sales	Losses on sales
Stocks	¥0	¥–	¥0
Bonds	–	–	–
Other	–	–	–
Total	¥0	¥–	¥0

(3) Accounting for the impairment in securities

"Acquisition cost" in the above chart is recognized at book value after impairment treatment. Impairment losses on other securities of ¥7 million ($86 thousand) and ¥5 million were recognized for the years ended March 31, 2012 and 2011, respectively.

When the market value of the securities at year-end declines by more than 50% of the acquisition cost, the Company deems market value to be irrecoverable and recognizes impairment treatment for such securities.

In cases when market value declines by more than 30% but by less than 50% of the acquisition cost at year-end, the Company does not recognize impairment losses, apart from in cases when market value declines due to the factors of downturns in business and others.

7. Shareholders' Equity

The Companies Act provides that amounts from capital surplus and retained earnings may be distributed to the shareholders at any time by resolution of the shareholders or by the Board of Directors if certain provisions are met subject to the extent of the applicable sources of such distributions. The Companies Act further provides that amounts equal to 10% of such distributions be transferred to the legal capital surplus included in capital surplus or the legal retained earnings included in retained earnings based on the applicable sources of such distributions until the sum of the legal capital surplus and the legal retained earnings equals 25% of the capital stock account.

The Company may make dividend payments as the appropriation of retained earnings by a resolution of the Board of Directors pursuant to the provisions of Article 459, Paragraph 1 of the Companies Act.

The amount of year-end cash dividends per share and half-year cash dividends per share, which the Company paid to the shareholders of record as at the respective period ends for the years ended March 31, 2012 and 2011, were as follows:

	Yen		U.S. dollars
	2012	2011	2012
Year-end	¥17.00	¥17.00	$0.21
Half-year	17.00	17.00	0.21

The effective dates of the distribution for year-end and half-year cash dividends, which were paid during the year ended March 31, 2012, were June 20, 2011 and December 5, 2011, respectively.

The cash dividends of retained earnings of the Company for the year ended March 31, 2012 approved at a meeting of the Board of Directors, which was held on May 2, 2012, were as follows:

	Millions of yen	Thousands of U.S. dollars
Cash dividends	¥1,103	$13,421

	Yen	U.S. dollars
Cash dividends per share	¥17.00	$0.21

8. Income Taxes

The significant components of deferred tax assets and liabilities at March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Deferred tax assets:			
Accrued enterprise taxes	¥ 33	¥ 69	$ 407
Accrued bonuses	360	394	4,383
Allowance for doubtful accounts	138	275	1,684
Reserve for customer awards	518	558	6,297
Allowance for retirement benefits	574	877	6,983
Allowance for directors' benefits	42	41	506
Long-term accrued amount payable	27	30	323
Net loss carried forward	1,140	1,361	13,874
Loss on valuation of investment securities	119	132	1,447
Impairment loss	363	410	4,421
Asset retirement obligations	162	195	1,974
Other	400	489	4,862
Gross deferred tax assets	3,876	4,832	47,161
Valuation allowance	(1,824)	(2,411)	(22,188)
Total deferred tax assets	2,053	2,421	24,973
Deferred tax liabilities:			
Prepaid pension cost	–	157	–
Unrealized intercompany profit on land	232	232	2,823
Gain on valuation of land	71	247	864
Removal expenses associated with asset retirement obligations	43	60	527
Other	25	43	304
Total deferred tax liabilities	371	738	4,519
Net deferred tax assets	¥ 1,681	¥ 1,683	$ 20,455

Income taxes applicable to the Company and its domestic consolidated subsidiaries comprise corporation tax, inhabitants' taxes and enterprise tax which, in the aggregate, resulted in a statutory tax rate of approximately 41% for the years ended March 31, 2012 and 2011.

A reconciliation between the statutory tax rate and the effective tax rates as a percentage of income before income taxes and minority interests for the years ended March 31, 2012 and 2011 is summarized as follows:

	2012	2011
Statutory tax rate	40.63%	40.63%
Additions to (deductions from) income taxes resulting from:		
Permanent nondeductible difference such as entertainment expenses	3.21	1.58
Inhabitants' per capita taxes	3.80	2.42
Permanent difference not recognized for tax purposes such as dividends received	(1.75)	(0.11)
Valuation allowance	(14.92)	3.75
Tax credits such as for research and development expenses	(4.05)	(2.59)
Difference in effective tax rates among the Company and its consolidated subsidiaries	(2.79)	(3.03)
Amortization of goodwill	1.32	0.85
Equity in loss of affiliated companies	–	1.41
Portion of tax exemption for overseas subsidiaries	–	2.60
Effects of changes in income tax rates	5.19	–
Other	(0.70)	0.01
Effective tax rates	29.94%	47.52%

Reversal of deferred tax assets and deferred tax liabilities resulting from a change in the corporate income tax rate.

Effective from years beginning on or after April 1, 2012, the corporate tax rate will be reduced and the special reconstruction corporate tax will be levied following promulgation on December 2, 2011 of the "Act for Partial Revision of the Income Tax Act etc. for the Purpose of Creating Taxation System Responding to Changes in Economic and Social Structures" (Act No. 114 of 2011) and the "Act for Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction following the Great East Japan Earthquake" (Act No. 117 of 2011).

As a result of this change, the normal effective statutory tax rate used to calculate deferred tax assets and deferred tax liabilities will change from the current 40.63% to 37.96% for temporary differences expected to be reversed in the year starting on April 1, 2012 through the year beginning on April 1, 2014, and will change to 35.58% for temporary differences expected to be reversed in years beginning on or after April 1, 2015. As a result of this change, deferred tax assets (net of the amount of deferred tax liabilities) decreased by ¥182 million ($2,211 thousand). Consequently, deferred income taxes increased by ¥182 million ($2,211 thousand), while unrealized holding loss on other securities, increased by ¥0 million ($0 thousand) as of and for the year ended March 31, 2012.

9. Retirement Benefits

The Group has defined benefit pension plans and lump-sum retirement payment plans which cover substantially all employees who terminate their employment. In addition to these plans, the Company and its domestic consolidated subsidiaries (except for one consolidated subsidiary) participate in the multi-employer Welfare Pension Fund Plan (the "Fund") under the Welfare Pension Insurance Law of Japan.

The funded status of the defined benefit pension plans at March 31, 2012 and 2011 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Projected benefit obligation	¥(2,594)	¥(2,947)	$(31,559)
Fair value plan assets	1,096	965	13,336
Funded status	(1,498)	(1,983)	(18,223)
Unrecognized actuarial net loss	(76)	226	(926)
Unrecognized prior service cost	(30)	–	(362)
Net retirement benefit obligation	(1,604)	(1,757)	(19,511)
Prepaid pension cost	–	398	–
Accrued retirement benefits	¥(1,604)	¥(2,155)	$(19,511)

The consolidated subsidiaries applied a simplified method permitted for the calculation of the projected benefit obligation.

