FANCL Corporation

Consolidated Financial Statements for the Interim Period of the Fiscal Year Ending March 31, 2018

April 1, 2017 to September 30, 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)

Interim Period Results for the Fiscal Year Ending March 31, 2018

FANCL CORPORATION **October 30, 2017**

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

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Scheduled date for submission of interim period *hokokusho* (securities report): November 13, 2017

Scheduled date for distribution of dividends: December 5, 2017

Availability of supplementary explanatory material for the interim results: Available

Presentation meeting for the interim results: Scheduled (for institutional investors and analysts)

1) Consolidated results for the interim period (April 1, 2017 to September 30, 2017) of the fiscal year ending March 31, 2018

(1) Consolidated Operating Results

(Millions of yen, rounded down)

	Six months ended September 30, 2017		Six months ended September 30, 2016	
		% change		% change
Net sales	51,857	12.3	46,164	6.9
Operating income	3,736	--	(601)	--
Ordinary income	3,843	--	(541)	--
Net income attributable to owners of the parent company	2,485	(35.8)	3,873	--
Earnings per share (¥)	39.27	--	61.77	--
Earnings per share (diluted) (¥)	38.84	--	61.01	--

Notes: 1. The percentages shown above are a comparison with the same period in the previous fiscal year.
2. Comprehensive income: Six months ended September 30, 2017: ¥2,468 million (-33.7%)
Six months ended September 30, 2016: ¥3,720 million (--%)

(2) Consolidated Financial Position

(Millions of yen, rounded down)

	As of September 30, 2017	As of March 31, 2017
Total assets	86,933	85,677
Net assets	73,548	72,402
Shareholders' equity/total assets (%)	83.9	83.6

Shareholders' equity: As of September 30, 2017: ¥72,899 million
As of March 31, 2017: ¥71,630 million

2) Dividends per share

	FY ended March 31, 2017	FY ending March 31, 2018
Interim period	29.00	29.00
Year-end	29.00	29.00 (forecast)
Annual	58.00	58.00 (forecast)

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

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: 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)

	Fiscal year ending March 31, 2018	
		Change (%)
Net sales	105,000	9.0
Operating income	6,000	167.3
Ordinary income	6,100	155.7
Net income attributable to owners of the parent company	4,000	(22.3)
Earnings per share (¥)	63.50	--

Note: Changes to the Consolidated forecasts during the period under review: None

4) Other

(1) Transfer of important subsidiaries during the period: Yes
Note: Indicates transfers of specified subsidiaries resulting in changes in the scope of consolidation during the period under review.

Two companies:
FANCL COSMETICS CORPORATION
FANCL HEALTH SCIENCE CORPORATION

(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: None
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)	September 30, 2017	65,176,600 shares	March 31, 2017	65,176,600 shares
2. Number of treasury shares	September 30, 2017	1,712,451 shares	March 31, 2017	2,184,389 shares
3. Average number of shares during the interim period	Six months to September 30, 2017	63,289,011 shares	Six months to September 30, 2016	62,699,532 shares

Important Notice
Disclosure of status of quarterly report review procedures:
Quarterly financial reports are not subject to quarterly review 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 3, 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 interim period of the previous fiscal year, unless stated otherwise.)

During the six-month period under review, the Japanese economy showed a mild recovery, supported by improvements in employment conditions and corporate earnings as various government policies took effect.

Looking ahead, heightened geopolitical risk and the rise of other uncertainties overseas mean that the situation must be watched closely.

Consolidated sales for the interim period increased 12.3% to ¥51,857 million as a result of an increase in sales in the core cosmetics and nutritional supplements businesses. Operating income was ¥3,736 million, compared to an operating loss of ¥601 million in the previous interim period, largely due to an increase in gross profit from an uptick in sales, and the efficient use of advertising expenses utilizing online advertisements. Ordinary income improved by ¥4,384 million to ¥3,843 million. Net income attributable to owners of the parent company declined ¥1,387 million to ¥2,485 million, due to effects from the recording of extraordinary income from the sale of investments in the previous period.

Segment results are as follows:

1) Cosmetics Business

Sales

Sales from the Cosmetics business increased 15.8% to ¥31,424 million.

