FANCL Corporation

Consolidated Financial Statements for the Third Quarter of the Fiscal Year Ending March 31, 2016

April 1, 2015 to December 31, 2015

This document has been translated from the original Japanese as a guide for non-Japanese investors. It contains forward-looking statements based on a number of assumptions and beliefs made by management in light of information currently available. Actual financial results may differ materially depending on a number of factors, including changing economic conditions, legislative and regulatory developments, delay in new product launches, and pricing and product initiatives of competitors.

SUMMARY OF FINANCIAL STATEMENTS (consolidated)

Results for the Nine-Month Period of the Fiscal Year Ending March 31, 2016

FANCL CORPORATION

January 28, 2016

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

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Scheduled date for submission of third quarter *hokokusho* (securities report): February 12, 2016

Scheduled date for distribution of dividends: -

Availability of supplementary explanatory material for third quarter results: Available

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

1) Consolidated results for the nine-month period (April 1, 2015 to December 31, 2015) of the fiscal year ending March 31, 2016

(1) Consolidated Operating Results

Millions of yen, rounded down

	Nine months ended December 31, 2015		Nine months ended December 31, 2014	
		% change		% change
Net sales	67,986	16.7	58,281	(2.6)
Operating income	1,382	(31.0)	2,004	17.0
Ordinary income	1,532	(30.1)	2,191	8.6
Net income attributable to owners of the parent company	921	(45.3)	1,683	947.8
Earnings per share (¥)	14.61	--	26.44	--
Earnings per share (diluted) (¥)	14.40	--	26.24	--

Notes: 1. The percentages shown above are a comparison with the same period in the previous fiscal year.
2. Comprehensive income: Nine months ended December 31, 2015: ¥907 million (-46.1%)
Nine months ended December 31, 2014: ¥1,682 million (920.2%)

(2) Consolidated Financial Position

Millions of yen, rounded down

	As of December 31, 2015	As of March 31, 2015
Total assets	81,780	85,311
Net assets	70,191	73,214
Shareholders' equity/total assets (%)	84.9	85.1

Shareholders' equity: As of December 31, 2015: ¥69,462 million
As of March 31, 2015: ¥72,634 million

2) Dividends per share

	FY ended March 31, 2015	FY ending March 31, 2016
Interim period	17.00	17.00
Year-end	17.00	17.00 (forecast)
Annual	34.00	34.00 (forecast)

Note: Changes to the dividend forecast during the period under review: None

3) Consolidated forecasts for the fiscal year ending March 31, 2016 (April 1, 2015 to March 31, 2016)

Millions of yen

	Fiscal year ending March 31, 2016	%
Net sales	90,000	15.9
Operating income	1,500	(62.5)
Ordinary income	1,650	(61.5)
Net income	900	(60.9)
Earnings per share (¥)	¥14.06	--

Note: 1. The percentages shown above are a comparison with the previous full fiscal year
2. Changes to the consolidated forecasts during the period under review: None

4) Other

(1) Transfer of important subsidiaries during the period: None
Note: Indicates transfers of specified subsidiaries resulting in changes in the scope of consolidation during the period under review.

(2) Use of simplified accounting methods or special accounting procedures: None

(3) Changes in accounting policy, changes in accounting estimates, and restatements:

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

(4) Number of outstanding shares (common stock)

1. Number of shares outstanding (including treasury shares)	December 31, 2015	65,176,600 shares	March 31, 2015	65,176,600 shares
2. Number of treasury shares	December 31, 2015	2,573,177 shares	March 31, 2015	1,152,357 shares
3. Average number of shares during the first quarter period	Nine months to December 31, 2015	63,059,548 shares	Nine months to December 31, 2014	63,651,594 shares

Important Notice

Disclosure of status of quarterly report review procedures:

At time of disclosure of this quarterly financial report the review procedures for quarterly securities reports as stipulated under the Financial Instruments and Exchange Law was in progress.

Appropriate use of financial forecasts:

Forecasts, etc., recorded in this document include forward-looking statements that are based on management's estimates, assumptions and projections at the time of publication. A number of factors could cause actual results to differ materially from expectations. For further detail, please see Page 8: 1. Operating Results, Section 3, Forecasts for the fiscal year ending March 31, 2016.

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1. Operating Results

(1) Summary of business performance (consolidated)

(All comparisons are with the nine-month period of the previous fiscal year, unless stated otherwise.)

During the nine-month period under review, a strong sense of overall stagnation continued for the Japanese economy, as recovery in consumer spending remained slow, and production and export volumes declined due to a slowdown in emerging economies.

Looking ahead, while there is expected to be a pick-up in personal consumption due to a recovery in the employment and income environment as well as a gentle recovery in exports mainly in the U.S. and Europe, with concern over a slowdown in the Chinese economy and an increase in geopolitical risk, the extent of economic recovery is expected to be modest.

