FANCL Corporation

Consolidated Financial Statements for the Fiscal Year Ended March 31, 2017

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

SUMMARY OF FINANCIAL STATEMENTS (consolidated)

Results for the Fiscal Year Ended March 31, 2017

FANCL CORPORATION **April 27, 2017**

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

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Scheduled date for regular shareholders' meeting: June 17, 2017
Scheduled date for submission of the financial report: June 19, 2017
Scheduled date for distribution of dividends: June 19, 2017
Appendix materials prepared to accompany this report: Yes
Investor conference call: Yes (For investors and analysts)

1. Consolidated results for the fiscal year April 1, 2016 to March 31, 2017

(1) Sales and Income

Millions of yen, rounded down

	FY ended March 31, 2017	Change (%)	FY ended March 31, 2016	Change (%)
Net sales	96,305	6.0	90,850	17.0
Operating income	2,244	86.3	1,204	(69.9)
Ordinary income	2,385	67.8	1,421	(66.8)
Net income attributable to owners of the parent company	5,146	884.4	522	(77.3)
Net income per share (¥)	81.92	--	8.31	--
Fully diluted earnings per share (¥)	80.91	--	8.22	--
Return on equity	7.3	--	0.7%	--
Ratio of ordinary income to total capital	2.8	--	1.7%	--
Ratio of operating income to net sales	2.3	--	1.3%	--

Note: Percentage figures for sales, operating income, etc. represent changes compared to the previous fiscal year.
Comprehensive income: FY ended March 31, 2017: ¥5,128 million (--) FY ended March 31, 2016: ¥328 million (-85.8%)
Gain from investments in subsidiaries and affiliates accounted for by the equity method:
FY ended March 31, 2017: -- million FY ended March 31, 2016: -- million

(2) Consolidated Financial Position

Millions of yen, rounded down

	As of March 31, 2017	As of March 31, 2016
Total assets	85,677	83,767
Shareholders' equity	72,402	69,639
Equity ratio (%)	83.6%	82.3%
Shareholders' equity per share (¥)	¥1,137.14	¥1,100.39

Shareholders' equity: FY ended March 31, 2017: ¥71,630 million FY ended March 2016: ¥68,909 million

(3) Cash Flows

Millions of yen, rounded down

	FY ended March 31, 2017	FY ended March 31, 2016
Net cash provided by operating activities	2,192	3,170
Net cash used in investing activities	5,976	(3,389)
Net cash used in financing activities	(2,552)	(4,647)
Cash and cash equivalents at end of year	31,609	26,040

2. Dividends

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017	Fiscal year ending March 31, 2018 (forecast)
Interim dividend per share (¥)	17.00	29.0	29.00
Year-end dividend per share (¥)	17.00	29.0	29.00
Annual dividend per share (¥)	34.00	58.0	58.00
Total dividend payment *(millions of yen)*	2,128	3,652	
Consolidated dividend payout ratio (%)	409.1%	70.8%	91.3%
Dividend to net assets ratio (%)	3.0%	5.2	

Breakdown of interim dividend for the FY ended March 31, 2017: Ordinary dividend: ¥17.00; special dividend: ¥12.00
Breakdown of year-end dividend for the FY ended March 31, 2017: Ordinary dividend: ¥17.00; special dividend: ¥12.00
Breakdown of interim dividend for the FY ending March 31, 2018 (forecast): Ordinary dividend: ¥17.00; special dividend: ¥12.00
Breakdown of year-end dividend for the FY ending March 31, 2018 (forecast): Ordinary dividend: ¥17.00; special dividend: ¥12.00

3. Consolidated forecasts for the fiscal year ending March 31, 2018 (April 1, 2017 to March 31, 2018)

Millions of yen

	Interim period ending September 30, 2017	Change %	FY Ending March 31, 2018	Change %
Net sales	49,750	7.8	105,000	9.0
Operating income	1,500	--	6,000	167.3
Ordinary income	1,550	--	6,100	155.7
Profit (loss) attributable to owners of parent	900	(76.8)	4,000	(22.3)

Net income per share (¥)	14.29		63.50	

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

4. Other

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

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

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

Note: For more information, see page 18, "(5) Notes to the Consolidated Financial Statements, Changes in Accounting Polices".