Retirement benefit expenses for the years ended March 31, 2012 and 2011 were composed of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Service cost-benefits earned during the year	¥120	¥293	$1,465
Interest cost on projected benefit obligation	34	31	416
Expected return on plan assets	(21)	(20)	(259)
Amortization of unrecognized actuarial net loss	100	86	1,214
Amortization of prior service cost	(7)	–	(91)
Contributions to welfare pension fund	307	322	3,730
Retirement benefit expenses	¥532	¥713	$6,475

In the table above, retirement benefit expenses determined by a simplified method of the consolidated subsidiaries have been included in service cost-benefits earned during the year.

The principal assumptions used in the above actuarial calculations for the years ended March 31, 2012 and 2011 were as follows:

	2012	2011
Discount rate	1.75%	1.75%
Expected rate of return	3.00%	3.00%
Actuarial cost method	Unit credit actuarial cost method	Unit credit actuarial cost method
Amortization period for prior service cost	5 years*1	–
Amortization period for actuarial differences	5 years*2	5 years*2

*1 Prior service cost is amortized by the straight-line method for a certain period within the average remaining service period of employees, and charged to income as incurred.
*2 Amortized by the straight-line method over a period which falls within the estimated average remaining years of service of the active participants, commencing the year subsequent to the period when the actuarial difference was calculated.

The Company and its consolidated subsidiaries which participated in the Fund have accounted for their contributions to the Funds as retirement benefit expenses. The financial information of the Funds is summarized as follows:

(1) Funded status of the Fund as of March 31, 2012 and 2011:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Fund's assets	¥6,343	¥5,996	$77,181
Projected benefit obligation	5,498	5,199	66,897
Funded status	¥ 845	¥ 797	$10,284

The funded status above primarily consisted of unamortized prior service cost of ¥150 million ($1,823 thousand), additional asset appraisal value of ¥368 million ($4,479 thousand) and a general reserve of ¥1,679 million ($20,426 thousand) and retained earnings for the year of ¥316 million ($3,841 thousand).

(2) The percentage of the contributions paid by the Company's group over total contributions paid by all participants into the Fund was 56.3% for the year ended March 31, 2012 (previous year was 55.3%). This percentage is not always in agreement with the actual payment responsibility of the Company's group.

(3) Supplementary explanation

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Unamortized prior service cost	¥ 150	¥298	$ 1,823
Valuation adjustment of plan assets	368	584	4,479
General reserve	1,679	695	20,426
Deficits	316	–	3,841
Surplus	–	984	–

The Company's group does not make special contributions to the Fund.

Proportionate share of contributions paid in (2) above is not corresponding to proportionate share of the benefit obligation incurred by the Group.

10. Research and Development Expenses

Research and development expenses charged to income for the years ended March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Research and development expenses	¥2,647	¥2,429	$32,204

11. Leases

The Group holds certain machinery and equipment under finance leases which do not transfer ownership to the lessee. These leases are not capitalized, but are accounted by a method similar to that applicable to operating leases. If such leases had been capitalized, the acquisition costs, accumulated depreciation and accumulated loss on impairment of the leased assets at March 31, 2012 and 2011 would have been as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Machinery and equipment:			
Acquisition cost	¥1,793	¥2,023	$21,815
Accumulated depreciation	1,371	1,570	16,687
Accumulated loss on impairment	400	400	4,871
	¥ 21	¥ 53	$ 257

The following table represents the future minimum lease payments subsequent to March 31, 2012 under finance leases which do not transfer ownership.

	Millions of yen	Thousands of U.S. dollars
	2012	2012
Minimum lease payments:		
Due within one year	¥223	$2,708
Due after one year	0	1
	223	2,709
Accumulated loss on impairment	41	503

Lease payments, reversal of accumulated loss on impairment of leased assets, accumulated depreciation, interest payments and accumulated loss on impairment for the year ended March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Lease payments	¥219	¥349	$2,660
Reversal of accumulated loss on impairment of leased assets	38	55	462
Accumulated depreciation	194	320	2,355
Interest payments	10	16	117

The methods for calculating depreciation and interest

Calculation of total depreciation

Depreciation of the leased assets has been calculated by the straight-line method over the respective lease terms assuming a nil residual value.

Calculation of interest

Interest is calculated as the difference between total lease expenses and the acquisition cost of the leased asset. Interest is allocated to each period with the interest method.

12. Loss on Impairment of Fixed Assets

Loss on impairment of fixed assets for the year ended March 31, 2012 and 2011 consisted of the following:

As of March 31, 2012

Used for	Type of assets	Amount		Place
		Millions of yen	Thousands of U.S. dollars	
Iijima Office	Building and structures	¥223	$2,710	Yokohama City, Sakae-ku
	Land	184	2,243	
Store equipment	Building and structures	39	474	Kanto Area
	Tools and equipment	6	73	
	Lease assets	9	114	
	Software	1	15	
	Long-term prepaid expenses	0	1	
	Building and structures	4	50	Tohoku Area
	Tools and equipment	0	2	
	Building and structures	11	131	Kinki Area
	Tools and equipment	1	8	
	Building and structures	4	46	Chugoku Area
	Tools and equipment	0	5	
Total		¥483	$5,871	

Outline of impairment loss recognition

(1) In regards to the Iijima Office, due to a change in its intended use, the Company has accounted for ¥407 million ($4,953 thousand) of impairment losses on production facilities deemed no longer useful, reducing their book value to their recoverable value. These have been recorded in extraordinary loss.

(2) For store equipment, following the decisions of the store closure or renovation, the book values of such equipment were written down to the recoverable amounts of these assets. This reduction in value (¥75 million ($918 thousand)) was charged as an impairment loss under extraordinary losses.

Grouping method:

The FANCL Group primarily groups assets by type of operation. Idle assets are grouped by facility.

Method for calculating recoverable value

1. The recoverable value of the Iijima Office is measured as the net sale value. The value of applicable assets is calculated based largely on valuation by the appraisal of real estate.
2. The recoverable value of store equipment is calculated as the net sale value. Assets other than those that can be diverted are unlikely to be sold and have a value of zero.

As of March 31, 2011

Used for	Type of assets	Amount Millions of yen	Place
Cosmetics manufacturing facilities	Building and structures	¥ 37	Kagawa Pref., Takamatsu City
	Machinery and transportation equipment	4	
	Tools and equipment	2	
	Land	18	
	Intangible fixed assets	1	
Store equipment	Building and structures	64	Kanto Area
	Tools and equipment	5	
	Long-term prepaid expenses	0	
	Building and structures	12	Kinki Area
	Tools and equipment	2	
	Building and structures	15	Chugoku Area
	Building and structures	16	Kyushu Area
Total		¥175	

Outline of impairment loss recognition

(1) For cosmetics manufacturing facilities, following the merger and absorption of CHALONE INC by NICOSTAR BEAUTECH Co., Ltd., both companies are consolidated subsidiaries of FANCL, the book values of production facilities, which would not be used in future were written down to the recoverable amounts of the facilities. This reduction in value (¥62 million) was charged as an impairment loss under extraordinary losses.