During the period under review, consolidated sales increased 16.7% to ¥67,986 million, due to an increase in sales in all businesses as a result of strategic investment in advertising based on policies in the new Medium-term Management Plan (FY2016 – FY2018). Despite an increase in gross profit resulting from the increase in sales, operating income declined 31.0% to ¥1,382 million, as a result of an increase in spending on marketing compared with the same period last year. Ordinary income declined 30.1% to ¥1,532 million, and net income attributable to owners of the parent company declined 45.3% to ¥921 million.

Segment results are as follows:

1) Cosmetics Business

Sales

Sales from the Cosmetics business increased 15.8% to ¥41,200 million.

(Millions of yen, rounded down)

	Nine months ended December 31, 2015		Nine months ended December 31, 2014		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
FANCL Cosmetics	33,244	80.7	29,357	82.5	13.2
ATTENIR Cosmetics	5,697	13.8	5,465	15.4	4.2
boscia	1,513	3.7	--	--	--
Others	746	1.8	754	2.1	(1.1)
Totals	41,200	100.0	35,577	100.0	15.8

	Nine months ended December 31, 2015		Nine months ended December 31, 2014		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Mail order sales	17,952	43.6	17,064	48.0	5.2
Retail store sales	15,227	36.9	12,527	35.2	21.6
Wholesales and others	3,202	7.8	2,361	6.6	35.6
Overseas Sales	4,818	11.7	3,624	10.2	32.9
Totals	41,200	100.0	35,577	100.0	15.8

Sales of **FANCL Cosmetics** increased 13.2% to ¥33,244 million, with positive trends resulting from the effects of promotions for newly launched products *Mutenka Active Conditioning* and *Aging Care Washing Cream*, as well as a *Mild Cleansing Oil* promotion and the launch of a 35th anniversary campaign.

Sales of **ATTENIR Cosmetics** increased 4.2% to ¥5,697 million, trending strongly due to advancement in customer acquisition with new marketing merchandise, in addition to the effects of a renewal of core product lines and a campaign aimed at existing customers.

Furthermore, from the consolidated first quarter period, U.S. subsidiaries FANCL INTERNATIONAL, INC. and boscia, LLC have been included in the scope of consolidation, and the boscia brand contributed sales of ¥1,513 million in the nine-month period under review.

Results by sales channels were: mail order sales increased 5.2% year on year to ¥17,952 million, retail store sales increased 21.6% to ¥15,227 million, wholesale sales through other sales channels increased 35.6% to ¥3,202 million, and overseas sales increased 32.9% to ¥4,818 million.

Operating income

Despite an increase in marketing costs compared to the previous period, operating income increased by 38.9% to ¥4,877 million, mainly due to an increase in sales.

2) Nutritional Supplements Business

Sales

Nutritional supplement sales increased 22.7% to ¥21,383 million.

(Millions of yen, rounded down)

	Nine months ended December 31, 2015		Nine months ended December 31, 2014		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Mail order sales	8,332	39.0	7,033	40.4	18.5
Retail store sales	5,376	25.1	4,254	24.4	26.4
Wholesales and others	6,666	31.2	5,129	29.4	30.0
Overseas Sales	1,008	4.7	1,015	5.8	(0.7)
Totals	21,383	100.0	17,432	100.0	22.7

Revenues from **product sales** increased due to the effect of TV commercials and other promotions and subsequent significant growth in sales of labeled functional food *Enkin*, and strong sales of dietary supplement *Calorie Limit for the Mature Aged*.

Results by **sales channels** were: mail order sales increased 18.5% to ¥8,332 million, retail store sales increased 26.4% to ¥5,376 million, wholesale sales through other sales channels increased 30.0% to ¥6,666 million and overseas sales decreased 0.7% to ¥1,008 million.

Operating income

Despite an increase in sales, the operating loss grew by ¥393 million to ¥678 million, mainly due to a large increase in marketing costs compared to the previous period.

3) Other Businesses

Sales

Other related business increased 2.5% year on year to ¥5,401 million

(Millions of yen, rounded down)

	Nine months ended December 31, 2015	Nine months ended December 31, 2014	Change (%)
Hatsuga genmai	1,982	1,808	9.7
Kale juice	2,096	2,060	1.8
Other	1,322	1,403	(5.8)
Totals	5,401	5,271	2.5

Hatsuga genmai (germinated brown rice) sales increased 9.7% to ¥1,982 million due to proactive sales tactics such as the airing of TV commercials.

Sales of Kale juice increased 1.8% to ¥2,096 million.

Other sales decreased 5.8% to ¥1,322 million.