3) Number of shares outstanding (ordinary shares)

1. Number of shares outstanding (including treasury shares):
   As of March 31, 2017: 65,176,600
   As of March 31, 2016: 65,176,600
2. Number of treasury shares:
   As of March 31, 2017: 2,184,389
   As of March 31, 2016: 2,553,377
3. Average number of shares during the period:
   FY ended March 31, 2017: 62,831,621
   FY ended March 31, 2016: 62,949,241

Reference: Outline of Non-consolidated Financial Results

Non-consolidated operating results for the fiscal year ended March 31, 2017

1) Non-consolidated Operating Results

Millions of yen, rounded down

	FY ended March 31, 2017		FY ended March 31, 2016	
		(% change)		(% change)
Sales	68,036	9.6	62,065	116.8
Operating income	(1,624)	--	629	(63.7)
Ordinary income	344	(66.6)	1,031	(49.0)
Net income	3,752	860.4	390	(68.3)
Earnings per share (¥)	59.72		6.21	
Fully diluted earnings per share (¥)	58.99		6.14	

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

2) Non-Consolidated financial position

	As of March 31, 2017	As of March 31, 2016
Total assets *(millions of yen)*	73,943	72,916
Net assets *(millions of yen)*	58,022	56,636
Equity ratio (%)	77.4%	76.7%
Net assets per share (¥)	908.87	892.74

Reference: Shareholders' equity:
FY ended March 2017: ¥57,251 million
FY ended March 2016: ¥55,906 million

***This financial report is not subject to audit procedures**

***Appropriate use of financial forecasts**

Forecasts, etc., recorded in this document include forward-looking statements that are based on management's estimates, assumptions and projections at the time of publication. A number of factors could cause actual results to differ materially from expectations. For further detail, please see Page 7: 1. Operating Results, Section (4) Forecasts for the fiscal year ending March 31, 2018

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1. Operating Results

(1) Summary of Business Performance (consolidated)

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

1) Overview of the consolidated financial year under review

In the consolidated financial year under review, Japan's domestic consumption environment lacked strength as a result of heightened budget-mindedness among consumers, despite an increase in corporate earnings and improvements in the employment environment resulting from the effects of various policies by the government and the Bank of Japan.

Amid these conditions, overall consolidated sales increased 6.0% to ¥96,305 million due to an increase in sales in all businesses as a result of strategic investment in advertising based on policies in the Medium-term Management Plan (FY2016 - FY2018). Operating income increased 86.3% to ¥2,244 million as an increase in gross profit resulting from the increase in sales outweighed an increase in selling, general and administrative expenses resulting from the strengthening of promotions and the expansion of the company's R&D structure. Ordinary income increased 67.8% to ¥2,385 million, and net income attributable to owners of the parent company increased 884.4% to ¥5,146 million, due to the recording of extraordinary income for the sale of investment securities.

Segment results are as follows:

2) Status of operations

(1) Cosmetics Business

Sales

Cosmetics sales increased 3.5% compared to the previous year, to ¥56,926 million.

(Millions of yen)

	FY ended March 31, 2017		FY ended March 31, 2016		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
FANCL Cosmetics	44,992	79.0	44,263	80.4	1.6
ATTENIR Cosmetics	8,869	15.6	7,631	13.9	16.2
boscia	2,258	4.0	2,155	3.9	4.8
Others	805	1.4	965	1.8	(16.6)
Totals	56,926	100.0	55,016	100.0	3.5

	FY ended March 31, 2017		FY ended March 31, 2016		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Mail order sales	24,748	43.5	23,669	43.0	4.6
Retail store sales	20,227	35.5	20,219	36.8	0.0
Wholesales and others	5,300	9.3	4,360	7.9	21.6
Overseas sales	6,649	11.7	6,767	12.3	(1.7)
Totals	56,926	100.0	55,016	100.0	3.5

Sales of **FANCL cosmetics** increased 1.6% to ¥44,992 million, due to the renewal of *Aging Care Washing Cream* and *Facial Washing Powder,* and an expansion of wholesale sales to drugstores.