(2) For store equipment, following the decisions of the store closure or renovation, the book values of such equipment were written down to the recoverable amounts of these assets. This reduction in value (¥113 million) was charged as an impairment loss under extraordinary losses.

Grouping method:

The FANCL Group primarily groups assets by type of operation. Idle assets are grouped by facility.

Method for calculating recoverable value

1. The recoverable value of cosmetics manufacturing facilities is measured as the net sale value. The value of applicable assets is calculated based largely on valuation by the appraisal of real estate.
2. The recoverable value of store equipment is calculated as the net sale value. Assets other than those that can be diverted are unlikely to be sold and have a value of zero.

13. Stock Option Plans

Stock Option-related Expenses and Line Items for the Consolidated Fiscal Year

Selling, general and administrative expenses ¥105 million ($1,277 thousand) and ¥66 million were recorded for the year ended March 31, 2012 and 2011, respectively.

Stock option-related gains recorded due to expiration as a result of not exercising right

Gain on reversal of subscription rights to shares of ¥139 million ($1,695 thousand) was recorded for the year ended March 31, 2012.

At March 31, 2012, the Company had the following stock option plans which were approved by its shareholders or the Board of Directors.

Date of approval by shareholders or the Board of Directors	November 15, 2006	November 12, 2007	November 14, 2008	November 12, 2009	November 15, 2010	September 12, 2011	November 14, 2011
Grantees	9 directors and 9 executive officers	11 directors and 5 executive officers	9 directors and 3 executive officers	7 directors and 3 executive officers	7 directors and 5 executive officers	2,519 employees of the Company and subsidiaries	7 directors and 5 executive officers
Type of shares with warrants granted	Common stock	Common stock	Common stock	Common stock	Common stock	Common stock	Common stock
Number of shares with warrants granted	62,800 shares	90,700 shares	78,200 shares	44,900 shares	73,300 shares	928,000 shares	90,500 shares
Option price per warrant	¥1	¥1	¥1	¥1	¥1	¥1,098	¥1
Exercise period	December 2, 2006–December 1, 2036	December 4, 2007–December 3, 2037	December 2, 2008–December 1, 2038	December 2, 2009–December 1, 2039	December 2, 2010–December 1, 2040	September 13, 2013–September 12, 2016	December 2, 2011–December 1, 2041

14. Contingent Liabilities

Contingent liabilities as of March 31, 2012 amounted to ¥1,536 million ($18,689 thousand) and represented guarantees of borrowings from Shoko Chukin Bank incurred by the 16 industrial corporations (including FANCL B&H Co., Ltd.) which are members of the Nagareyama Industrial Cooperative Association (the "Association") for the purpose of financing their purchases of manufacturing and other facilities located in the Nagareyama City area. FANCL B&H Co., Ltd. has guaranteed such borrowings jointly and severally with the other 15 members of the Association.

In addition to the guarantees stated above, land of ¥592 million ($7,200 thousand) and plant of ¥1,384 million ($16,843 thousand) located in the Nagareyama area were pledged as collateral for the above borrowings as of March 31, 2012.

15. Amounts per Share

In accordance with the accounting standard for earnings per share, basic net income per share is computed based on the net income available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during each year. Diluted net income per share is computed based on the net income available for distribution to the shareholders of common stock and the weighted-average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock to be issued upon the exercise of warrants and stock subscription rights. Net assets per share is computed based on the number of shares of common stock outstanding at each year end.

	Yen		U.S. dollars
	2012	2011	**2012**
Net income:			
– Basic	**¥ 37.82**	¥ 43.89	**$ 0.46**
– Diluted	**37.68**	43.77	**0.46**
Net assets	**1,209.11**	1,205.34	**14.71**

(Note) The following represents the basis of computation of net income per share and diluted net income per share.

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Net income per share			
Net income	**¥2,454**	¥2,850	**$29,862**
Amount not attributable to common shareholders	**–**	–	**–**
Net income on common stock	**2,454**	2,850	**29,862**
Average number of shares of common stock outstanding during the period	**64,897,708**	64,931,336	**64,897,708**
Diluted net income per share			
Net income	**–**	–	**–**
Increase in shares of common stock mainly consists of:			
Stock acquisition rights	**241,043**	172,347	**241,043**
Description of residual securities which were not included in the calculation of diluted net income per share as they have no dilutive effects	**–**	–	**–**

16. Supplementary Cash Flow Information

The following table represents a reconciliation of cash and bank deposits in the accompanying consolidated balance sheets with cash and cash equivalents in the accompanying consolidated statements of cash flows at March 31, 2012 and 2011:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Cash and bank deposits	**¥18,149**	¥18,661	**$220,823**
Marketable securities	**13,383**	10,911	**162,827**
Time deposits for periods of more than three months	**(500)**	–	**(6,083)**
Marketable securities pledged as collateral for periods of more than three months	**(5,976)**	(1,503)	**(72,712)**
Cash and cash equivalents	**¥25,056**	¥28,070	**$304,855**

Breakdown of increased assets and liabilities due to the acquisition of a non-consolidated subsidiary:
FANCL Wellness Counseling Clinic Co., Ltd.

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 75	$ 918
Fixed assets	72	875
Total assets	¥147	$1,793
Current liabilities	¥ 73	$ 891
Long-term liabilities	217	2,643
Total liabilities	¥290	$3,534

Break down of the reduction in assets and liabilities of a subsidiary due to the business divestiture and related amounts for the business transfer amount, and payments for business divestiture:
IIMONO OHKOKU Co., Ltd.

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 1,442	$ 17,548
Fixed assets	80	971
Current liabilities	(1,456)	(17,718)
Long-term liabilities	(130)	(1,583)
Total other comprehensive income	0	3
Gain on transfer from business divestiture	214	2,604
Business transfer amount	150	1,825
Cash and cash equivalents of transferred business	(515)	(6,272)
Payments for business divestiture	¥ (365)	$ (4,447)

17. Business Combination

As of March 31, 2012

(1) Outline of business divestiture

1. Transferee
   Transferee name: Kenji Ikemori
   Transferred business details: IIMONO OHKOKU Mail-Order Business
2. Main reasons for business divestiture
   The Company determined to conduct a business divestiture having judged that the business transfer will provide a foothold for further growth for both the Company and the newly established company as the Company focuses on the selection and concentration of businesses with the aim of strengthening management quality.
3. Business divestiture date
   February 1, 2012
4. Other items related to the transaction including the legal form
   A physical divestiture was conducted, in which the separating company was the Company's subsidiary IIMONO OHKOKU and the newly established indirectly owned company (a 100%-owned subsidiary of IIMONO OHKOKU) was the continuing company. All shares in the indirectly owned company were transferred on the same day.