(Millions of yen, rounded down)

	Six months ended September 30, 2017		Six months ended September 30, 2016		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
FANCL Cosmetics	24,142	76.8	21,538	79.4	12.1
ATTENIR Cosmetics	5,290	16.8	4,167	15.4	27.0
boscia	1,562	5.0	986	3.6	58.5
Others	428	1.4	441	1.6	(2.9)
Totals	31,424	100.0	27,132	100.0	15.8

	Six months ended September 30, 2017		Six months ended September 30, 2016		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Mail order sales	12,950	41.2	11,651	42.9	11.2
Retail store sales	11,436	36.4	9,706	35.8	17.8
Wholesales and others	3,197	10.2	2,622	9.7	21.9
Overseas Sales	3,839	12.2	3,151	11.6	21.8
Totals	31,424	100.0	27,132	100.0	15.8

Sales of **FANCL Cosmetics** increased 12.1% to ¥24,142 million, due to the effects of *Mild Cleansing Oil* promotions, the full-fledged launch of *Beauty BOUQUET*, a range of products aimed at the mature market, and strong sales in basic skincare products.

Sales of **ATTENIR Cosmetics** increased 27.0% to ¥5,290 million, due to the effects of new product additions such as *ATTENIR MIDNIGHT MOISTURIZER (Spring & Summer)* and *SKIN RETOUCHER*, and a significant increase in customers resulting from a web-based communications strategy.

Sales of **boscia** increased 58.5% to ¥1,562 million, due to strong sales of the core *Black Series* of products.

Results by sales channels were: mail order sales increased 11.2% year on year to ¥12,950 million, retail store sales increased 17.8% to ¥11,436 million, wholesale sales through other sales channels increased 21.9% to ¥3,197 million, and overseas sales increased 21.8% to ¥3,839 million.

Operating income

Operating income increased 164.3% to ¥4,341 million, due to an increase in gross profit from higher sales, in addition to efforts to streamline the use of advertising costs through the utilization of online channels.

2) Nutritional Supplements Business

Sales

Nutritional supplement sales increased 10.5% to ¥17,049 million.

(Millions of yen, rounded down)

	Six months ended September 30, 2017		Six months ended September 30, 2016		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Mail order sales	6,475	38.0	6,105	39.5	6.1
Retail store sales	4,767	28.0	3,744	24.3	27.3
Wholesales and others	4,911	28.8	4,827	31.3	1.7
Overseas Sales	894	5.2	754	4.9	18.7
Totals	17,049	100.0	15,431	100.0	10.5

Revenues from product sales increased due to strong trends in sales of the *Calolimit* series of Foods with Function Claims and *Age Bracket-Based Supplements*.

Results by sales channels were: mail order sales increased 6.1% to ¥6,475 million, retail store sales increased 27.3% to ¥4,767 million, wholesale through other sales channels increased 1.7% to ¥4,911 million and overseas sales increased 18.7% to ¥894 million.

Operating income

Operating income of ¥202 million was recorded, compared to an operating loss of ¥1,026 million in the previous period, due to an increase in gross profit from higher sales, in addition to a decrease in marketing costs resulting from the streamlining of mass advertising placement volumes. As a result, profitability was achieved for the first time in four years.

3) Other Businesses

Sales

Other businesses decreased 6.0% year on year to ¥3,383 million.

(Millions of yen, rounded down)

	Six months ended September 30, 2017	Six months ended September 30, 2016	Change (%)
Hatsuga genmai	1,121	1,251	(10.4)
Kale juice	1,285	1,367	(6.0)
Other	977	980	(0.3)
Totals	3,383	3,600	(6.0)

Operating income

Operating income of ¥58 million was recorded, compared to an operating loss of ¥392 million in the previous comparable period, as a reduction in selling, general and administrative expenses offset a decline in sales.

(2) Summary of consolidated financial position

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

Assets increased ¥1,255 million to ¥86,933 million. The primary contributing factors were an increase of ¥2,466 million in current assets and a decrease of ¥1,211 million in fixed assets.
Contributing to the increase in current assets were a ¥1,328 million increase in cash and deposits, and a ¥1,424 million increase in notes and accounts receivable. The decrease in fixed assets was primarily the result of a decrease of ¥1,058 million in investments and other assets - "Other" - due to a decrease in deferred tax assets.

Liabilities increased ¥108 million from the end of the previous fiscal year to ¥13,384 million. The primary contributing factor was an increase of ¥834 million in current liabilities and a decrease of ¥725 million in long-term liabilities. Factors contributing to the increase in current liabilities include a ¥343 million increase in notes and accounts payable, and a ¥426 million increase in "Other" current liabilities due to an increase in accounts payable. Contributing to the decrease in long-term liabilities was a ¥763 million decrease in retirement benefit liabilities.