Sales of **ATTENIR cosmetics** increased 16.2% to ¥8,869 million, due to the effects of the addition of new products such as *SkinClear Cleanse Oil*, and a significant increase in customers resulting from a web-based communications strategy.

Results by **sales channels**: mail order sales increased 4.6% year on year to ¥24,748 million, retail store sales increased 0.0% to ¥20,227 million, wholesale sales increased 21.6% to ¥5,300 million, while overseas sales decreased 1.7% to ¥6,649 million.

Operating income

Despite an increase in sales, operating income declined 16.3% to ¥5,253 million, mainly due to an increase in marketing costs compared to the previous period.

(2) Nutritional Supplements Business

Sales

Nutritional supplement sales increased 12.1% year on year to ¥32,085 million.

(Millions of yen)

	FY ended March 31, 2017		FY ended March 31, 2016		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Mail order sales	13,083	40.8	11,331	39.6	15.5
Retail store sales	7,828	24.4	7,199	25.2	8.7
Wholesales and others	9,595	29.9	8,690	30.4	10.4
Overseas sales	1,577	4.9	1,390	4.8	13.5
Totals	32,085	100.0	28,612	100.0	12.1

Revenues from **product sales** increased due to the effect of promotions and subsequent strong trends in sales of foods with functional claims labeling *Enkin* and *Calolimit*.

Results by **sales channels** were: mail order sales increased 15.5% year on year to ¥13,083 million, retail store sales increased 8.7% to ¥7,828 million, while wholesale sales increased 10.4% to ¥9,595 million and overseas sales increased 13.5% to ¥1,577 million.

Operating income

The operating loss improved ¥913 million to ¥865 million, mainly due to an increase in sales, and efforts to use marketing expenses more efficiently.

(3) Other Businesses

Sales in Other businesses increased 1.0% year on year to ¥7,294 million

(Millions of yen, rounded down)

	FY ended March 31, 2017	FY ended March 31, 2016	Change (%)
Hatsuga genmai business	2,490	2,604	(4.4)
Kale juice business	2,711	2,757	(1.7)
Other	2,092	1,859	12.5
Totals	7,294	7,221	1.0

Operating income

The operating loss improved ¥1,175 million to ¥599 million as a result of efforts to use marketing expenses more efficiently.

(2) Summary of Consolidated Financial Position

Assets, liabilities and net asset value

Assets increased ¥1,910 million to ¥85,677 million, compared with the end of the previous consolidated financial period. This was primarily the result of a ¥7,208 million increase in current assets and a ¥5,297 million decrease in fixed assets. The increase in current assets was largely the result of a ¥13,575 million increase in cash and cash equivalents, a ¥1,104 million increase in notes and accounts receivable, and a ¥8,006 decrease in marketable securities. The decrease in fixed assets was largely due to a ¥5,528 million decrease in investment securities.

Liabilities decreased ¥852 million to ¥13,275 million, compared with the end of the previous consolidated financial period, primarily the result of a ¥832 million decrease in current liabilities. The main factor contributing to the decrease in current liabilities was a ¥898 million decrease in accounts payable.

Net assets increased ¥2,672 million to ¥72,402 million, compared with the end of the previous consolidated financial period. The primary contributing factors were a ¥5,146 million increase in retained earnings due to the recording of net income attributable to owners of the parent, and a ¥2,889 million decrease in retained earnings due to dividend payments.
As a result, the shareholders' equity ratio increased 1.3 percentage points from the end of the previous consolidated fiscal year to 83.6%.

(3) Summary of Cash flows

Cash and cash equivalents ("funds") as of March 31, 2017, were ¥31,609 million, ¥5,568 million higher than at the end of the previous consolidated fiscal year. The main contributing factors to cash flows during the consolidated fiscal year ended March 31, 2017 are as follows:

Cash flows from operating activities

Cash flow gained from operating activities during the period under review was ¥2,192 million, compared with an inflow of ¥3,170 million in the previous consolidated fiscal year. Factors increasing operating cash flow included income before income taxes of ¥5,826 million, and depreciation of ¥3,185 million. Factors decreasing operating cash flow included gains on the sale of investment securities of ¥4,440 million, and income taxes paid of ¥1,890 million.