(2) Outline of accounting methods applied

1. Profit on transfer
   ¥214 million
2. Break down of assets and liabilities of the separated business:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥1,442	$17,548
Fixed assets	80	971
Total assets	¥1,522	$18,519
Current liabilities	¥1,456	$17,718
Long-term liabilities	130	1,583
Total liabilities	¥1,586	$19,301

3. Accounting method

Investments in the transferred IIMONO OHKOKU mail order business are deemed as liquidated, and the difference between the proceeds received and the amount of shareholders equity corresponding to the transferred business is recognized as the profit on transfer.

(3) Reportable segment in which the divested business was included

Other (Business segment which is not included in the reportable segments)

(4) Outline of the profit (loss) related to the divested business, recorded for the year ended March 31, 2012

	Millions of yen	Thousands of U.S. dollars
Sales	¥6,055	$73,671
Operating loss	(109)	(1,332)

18. Asset Retirement Obligations

As of March 31, 2012

Information on asset retirement obligations

(1) Overview of applicable asset retirement obligations

① Obligation to restore property to its original condition based on real estate lease agreements

Following termination of lease agreements, the Company and FANCL Group companies have obligations to restore offices and stores used under real estate lease agreements to their original condition.

② Pursuant to the Act on Ensuring the Implementation of Recovery and Destruction of Fluorocarbons Concerning Designated Products, the Construction Material Recycling Law, and the Law Concerning Special Measures Against PCB Waste

The Company and FANCL Group companies have legal obligation to eliminate CFCs and PCB wastes at Group offices and manufacturing facilities.

(2) Method for calculating amount of applicable asset retirement obligations

① Obligation to restore property to its original condition based on real estate lease agreements

The Company has adopted an estimate based on an anticipated usage period ranging from 2 to 36 years from the acquisition, with applied discount rates of 0.28–2.30%.

② Pursuant to the Act on Ensuring the Implementation of Recovery and Destruction of Fluorocarbons Concerning Designated Products, the Construction Material Recycling Law, and the Law Concerning Special Measures Against PCB Waste

The Company has adopted an estimate for its obligation to conduct surveys and enact countermeasures based on an anticipated usage period of 15 years from the acquisition, with applied discount rates of 0.80–1.50%.

(3) Total changes in applicable asset retirement obligations during the years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Balance at beginning of year (see Note)	¥489	¥464	$5,944
Liabilities incurred due to the acquisition of property, plant and equipment	30	29	364
Accretion expense	9	9	111
Liabilities settled	33	14	403
Decrease due to business divestiture	14	–	167
Balance at end of year	481	489	5,849

(Note) Effective since the fiscal year ended March 31, 2011, the Accounting Standard for Asset Retirement Obligations (ASBJ Statement No. 18, March 31, 2008) and Guidance on Accounting Standard for Asset Retirement Obligations (ASBJ Guidance No. 21, March 31, 2008) had been applied, the beginning balance of the fiscal year ended March 31, 2011 was recorded instead of the ending balance of the previous fiscal year ended March 31, 2010.

19. Segment Information

(a) Summary of reportable segments

Reportable segments of the Group are components for which discrete financial information is available and whose operating results are regularly reviewed by the Executive Committee to make decisions about resource allocation and to assess performance.

The Group manufactures and distributes cosmetics products and nutritional supplements in domestic and over-seas markets under the comprehensive business strategy. The reportable segments have been comprised of the cosmetics business, which produce original products and OEM products, and the nutritional supplements business.

(b) Accounting treatments of the sales, income (loss), assets, and other items for each reporting segment

The accounting treatment for reporting segments are substantially the same as those disclosed in the significant accounting policies in Note 1. Segment performance is evaluated based on operating income.

(c) Information by reportable segments

Year ended March 31, 2012	Millions of yen: Reportable segments: Cosmetics business	Reportable segments: Nutritional supplements business	Reportable segments: Sub total	Other businesses*1	Total	Adjustments and eliminations*2	Consolidated*3
I. Sales, profits or losses and assets by reportable segments							
Sales to external customers	**¥45,824**	**¥27,037**	**¥72,861**	**¥15,304**	**¥88,165**	**¥ –**	**¥88,165**
Intersegment sales or transfers	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total sales	**45,824**	**27,037**	**72,861**	**15,304**	**88,165**	**–**	**88,165**
Segment profits (losses)	**4,685**	**1,584**	**6,269**	**(587)**	**5,682**	**(1,665)**	**4,017**
Segment assets	**¥34,208**	**¥13,926**	**¥48,134**	**¥10,112**	**¥58,246**	**¥33,493**	**¥91,739**
II. Other items							
Depreciation and amortization	**¥ 2,087**	**¥ 867**	**¥ 2,954**	**¥ 318**	**¥ 3,272**	**¥ 128**	**¥ 3,400**
Amortization of goodwill	**114**	**–**	**114**	**–**	**114**	**–**	**114**
Increase in property, plant and equipment and intangible fixed assets	**2,597**	**1,092**	**3,689**	**313**	**4,001**	**–**	**4,001**

*1 Other businesses mainly consist of mail-order sales business of comfort undergarments, health equipment and lifestyle goods, germinated brown rice business, kale juice business and esthetic business.
*2 Unallocatable operating expenses included under "Adjustments and eliminations" for the year ended March 31, 2012 amounted to ¥1,665 million ($20,257 thousand) and consisted of operating expenses incurred in the Administration Department of the Company. Corporate assets included under "Adjustments and eliminations" at March 31, 2012 amounted to ¥33,493 million ($407,513 thousand) and consisted principally of cash and cash equivalents, short-term investments, land and funds for long-term investments (investment securities and other) of the Company.
*3 Segment profits (losses) are adjusted for operating income (loss) as recorded in the consolidated financial statements.