Operating income

Despite an increase in sales, operating income declined by ¥1,760 million to a ¥1,587 million loss, due to factors such as a large increase in marketing costs for the Hatsuga genmai and Kale juice businesses compared to the previous period.

(2) Summary of consolidated financial position

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

Assets decreased ¥3,531 million to ¥81,780 million. The primary contributing factors were a decrease of ¥3,903 million in current assets and an increase of ¥371 million in fixed assets. Contributing to the decrease in current assets were a ¥1,836 million increase in cash and cash equivalents, a ¥4,998 million decrease in marketable securities, a ¥1,277 million increase in notes and accounts receivable, a ¥863 million increase in merchandise and products, and a ¥793 million increase in raw materials and supplies. The increase in fixed assets was primarily the result of a ¥751 million increase in tangible fixed assets due to an increase in "Other" tangible fixed assets, and a ¥326 million decrease in other investment assets due to a decline in investment securities.

Liabilities decreased ¥508 million from the end of the previous fiscal year to ¥11,588 million. The primary contributing factors were a decrease of ¥483 million in current liabilities and a decrease of ¥24 million in fixed liabilities. Factors contributing to the decrease in current liabilities include a ¥1,199 million decrease in income taxes payable, a ¥413 million decrease in allowance for bonus, and a ¥1,111 million increase in "Other" current liabilities due to an increase in accounts payable.

Net assets decreased ¥3,022 million to ¥70,191 million. Contributing factors include a ¥2,372 million increase in treasury shares due to the purchase of own shares, a ¥2,152 million decline in retained earnings from dividend payments, and a ¥921 million increase in retained earnings due to the recording of net income attributable to owners of the parent.

As a result, the shareholders' equity ratio declined 0.2 percentage points from the end of the previous fiscal year to 84.9%.

(3) Forecasts for the fiscal year ending March 31, 2016

The full-year consolidated results forecasts are unchanged from that announced on May 11, 2015.

2. Other

(1) Changes to subsidiaries during the period

As of the first quarter period, FANCL INTERNATIONAL, INC. and boscia, LLC, which were non-consolidated subsidiaries, have been included in the scope of consolidation as they have become more material.

Furthermore, the fiscal year end of FANCL INTERNATIONAL, INC. and boscia, LLC is December 31. Because this is within three months of the consolidated fiscal year end, their financial statements as of September 30, 2015 have been used in the preparation of the consolidated quarterly financial statements.

All necessary adjustments have been made for significant transactions that occurred in the period up until the end of the quarterly period.

(2) Use of special accounting procedures: None

(3) Changes in accounting policy, changes in accounting estimates, and restatements:

Change in accounting policy

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

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

Millions of yen, rounded down

	As of December 31, 2015	As of March 31, 2015
ASSETS		
I. Current assets:		
Cash and cash equivalents	16,815	18,652
Notes and accounts receivable	9,998	8,721
Marketable securities	7,008	12,006
Merchandise and products	3,894	3,030
Work in progress	11	21
Raw materials and supplies	3,827	3,034
Others	2,542	2,534
Allowance for doubtful accounts	(49)	(49)
Total current assets	44,047	47,951
II. Fixed assets:		
Tangible fixed assets		
Buildings and structures	25,258	25,007
Accumulated depreciation and accumulated impairment loss	(14,340)	(13,896)
Buildings and structures (net)	10,918	11,111
Machinery and transport equipment	7,442	6,870
Accumulated depreciation and accumulated impairment loss	(6,170)	(5,938)
Machinery and transport equipment (net)	1,272	931
Furniture, tools and fixtures	7,425	7,111
Accumulated depreciation and accumulated impairment loss	(6,351)	(6,018)
Furniture, tools and fixtures (net)	1,073	1,092
Land	11,951	11,951
Lease assets	392	384
Accumulated depreciation and accumulated impairment loss	(279)	(228)
Lease assets (net)	113	155
Others	1,287	622
Total tangible fixed assets	26,616	25,865
Intangible fixed assets		
Others	2,927	2,980
Total intangible fixed assets	2,927	2,980
Investments and other assets		
Investment securities	5,657	6,087
Others	2,529	2,426
Total investments and other assets	8,187	8,514
Total fixed assets	37,732	37,360
Total Assets	**81,780**	**85,311**