Cash flows from investing activities

Cash flow gained from investing activities during the period under review was ¥5,976 million, compared with an outflow of ¥3,389 million in the previous consolidated fiscal year. Factors increasing investment cash flow included inflows of ¥9,785 million for income from sale and redemption of investment securities. Factors decreasing investment cash flow included ¥3,586 million in outlays for the acquisition of tangible fixed assets.

Cash flows from financing activities

Cash flow used in financing activities during the period under review was ¥2,552 million, compared with an outflow of ¥4,647 million in the previous consolidated fiscal year. This was primarily due to outlays of ¥2,884 million for cash dividends paid.

(4) Forecasts for the fiscal year ending March 31, 2018

Looking ahead, although the economic environment in Japan is expected to maintain a gradual recovery trend with improvements in corporate profits and the employment environment, conditions are expected to remain uncertain, reflecting the impact of economic trends in overseas markets including China and emerging countries.

Amid such conditions, FANCL Group continues to pursue active investment in advertising, aimed at realizing its growth strategy set out in the Medium-term Management Plan (FY2016-FY2018).

The FANCL Cosmetics business plans to grow income through the introduction of products at major convenience store chains, the full-fledged launch of *Beauty BOUQUET* cosmetics products targeting mature-aged customers, growth in sales and customers of *ATTENIR* cosmetics through proactive advertising, as well as further growth in sales of *boscia* brand products.

The Nutritional Supplements Business expects to grow sales through the effect of launches of foods with functional claims labelling, *Sumaho Enkin and Calorie Limit for the Mature Aged*.

In light of the above, in the year ending March 31, 2018 the Company forecasts an increase in sales of 9.0% to ¥105,000 million, an increase in operating income of 167.3% to ¥6,000 million, an increase in ordinary income of 155.7% to ¥6,100 million, and a decrease in net income attributable to owners of the parent company of 22.3% to ¥4,000 million.

2. Basic Rationale on Selection of Accounting Standards

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

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

3. Consolidated Financial Statements

(1) Consolidated Balance Sheet

Millions of yen, rounded down

	As of March 31, 2017	As of March 31, 2016
ASSETS		
I. Current assets:		
Cash and cash equivalents	31,609	18,034
Notes and accounts receivable	11,101	9,997
Marketable securities	--	8,006
Merchandise and products	3,833	3,548
Work in progress	23	26
Raw materials and supplies	3,763	3,787
Deferred tax assets	1,598	1,352
Others	1,675	1,616
Allowance for doubtful accounts	(79)	(51)
Total current assets	53,526	46,317
II. Fixed assets:		
Tangible fixed assets		
Buildings and structures	27,156	25,355
Accumulated depreciation and accumulated impairment loss	(14,985)	(14,513)
Buildings and structures (net)	12,170	10,841
Machinery and transport equipment	8,408	7,552
Accumulated depreciation and accumulated impairment loss	(6,534)	(6,282)
Machinery and transport equipment (net)	1,874	1,270
Furniture, tools and fixtures	8,025	7,600
Accumulated depreciation and accumulated impairment loss	(6,772)	(6,490)
Furniture, tools and fixtures (net)	1,252	1,109
Land	11,607	11,951
Lease assets	268	386
Accumulated depreciation and accumulated impairment loss	(148)	(227)
Lease assets (net)	119	158
Construction in progress	25	1,230
Total tangible fixed assets	27,049	26,562
Intangible fixed assets		
Other intangible fixed assets	2,045	2,639
Total intangible fixed assets	2,045	2,639
Investments and other assets		
Investments securities	128	5,656
Long-term loans	305	300
Deposits and guarantee money	1,173	1,128
Long-term prepaid expense	106	153
Deferred tax assets	1,183	850
Others	183	183
Allowance for doubtful accounts	(24)	(24)
Total investments and other assets	3,056	8,248
Total fixed assets	32,151	37,449
Total assets	**85,677**	**83,767**