Year ended March 31, 2011	Millions of yen: Reportable segments: Cosmetics business	Reportable segments: Nutritional supplements business	Reportable segments: Sub total	Other businesses*1	Total	Adjustments and eliminations*2	Consolidated*3
I. Sales, profits or losses and assets by reportable segments							
Sales to external customers	¥47,678	¥28,248	¥75,926	¥17,864	¥93,790	¥ –	¥93,790
Intersegment sales or transfers	–	–	–	–	–	–	–
Total sales	47,678	28,248	75,926	17,864	93,790	–	93,790
Segment profits (losses)	7,098	2,125	9,223	(506)	8,717	(1,600)	7,118
Segment assets	¥33,345	¥14,885	¥48,230	¥12,460	¥60,691	¥33,339	¥94,030
II. Other items							
Depreciation and amortization	¥ 1,749	¥ 793	¥ 2,541	¥ 320	¥ 2,861	¥ 55	¥ 2,916
Amortization of goodwill	114	–	114	–	114	–	114
Increase in property, plant and equipment and intangible fixed assets	2,253	1,066	3,319	333	3,652	–	3,652

*1 Other businesses mainly consist of mail-order sales business of comfort undergarments, health equipment and lifestyle goods, germinated brown rice business, kale juice business and esthetic business.
*2 Unallocatable operating expenses included under "Adjustments and eliminations" for the year ended March 31, 2011 amounted to ¥1,600 million and consisted of operating expenses incurred in the Administration Department of the Company. Corporate assets included under "Adjustments and eliminations" at March 31, 2011 amounted to ¥33,339 million and consisted principally of cash and cash equivalents, short-term investments, land and funds for long-term investments (investment securities and other) of the Company.
*3 Segment profits (losses) are adjusted for operating income (loss) as recorded in the consolidated financial statements.

Year ended March 31, 2012	Thousands of U.S. dollars						
	Reportable segments						
	Cosmetics business	Nutritional supplements business	Sub total	Other businesses*1	Total	Adjustments and eliminations*2	Consolidated*3
I. Sales, profits or losses and assets by reportable segments							
Sales to external customers	$557,543	$328,955	$886,499	$186,202	$1,072,701	$ –	$1,072,701
Intersegment sales or transfers	–	–	–	–	–	–	–
Total sales	557,543	328,955	886,499	186,202	1,072,701	–	1,072,701
Segment profits (losses)	57,004	19,270	76,273	(7,146)	69,127	(20,257)	48,871
Segment assets	$416,208	$169,439	$585,647	$123,026	$ 708,673	$407,513	$1,116,186
II. Other items							
Depreciation and amortization	$ 25,392	$ 10,547	$ 35,939	$ 3,867	$ 39,806	$ 1,556	$ 41,362
Amortization of goodwill	1,382	–	1,382	–	1,382	–	1,382
Increase in property, plant and equipment and intangible fixed assets	31,595	13,287	44,881	3,804	48,685	–	48,685

*1 Other businesses mainly consist of mail-order sales business of comfort undergarments, health equipment and lifestyle goods, germinated brown rice business, kale juice business and esthetic business.
*2 Unallocatable operating expenses included under "Adjustments and eliminations" for the year ended March 31, 2012 amounted to ¥1,665 million ($20,257 thousand) and consisted of operating expenses incurred in the Administration Department of the Company. Corporate assets included under "Adjustments and eliminations" at March 31, 2012 amounted to ¥33,493 million ($407,513 thousand) and consisted principally of cash and cash equivalents, short-term investments, land and funds for long-term investments (investment securities and other) of the Company.
*3 Segment profits (losses) are adjusted for operating income (loss) as recorded in the consolidated financial statements.

(d) Information related to impairment loss on fixed assets by reportable segments

	Millions of yen					
	Cosmetics business	Nutritional supplements business	Total	Other businesses*1	Adjustments and eliminations*2	Consolidated
Impairment loss for the year ended March 31, 2012	¥ 39	¥15	¥ 54	¥22	¥407	¥483
Impairment loss for the year ended March 31, 2011	¥107	¥16	¥123	¥52	–	¥175

	Thousands of U.S. dollars					
	Cosmetics business	Nutritional supplements business	Total	Other businesses*1	Adjustments and eliminations*2	Consolidated
Impairment loss for the year ended March 31, 2012	$475	$176	$651	$267	$4,953	$5,871

*1 Other businesses mainly consist of germinated brown rice business, kale juice business and esthetic business.
*2 The amount of ¥407 million ($4,953 thousand) is related to the Iijima Office.

(e) Information related to goodwill by reportable segments

	Millions of yen					
	Reportable segments					
	Cosmetics business	Nutritional supplements business	Total	Other businesses	Adjustments and eliminations	Consolidated
Amortization for the year ended March 31, 2012	¥114	¥–	¥114	¥–	¥–	¥114
Balance as of March 31, 2012	¥284	–	¥284	–	–	¥284

	Millions of yen					
	Reportable segments					
	Cosmetics business	Nutritional supplements business	Total	Other businesses	Adjustments and eliminations	Consolidated
Amortization for the year ended March 31, 2011	¥114	¥–	¥114	¥–	¥–	¥114
Balance as of March 31, 2011	¥398	–	¥398	–	–	¥398

	Thousands of U.S. dollars					
	Reportable segments					
	Cosmetics business	Nutritional supplements business	Total	Other businesses	Adjustments and eliminations	Consolidated
Amortization for the year ended March 31, 2012	$1,382	$–	$1,382	$–	$–	$1,382
Balance as of March 31, 2012	$3,456	–	$3,456	–	–	$3,456

(f) Information on profit arising from negative goodwill by reporting segment

Negative goodwill amounted ¥52 million resulting from business combination of CHALONE INC on October 1, 2010, was recognized as profit for the year ended March 31, 2011.

For the fiscal year April 1, 2011 to March 31, 2012

No applicable items

20. Related Parties

(1) Transactions between the Directors of the Company and related parties

Year ended March 31,		Millions of yen		Thousands of U.S. dollars
Name of company	Detail of transaction	2012	2011	2012
Tsuyoshi Tatai	Advisor remuneration*2	¥13	¥21	$152
Yukio Ikemori	Advisor remuneration*2	14	15	175
Kenji Ikemori	Remuneration for Honorary Chairman*2	36	36	438
Medical Corporation Foundation *Kenkoin**1	Payment of remuneration*3, *4	13	–	163

Of the above amounts, the amount of transactions does not include consumption taxes while the balance at end of the year does.

Transaction terms and conditions and policies for determining transaction terms and conditions

*1 Foundation was established through the donation solely by Mr. Kenji Ikemori, a major shareholder of the Company. Mr. Ikemori serves as one of directors of the foundation.

*2 Remuneration is determined in accordance with the internal rules of the Company.

*3 Transaction terms and conditions are the same as those with the parties that have no relationship with the Company.

*4 The amount represents the total amount of transactions carried out between August 2011 and March 2012.