Consolidated Balance Sheets, continued

Millions of yen, rounded down

	As of December 31, 2015	As of March 31, 2015
LIABILITIES		
I. Current liabilities:		
Notes and accounts payable	2,069	2,115
Accrued income taxes	412	1,612
Allowance for bonus	553	966
Allowance for points	1,483	1,420
Others	5,392	4,280
Total current liabilities	9,910	10,394
II. Long-term liabilities:		
Allowance for directors' retirement bonuses	--	88
Retirement benefit liabilities	1,057	1,063
Asset retirement obligations	375	359
Others	244	190
Total long-term liabilities	1,677	1,702
Total liabilities	11,588	12,096
NET ASSETS		
Shareholders' equity		
Common stock	10,795	10,795
Additional paid-in capital	11,706	11,706
Retained earnings	50,536	51,468
Treasury stock	(3,735)	(1,362)
Total shareholders' equity	69,303	72,607
Other comprehensive income		
Foreign currency translation adjustment	141	--
Total adjustments related to retirement benefits	17	27
Total other comprehensive income	159	27
Warrants	729	579
Total net assets	70,191	73,214
Total Liabilities and Net Assets	**81,780**	85,311

(2) Consolidated statements of income and Consolidated statements of comprehensive income

Consolidated statements of income

Millions of yen, rounded down

	April 1, 2015 to December 31, 2015	April 1, 2014 to December 31, 2014
Net sales	67,986	58,281
Cost of sales	19,977	17,438
Gross profit	48,008	40,843
Selling, general and administrative expenses	46,625	38,838
Operating income	1,382	2,004
Non-operating income		
Interest income	6	6
Dividend income	0	10
Rental income	78	10
Gain on foreign exchange	--	45
Other non-operating income	140	144
Total non-operating income	225	217
Non-operating expenses		
Rent expenses on fixed asses	25	--
Loss on foreign exchange	28	--
Other non-operating expenses	21	30
Total non-operating expenses	76	30
Ordinary income	1,532	2,191
Extraordinary income		
Income from sale of fixed assets	0	--
Gain on reversal of subscription rights to shares	1	4
Gain on reversal of allowance for business withdrawal	--	114
Gain on investments in silent partnerships	36	--
Other	--	0
Total extraordinary income	38	118
Extraordinary loss		
Loss on disposal of fixed assets	19	18
Impairment loss	--	14
Loss on closure of stores	30	41
Other	12	7
Total extraordinary loss	63	82
Income before income taxes	1,508	2,228
Income and other taxes	729	743
Adjustments to income and other taxes	(142)	(198)
Total income and other taxes	587	545
Net income	921	1,683
Net income attributable to owners of the parent company	921	1,683

Consolidated statements of comprehensive income

	Millions of yen, rounded down	
	April 1, 2015 to December 31, 2015	April 1, 2014 to December 31, 2014
Income before minority interests	921	1,683
Other comprehensive income		
Net unrealized holding gain on other securities	--	5
Foreign currency translation adjustment	(4)	--
Adjustments related to retirement benefits	(9)	(6)
Total other comprehensive income	(14)	(0)
Comprehensive income	907	1,682
(Breakdown)		
Comprehensive income attributable to owners of the parent company	907	1,682
Comprehensive income attributable to minor interests	--	--

(3) Notes to the consolidated financial statements

Items related to going concern:
No applicable items

Note on significant change in shareholders' equity
No applicable items

Segment information

Business Segments

1. Nine months ended December 31, 2015 (Millions of yen, rounded down)

	Business Segments			Total	Eliminations or Corporate*2	Consolidated *3
	Cosmetics Business	Nutritional Supplements Business	Other Businesses *1			
1. Sales and operating income:						
(1) Sales to external customers	41,200	21,383	5,401	67,986	--	67,986
(2) Inter-segment sales or transfers	--	--	--	--	--	--
Total sales	41,200	21,383	5,401	67,986	--	67,986
Operating income (loss)	4,877	(678)	(1,587)	2,611	(1,228)	1,382

Notes:
1. The Other Businesses segment consists of sundries, personnel effects, comfort undergarments, Hatsuga genmai (germinated brown rice), and kale juice.
2. The adjustment amount on segment income (loss) of (¥1,228 million) includes total company expenses not distributed to each reportable segment and consist primarily of costs related to the General Affairs section of the parent company not included in the reportable segments.
3. Segment income (loss) is adjusted for operating income (loss) as recorded in the consolidated financial statements.

2. Items related to changes in the classification of reporting segments
From the first quarter period, as a result of a review of reporting segments for the purpose of ensuring appropriate understanding of the financial situation and operating results of the Fancl Group, several business segments which were previously included in "Other" have now been grouped into the "Other Businesses" segment.
The results for the previous nine-month period are also presented using the new segment classification method.

2. Nine months ended December 31, 2014 (Millions of yen, rounded down)

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

Notes:
1. The Other Businesses segment consists of sundries, personnel effects, comfort undergarments, Hatsuga

genmai (germinated brown rice), and kale juice.

2. The adjustment amount on segment income (loss) of (¥1,395 million) includes total company expenses not distributed to each reportable segment and consist primarily of costs related to the General Affairs section of the parent company not included in the reportable segments.
3. Segment income (loss) is adjusted for operating income (loss) as recorded in the consolidated financial statements.