(1) Consolidated Balance Sheet (continued)

Millions of yen, rounded down

	As of March 31, 2017	As of March 31, 2016
LIABILITIES		
I. Current liabilities:		
Notes and accounts payable	2,307	2,547
Lease obligations	65	88
Accrued liabilities	4,082	4,980
Accrued expenses	641	637
Accrued income taxes	1,088	898
Allowance for bonuses	1,030	1,074
Allowance for points	1,617	1,507
Asset retirement obligations	2	--
Others	475	410
Total current liabilities	11,310	12,143
II. Long-term liabilities:		
Lease obligations	62	81
Retirement benefit liabilities	1,303	1,324
Asset retirement obligations	416	385
Others	182	193
Total long-term liabilities	1,965	1,984
Total liabilities	13,275	14,128
NET ASSETS		
Shareholders' equity:		
Common stock	10,795	10,795
Capital reserve	11,706	11,706
Retained earnings	52,339	50,134
Treasury stock	(3,170)	(3,706)
Total shareholders' equity	71,670	68,930
Other comprehensive income		
Foreign currency translation adjustment	119	146
Total adjustments related to retirement benefits	(159)	(166)
Total other comprehensive income	(39)	(20)
Warrants	771	729
Total net assets	72,402	69,639
Total Liabilities and Net Assets	85,677	83,767

(2) Consolidated Statement of Income

Millions of yen, rounded down

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2016
Net sales	96,305	90,850
Cost of sales	28,495	26,972
Gross profit	67,810	63,878
Selling, general and administrative expenses		
Sales promotion expenses	12,833	11,888
Packing and transport expenses	4,075	3,528
Advertising expenses	14,816	15,035
Sales commission fee	6,237	5,956
Communications expenses	2,037	1,781
Directors remuneration	599	679
Salaries and bonuses	9,829	9,337
Provision for accrued bonuses	810	916
Retirement benefit expenses	343	365
Provision for retirement benefits for directors and corporate auditors	--	4
Compulsory welfare expenses	1,503	1,397
Welfare expenses	236	229
Depreciation	2,284	2,294
Research and development expenses	1,191	1,245
Rent expenses	1,002	915
Provisions for allowance for bad debt	49	23
Other	7,716	7,073
Total selling, general and administrative expenses	65,565	62,673
Operating income	2,244	1,204
Non-operating income		
Interest income	4	10
Dividend income	0	0
Rent income	103	104
Compensation payments received	22	16
Commissions earned	21	34
Other non-operating income	82	146
Total net operating income	234	312
Non-operating expenses		
Rent expenses on fixed assets	34	34
Loss on foreign exchange	27	29
Idle asset expense	4	5
Miscellaneous	27	25
Total net operating expenses	94	95
Ordinary income	2,385	1,421

(2) Consolidated Statement of Income (continued)

Millions of yen, rounded down

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2016
Extraordinary income		
Gain from sale of fixed assets	0	0
Gain on investments in silent partnerships	--	36
Gain on reversal of subscription warrants	37	3
Gain from sale of investment securities	4,440	--
Total extraordinary income	4,479	40
Extraordinary expenses		
Loss on sale of fixed assets	0	--
Loss on retirement of fixed assets	38	24
Impairment loss	914	124
Loss on store closures	44	46
Other extraordinary expenses	40	15
Total extraordinary expenses	1,038	210
Income before income taxes	5,826	1,252
Income taxes	1,260	1,273
Adjustment for income taxes	(581)	(544)
Total income before income taxes	679	729
Income before minority interests	5,146	522
Net income	**5,146**	**522**

Consolidated Statement of Comprehensive Income

Millions of yen, rounded down

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2016
Income before minority interests	5,146	522
Other comprehensive income		
Foreign currency translation adjustment	(26)	0
Adjustments related to retirement benefits	7	(194)
Total other comprehensive income	(18)	(194)
Comprehensive income	5,128	328
(Breakdown)		
Comprehensive income attributable to owners of the parent company	5,128	328
Comprehensive income attributable to minor interests	--	--