(2) Related parties transactions between the Company's subsidiaries and the related parties for the years ended March 31, 2012 and 2011 were principally summarized as follows:

Year ended March 31,		Millions of yen		Thousands of U.S. dollars
Name of company	Detail of transaction	2012	2011	2012
Nagareyama Industrial Park	Debt guarantees	¥1,536	¥1,541	$18,689
Fantastic Natural Cosmetics Limited	Sale of products	3,090	4,019	37,596
Fantastic Natural Cosmetics (China) Limited	Sale of products	1,967	2,686	23,926
Kenji Ikemori	Business transfer*2			
	Total transferred assets	1,522	–	18,519
	Total transferred liabilities	1,586	–	19,301
	Transfer price	150	–	1,825
	Gain on transfer from business divestiture	214	–	2,604
I'foret Co., Ltd*1	Sale of products	19	–	227

Of above figures, transactions do not include consumption taxes and the balance at the end of the fiscal year includes consumption taxes.

Transaction terms and conditions and policies for determining transaction terms and conditions

*1 Mr. Kenji Ikemori, a major shareholder of the Company, has 100% voting rights in I'foret Co., Ltd. I'foret Co., Ltd. was renamed from IIMONO OHKOKU Co., Ltd. as of March 2012.

*2 Refers to transfer of the IIMONO OHKOKU general merchandise mail order business, decided following negotiations based on a price calculated by the Company.

*3 These transactions are conducted on equal terms with other parties who are not related parties to the Company.

*4 CMC Holdings Limited, which previously had a majority of the voting rights, disposed of the shares in the Company in October 2011 and is no longer the principal shareholder. Thus, the transaction amount represents the amount of transactions during the period in which the enterprise was a related party, while the year-end balance shows the balance as of the date when it ceased to be a related party.

*5 Represents the amount of transactions from February 2012 to March 2012.

*6 The Company has guaranteed the borrowings of the Nagareyama Industrial Park (the "Association") from the Shoko Chukin Bank, Ltd. jointly and severally with the other 15 members of the Association.

*7 As part of cooperative business management of plants, etc. implemented by the Association, collateral has been provided for the loans of the Association.

Balance of related parties transactions as of March 31, 2012 was principally summarized as follows:

		Millions of yen	Thousands of U.S. dollars
Name of company	Description	2012	2012
Fantastic Natural Cosmetics Limited	Accounts receivable	¥1,015	$12,350
Fantastic Natural Cosmetics (China) Limited	Accounts receivable	546	6,638
I'foret Co., Ltd.	Accounts receivable	12	140

21. Other Comprehensive Income

Items related to the consolidated statements of comprehensive income

For the year ended March 31, 2012

Reclassification adjustment and tax effect on components of other comprehensive income for the year ended March 31, 2012

	Millions of yen	Thousands of U.S. dollars
Net unrealized holding gain (loss) on other securities		
Amount arising during the year	¥(30)	$(370)
Reclassification adjustment	13	158
Before tax effect	(17)	(212)
Tax effect	8	93
Net unrealized holding gain (loss) on other securities	¥(10)	$(119)
Total other comprehensive income (loss)	¥(10)	$(119)

Report of Independent Auditors

The Board of Directors
FANCL CORPORATION

We have audited the accompanying consolidated financial statements of FANCL CORPORATION and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2012, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of FANCL CORPORATION and its consolidated subsidiaries as at March 31, 2012, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 2.

Ernst & Young Shin Nihon LLC

June 16, 2012
Tokyo, Japan

Quarterly Financial Information/Monthly Sales Data

FANCL CORPORATION and Consolidated Subsidiaries
For the years ended March 31

Quarterly Financial Information

	Millions of yen											
	1st Quarter			2nd Quarter			3rd Quarter			4th Quarter		
	2012	2012*	2011	**2012**	2012*	2011	**2012**	2012*	2011	**2012**	2012*	2011
Net sales	**¥21,706**	¥20,242	¥23,395	**¥22,214**	¥20,643	¥22,381	**¥24,477**	¥22,213	¥26,109	**¥19,769**	¥19,255	¥21,904
Cosmetics	**11,066**	11,050	12,046	**11,640**	11,599	11,712	**12,382**	12,323	12,992	**10,736**	10,716	10,928
Nutritional supplements	**6,778**	6,775	6,626	**6,582**	6,580	6,449	**7,379**	7,376	8,230	**6,298**	6,297	7,042
Others	**3,862**	2,417	4,723	**3,992**	2,464	4,221	**4,716**	2,514	4,987	**2,734**	2,242	3,933
Net sales, by sales channel												
Mail-order sales	**11,291**	9,795	12,612	**11,484**	9,878	11,558	**13,782**	11,508	14,659	**9,785**	9,271	11,490
Retail store sales	**5,536**	5,536	6,140	**5,699**	5,699	6,058	**5,888**	5,888	6,122	**5,129**	5,129	5,376
Wholesale and others	**2,824**	2,855	2,686	**3,000**	3,037	2,688	**3,346**	3,357	3,341	**2,681**	2,682	2,806
Overseas sales	**2,056**	2,056	1,957	**2,029**	2,029	2,077	**1,461**	1,461	1,987	**2,173**	2,173	2,231
Operating income	**1,002**	1,079	2,127	**519**	551	461	**1,942**	1,844	2,963	**554**	620	1,566
Cosmetics	**1,282**	1,274	2,186	**922**	909	852	**1,828**	1,816	2,422	**653**	640	1,637
Nutritional supplements	**306**	304	619	**234**	234	168	**516**	516	911	**527**	525	428
Others	**(179)**	(92)	(194)	**(177)**	(133)	(165)	**52**	(33)	23	**(283)**	(202)	(170)
Net income	**¥ 416**	¥ 494	¥ 813	**¥ 386**	¥ 423	¥ 164	**¥ 1,075**	¥ 954	¥ 1,782	**¥ 816**	¥ (27)	¥ 91

* On February 1, 2012, FANCL released IIMONO OHKOKU Co., Ltd. from consolidation. To ensure the most accurate analysis, figures have been calculated as if IIMONO OHKOKU Co., Ltd. had remained a consolidated subsidiary.

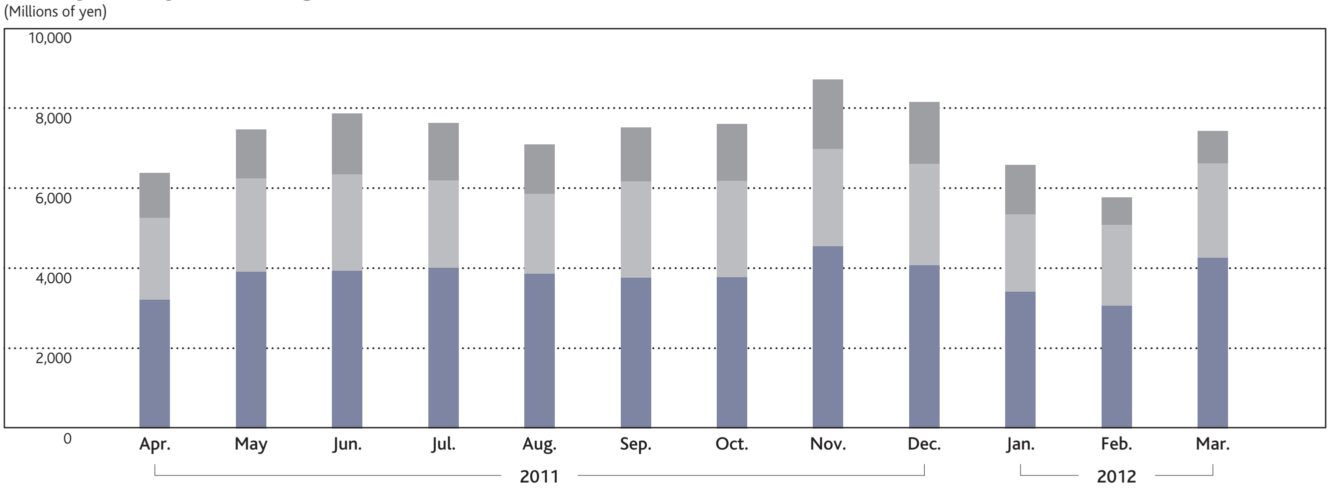
Monthly Sales Data

	Millions of yen											
	2011									2012		
	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.*	Mar.*
Cosmetics	¥3,212	¥3,915	¥3,940	¥4,017	¥3,862	¥3,761	¥3,769	¥4,546	¥4,068	¥3,412	¥3,065	¥4,259
YoY increase (decrease)	(16.5%)	1.3%	(9.2%)	1.2%	0.0%	(3.1%)	0.9%	(5.3%)	(8.7%)	0.1%	(15.2%)	9.4%
Nutritional supplements	2,041	2,332	2,406	2,178	1,996	2,408	2,413	2,433	2,532	1,930	2,014	2,355
YoY increase (decrease)	(5.6%)	13.0%	0.2%	0.6%	(1.2%)	6.4%	(4.4%)	(11.7%)	(11.1%)	(16.1%)	(9.6%)	(6.4%)
Others	1,135	1,215	1,512	1,426	1,226	1,340	1,422	1,738	1,556	1,233	690	812
YoY increase (decrease)	(24.5%)	(18.9%)	(12.2%)	(9.5%)	(1.3%)	(4.5%)	(8.0%)	(3.8%)	(4.8%)	(10.3%)	(10.4%)	(2.6%)
Total	¥6,388	¥7,461	¥7,858	¥7,621	¥7,084	¥7,509	¥7,604	¥8,717	¥8,156	¥6,575	¥5,768	¥7,426
YoY increase (decrease)	(15.0%)	0.5%	(7.1%)	(1.1%)	(0.6%)	(0.5%)	(2.6%)	(6.9%)	(8.8%)	(7.2%)	(12.7%)	2.5%

* On February 1, 2012, FANCL released IIMONO OHKOKU Co., Ltd. from consolidation. To ensure the most accurate analysis, figures have been calculated as if IIMONO OHKOKU Co., Ltd. had remained a consolidated subsidiary.

Monthly Sales by Business Segment

(Millions of yen)



Corporate Data

Management Philosophy

"Can Achieve More"

FANCL Group is a corporation that truly cares for people.

FANCL has strived to eliminate customers' negative experiences and pursue safety, gentleness, and assurance of its products.

We always put ourselves in customers' shoes and the happiness of our customers forms the basis of everything we do.

History

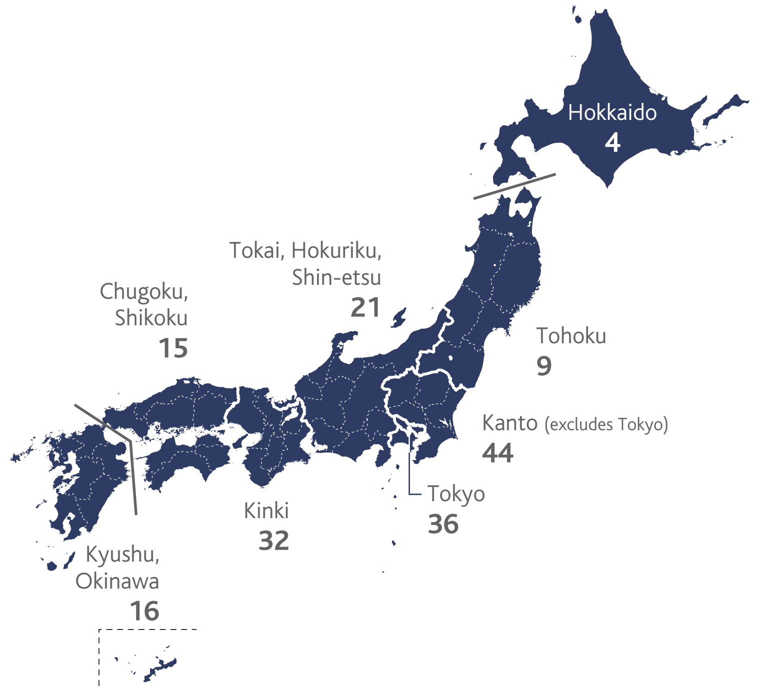
1980	**April**	FANCL Cosmetics founded, specializing in mail-order sales of cosmetics.
1981	**August**	Incorporation of FANCL CORPORATION (FANCL).
1984	**April**	FANCL Biken Corporation becomes a subsidiary; launches in-house cosmetics production.
	September	Launch of ESPOIR communication magazine.
1989	**February**	Incorporation of ATTENIR CORPORATION, begins sales of ATTENIR cosmetics, embodying the concepts of high performance, high quality, and affordable prices.
1991	**September**	Completion of new FANCL Biken Corporation factory (current Chiba Factory) at Nagareyama Industrial Park, Chiba Prefecture.
1994	**February**	Launch of mail-order sales of nutritional supplements.
1995	**March**	Opening of antenna shop (current FANCL House Shizuoka Aoba-dori shop) in Shizuoka; FANCL begins expansion of directly operated shops.
1996	**October**	Conclusion of agreement with Hong Kong sales agent; launches of sales of cosmetics and nutritional supplements in Hong Kong.
1997	**July**	Establishment of FANCL INTERNATIONAL, INC. in Irvine, California, USA.
1998	**November**	Initial public offering as Japan Securities Dealers Association over-the-counter issue.
1999	**March**	Establishment of the FANCL Research Institute in Totsuka-ku, Yokohama, a Cosmetics Research Center and Food Science Research Center integrated into a single facility.
	June	Chiba factory certified as conforming to the ISO 9002 international quality assurance standard.
	August	Establishment of the FANCL Dormer Corporation.
	December	FANCL listed on First Section of the Tokyo Stock Exchange.
2000	**March**	Establishment of FANCL ASIA (PTE) LTD. in Singapore.
	August	Sales of FANCL Kale Juice begin at all Three-F convenience stores.
	November	Entire FANCL Group certified as confirming to the ISO 9001 international quality management standard.
2001	**June**	Establishment of FANCL TAIWAN Co., Ltd. in Taiwan.
2002	**April**	Completed the construction of the Nagano germinated brown rice production factory, a major facility with a maximum production capacity of 80 tons/day.
	October	FANCL Biken Co., Ltd. established to manage the manufacturing operations of the FANCL Group.
	November	Entire FANCL Group certified as conforming to the ISO 14001 environmental management standard.
2003	**April**	FANCL Square opens at Ginza 5-chome, one of the most fashionable and classy spots in central Tokyo.
	September	Completed the construction of FANCL Biken Shiga Factory.
2004	**August**	Launch of sales of cosmetics and nutritional supplements in Shanghai.
2005	**October**	Acquisition of health-food GMP Compliance Certification by Yokohama Factory for FANCL B&H Co., Ltd.
2008	**August**	Opening of FANCL Kanto Distribution Center.
	July	NEUES K.K., which specializes in the esthetic business, joins as our subsidiary company.
2012	**March**	Rebranding of FANCL cosmetics business. The corporate logo and the brand statement of the Cosmetics Business are newly enacted. Released six lines of *Mutenka Skincare*.