(3) Changes in Shareholders' Equity during the Period

April 1, 2016 to March 31, 2017 *Millions of yen, rounded down*

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	10,795	11,706	50,134	(3,706)	68,930
Changes of items during period					
Dividends of surplus	--	--	(2,889)	--	(2,889)
Net income	--	--	5,146	--	5,146
Purchase of treasury shares	--	--	--	(1)	(1)
Disposal of treasury shares	--	--	(52)	537	484
Change in scope of consolidation	--	--	--	--	--
Translation adjustments resulting from change in scope of consolidation	--	--	--	--	--
Net changes of items other than shareholders' equity	--	--	--	--	--
Total changes of items during period	--	--	2,204	535	2,739
Balance at end of current period	10,795	11,706	52,339	(3,170)	71,670

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

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

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

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

(4) Consolidated Statement of Cash Flows

Millions of yen, rounded down

	FY ended March 31, 2017	FY ended March 31, 2016
Cash flows from operating activities		
Income before income taxes	5,826	1,252
Depreciation	3,185	3,207
Impairment loss	914	124
Stock compensation expense	126	187
Increase (decrease) in allowance for doubtful accounts	27	1
Increase (decrease) in allowance for bonuses	(44)	107
Increase (decrease) in allowance for points	110	87
Increase (decrease) in retirement benefit related obligation	(9)	(18)
Increase (decrease) in allowance for directors' retirement bonuses	--	(88)
Interest and dividend income	(5)	(11)
Loss (gain) from foreign exchange	48	54
Loss (gain) on investments in silent partnerships	--	(36)
Loss (gain) on sale of investment securities	(4,440)	--
Loss (gain) from sale of fixed assets	(0)	(0)
Loss on disposal of fixed assets	38	24
Loss on store closures	44	46
Gain on reversal of subscription rights to shares	(37)	(3)
Decrease (increase) in accounts receivable	(1,122)	(979)
Decrease (increase) in inventories	(270)	(950)
Decrease (increase) in other current assets	440	146
Decrease (increase) in other fixed assets	9	4
Decrease (increase) in accounts payable	(239)	350
Increase (decrease) in other current liabilities	(644)	1,832
Increase (decrease) in other fixed liabilities	1	11
Others	(80)	(5)
Sub-total	3,877	5,342
Interest and dividends received	5	11
Income taxes paid	(1,890)	(2,184)
Income taxes refunded	201	--
Net cash provided by (used in) operating activities	**2,192**	**3,170**

(4) Consolidated Statement of Cash Flows (continued)

Millions of yen, rounded down

	FY ended March 31, 2017	FY ended March 31, 2016
II. Cash flows from investing activities		
Payment for acquisition of tangible fixed assets	(3,586)	(2,638)
Income from sale of tangible fixed assets	79	0
Payment for acquisition of intangible fixed assets	(488)	(1,087)
Income from sale and redemption of investment securities	9,758	40
Income from repayment of investments in silent partnerships	--	620
Payments of loans receivable	(5)	(300)
Proceeds from liquidation of subsidiaries	183	-
Other payments	(117)	(229)
Other proceeds	126	204
Net cash used in investing activities	5,976	(3,389)
III. Cash flows from financing activities		
Proceeds from disposal of treasury stock	432	85
Payment for purchase of treasury stock	(1)	(2,489)
Cash dividends paid	(2,884)	(2,149)
Others	(98)	(92)
Net cash used in financing activities	(2,552)	(4,647)
IV. Effect of exchange rate changes on cash and cash equivalents	(47)	(54)
V. Net increase in cash and cash equivalents	5,568	(4,920)
VI. Cash and cash equivalents at the beginning of the period	26,040	30,659
VII. Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	**--**	**301**
VIII. Cash and cash equivalents at end of period	**31,609**	**26,040**

(5) Notes to the Consolidated Financial Statements

Items related to a going concern

None

Changes in Accounting Policies

In accordance with changes to the Corporation Tax Act, the Practical Solution on a change in depreciation method due to Tax Reform 2016 (Accounting Standards Board of Japan (ASBJ) PITF No. 32) issued on June 17, 2016, has been applied from the fiscal period under review, and the depreciation method for buildings and accompanying facilities, and structures acquired on or after April 1, 2016, has been changed from the declining balance method to the straight line method.
The effect of this change on the fiscal period under review is minimal.

Additional Information

The Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No.26), issued March 28, 2016, has been applied from the fiscal period under review.

Segment Information

1) Overview of Reportable Segments

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

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

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

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

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

Accounting methods for reportable segments are identical to those described in the “Significant items for the Preparation of Consolidated Financial Statements” in the most recent Annual Securities Report (submitted June 27, 2016.)

Reportable segment income figures are on an operating income basis.

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

For the fiscal year April 1, 2016 to March 31, 2017 *(Millions of yen)*

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

Notes:

1. Other businesses: Sundries, personnel effects, comfort undergarments, *Hatsuga genmai* (germinated brown rice), and Kale juice.
2. Adjustments are as follows

   (1)The adjustment amount on segment income (loss) of (¥1,544) million includes total company expenses not distributed to each reportable segment and consist primarily of costs related to the General Affairs section of the parent company not included in the reportable segments.

   (2)The adjustment on segment assets of ¥31,659 million, include total company expenses not distributed to each reportable segment and consist primarily of cash and deposits, marketable securities, land, buildings, and investment securities of the General Affairs section of the parent company not included in the reportable segments.
3. Segment income (loss) is adjusted for operating income (loss) as recorded in the consolidated financial statements.

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

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

Notes:

1. Other businesses: Sundries, personnel effects, comfort undergarments, *Hatsuga genmai* (germinated brown rice), and Kale juice.
2. Adjustments are as follows

   (1)The adjustment amount on segment income (loss) of (¥1,517) million includes total company expenses not distributed to each reportable segment and consist primarily of costs related to the General Affairs section of the parent company not included in the reportable segments.

   (2)The adjustment on segment assets of ¥31,373 million, include total company expenses not distributed to each reportable segment and consist primarily of cash and deposits, marketable securities, land, buildings, and investment securities of the General Affairs section of the parent company not included in the reportable segments.
3. Segment income (loss) is adjusted for operating income (loss) as recorded in the consolidated financial statements.

Per Share Information

	FY ended March 31, 2017	FY Ended March 31, 2016
Net assets per share	¥1,137.14	¥1,100.39
Net income per share	81.92	¥8.31
Net income per share (diluted)	80.91	¥8.22

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

	FY ended March 31, 2017	FY Ended March 31, 2016
Net income per share		
Net income (loss) (¥ million)	5,146	522
Amount not attributable to common shareholders (¥ million)	--	--
Net income (loss) attributable to common shares (¥ million)	5,146	522
Average number of outstanding common shares during the year (1,000 shares)	62,831,621	62,949,241
Fully diluted earnings per share		
Net income adjustments (¥ million)	--	--
Breakdown of additional common shares used for calculating net income per share (diluted) (1,000 shares)	779,236	641,000
Residual securities not included in the calculation of the net income after adjustment for residual securities due to the fact that these securities had no dilutive effect.	--	--

Important information after the preparation of this report

At a board meeting held on January 16, 2017, the directors resolved to conduct an absorption-type merger of wholly-owned subsidiaries FANCL COSMETICS CORPORATION and FANCL HEALTH SCIENCE CORPORATION, which was implemented on April 1, 2017.

1. Outline of transaction
   For details regarding this matter, please refer to the “Notice regarding absorption (simplified merger and short form merger) of wholly-owned subsidiaries” disclosed on January 16, 2017.
2. Outline of accounting procedures scheduled
   This will be treated as a transaction under common control in accordance with the Accounting Standard for Business Combinations (ASBJ Statement No.21) issued on September 13, 2013, and the Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No.10) issued on September 13, 2013.