Network

Retail Stores (Global) (As of December 31, 2011)

*Stores offering boscia (brand for the U.S. market)

Retail Stores (Domestic) (As of March 31, 2012)



Consolidated Subsidiaries

(As of June 16, 2012)

ATTENIR CORPORATION

Head office	Sakae-ku, Yokohama
Capital	¥150 million
Main business	Development and sales of reasonably priced, high-quality cosmetics.

FANCL Hatsuga Genmai Co., Ltd.

Head office	Tomi-city, Nagano
Capital	¥96 million
Main business	Production of FANCL germinated brown rice.

FANCL ASIA (PTE) LTD.

Head office	Singapore
Capital	¥875 million
Main business	Administration of sales activities in the Asia/Pacific region.

IIMONO FUDOUSAN Co., Ltd.

Head office	Sakae-ku, Yokohama
Capital	¥196 million

FANCL B&H Co., Ltd.

Head office	Sakae-ku, Yokohama
Capital	¥100 million
Main business	Management of the FANCL Group's production divisions.

NICOSTAR BEAUTECH Co., Ltd.

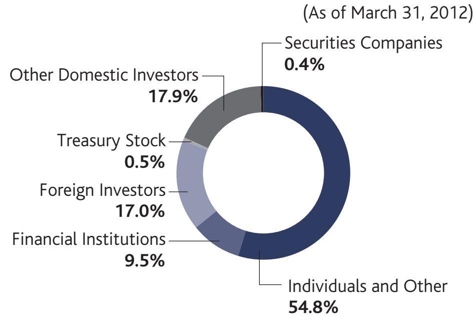
Head office	Sakae-ku, Yokohama
Capital	¥10 million
Main business	Manufacture of cosmetics.

NEUES, K.K

Head office	Shibuya-ku, Tokyo
Capital	¥60 million
Main business	Management of esthetic salons.

Shareholder Information

Composition of Shareholders
(Percentage of ownership)



	2010		2011		2012
	Mar.	Sep.	Mar.	Sep.	Mar.
Individuals and other	53.8	55.4	56.9	54.6	54.8
Financial institutions	13.2	9.1	8.3	0.9	9.5
Foreign investors	17.0	18.7	18.6	19.1	17.0
Treasury stock	0.4	0.4	0.4	0.5	0.5
Other domestic investors	15.2	15.3	15.3	17.1	17.9
Securities companies	0.4	1.2	0.5	7.9	0.4

Corporate Information
(As of March 31, 2012)

Head Office
89-1 Yamashita-cho, Naka-ku,
Yokohama,
Kanagawa-ken 231-8528, Japan
Tel: 81(45)226-1200

Established
August 1981

Common Stock Listing
Tokyo Stock Exchange, First Section
(Code: 4921)

Common Stock
Authorized Shares: 233,838,000
Outstanding Shares: 65,176,600

Paid-in Capital
¥10,795,161,280

Number of Shareholders
89,420

Number of Full-time Employees
721

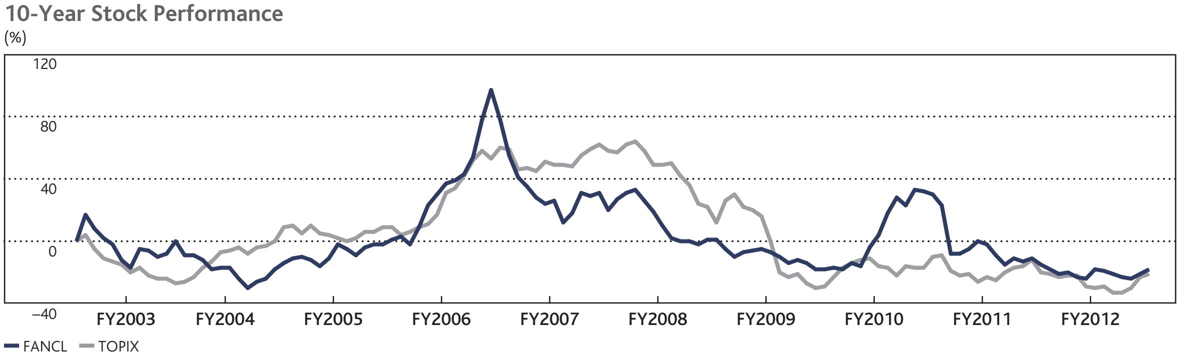
Transfer Agent and Registrar
Mitsubishi UFJ Trust and Banking
Corporation
1-4-5 Marunouchi, Chiyoda-ku,
Tokyo 100-8212, Japan
http://www.tr.mufg.jp/daikou/

Annual Meeting of Shareholders
Held in mid-June

Consolidated Subsidiaries
ATTENIR CORPORATION
NICOSTAR BEAUTECH Co., Ltd.
FANCL Hatsuga Genmai Co., Ltd.
FANCL ASIA (PTE) LTD.
FANCL B&H Co., Ltd.
NEUES, K.K.
IIMONO FUDOSAN Co., Ltd.

Stock Price Information

10-Year Stock Performance



Market Price Range per Share of Common Stock

	FY2003	FY2004	FY2005	FY2006*	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012
High (¥)	4,950	4,020	4,450	8,510	2,470	1,868	1,432	1,898	1,805	1,165
Low (¥)	3,150	2,755	3,270	3,770	1,482	1,185	1,030	1,100	1,001	982

* FANCL conducted a 3-for-1 stock split on April 1, 2006.

FANCL

FANCL Corporation

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