Net assets increased ¥1,146 million to ¥73,548 million. Contributing factors included a ¥2,485 million increase in retained earnings due to the recording of net income attributable to owners of the parent, a ¥684 million decline in treasury stock due to the disposal upon exercise of stock acquisition rights of treasury stock, and a ¥1,826 million decline in retained earnings due to dividend payments.

As a result, the shareholders' equity ratio rose 0.3 percentage points from the end of the previous fiscal year to 83.9%.

Cash flow

Cash and cash equivalents as of September 30, 2017 were ¥32,938 million, ¥1,328 million higher than at the end of the previous fiscal year. The main contributing factors are detailed below.

Cash flows from operating activities
Cash gained from operating activities during the interim period under review was ¥3,783 million compared to an outflow of ¥159 million in the interim period of the previous fiscal year. Factors increasing operating cash flow included income before income taxes of ¥3,762 million and depreciation expenses of ¥1,368 million. Factors reducing operating cash flow included an increase in accounts receivable of ¥1,436.

Cash flows from investing activities
Cash used in investing activities during the interim period under review was ¥1,087 million, compared to an inflow of ¥7,845 million in the interim period of the previous fiscal year. Factors reducing investment cash flow included outlays of ¥755 million for acquisitions of tangible fixed assets, and outlays of ¥393 million for acquisitions of intangible fixed assets.

Cash flows from financing activities
Cash used in financing activities during the interim period under review was ¥1,359 million, compared to an outflow of ¥736 million in the interim period of the previous fiscal year. Factors increasing cash flow from financing activities included inflows of ¥509 million for the disposal of treasury stock. Factors reducing cash flow from financing activities included ¥1,823 million for dividend payments.

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

The full-year consolidated results forecasts are unchanged from the announcement on April 27, 2017.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheets

Millions of yen, rounded down

	As of September 30, 2017	As of March 31, 2017
ASSETS		
I. Current assets:		
Cash and cash equivalents	32,938	31,609
Notes and accounts receivable	12,525	11,101
Merchandise and products	3,564	3,833
Work in progress	55	23
Raw materials and supplies	3,970	3,763
Others	3,041	3,273
Allowance for doubtful accounts	(102)	(79)
Total current assets	55,992	53,526
II. Fixed assets:		
Tangible fixed assets		
Buildings and structures	27,302	27,156
Accumulated depreciation and accumulated impairment loss	(15,322)	(14,985)
Buildings and structures (net)	11,980	12,170
Machinery and transport equipment	8,518	8,408
Accumulated depreciation and accumulated impairment loss	(6,773)	(6,534)
Machinery and transport equipment (net)	1,744	1,874
Furniture, tools and fixtures	8,251	8,025
Accumulated depreciation and accumulated impairment loss	(6,970)	(6,772)
Furniture, tools and fixtures (net)	1,281	1,252
Land	11,607	11,607
Lease assets	308	268
Accumulated depreciation and accumulated impairment loss	(138)	(148)
Lease assets (net)	169	119
Others	53	25
Total tangible fixed assets	26,836	27,049
Intangible fixed assets		
Others	2,107	2,045
Total intangible fixed assets	2,107	2,045
Investments and other assets		
Investment securities	126	128
Others	1,870	2,928
Total investments and other assets	1,997	3,056
Total fixed assets	30,940	32,151
Total Assets	**86,933**	**85,677**

Consolidated Balance Sheets, continued

Millions of yen, rounded down

	As of September 30, 2017	As of March 31, 2017
LIABILITIES		
I. Current liabilities:		
Notes and accounts payable	2,650	2,307
Accrued income taxes	889	1,088
Allowance for bonus	1,293	1,030
Allowance for points	1,620	1,617
Asset retirement obligations	--	2
Others	5,691	5,264
Total current liabilities	12,145	11,310
II. Long-term liabilities:		
Retirement benefit liabilities	539	1,303
Asset retirement obligations	422	416
Others	277	245
Total long-term liabilities	1,239	1,965
Total liabilities	13,384	13,275
NET ASSETS		
Shareholders' equity		
Common stock	10,795	10,795
Capital surplus	11,706	11,706
Retained earnings	52,940	52,339
Treasury stock	(2,486)	(3,170)
Total shareholders' equity	72,955	71,670
Other comprehensive income		
Foreign currency translation adjustment	78	119
Total adjustments related to retirement benefits	(134)	(159)
Total other comprehensive income	(56)	(39)
Warrants	649	771
Total net assets	73,548	72,402
Total Liabilities and Net Assets	86,933	85,677

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

Consolidated statement of income

Millions of yen, rounded down

	April 1, 2017 to September 30, 2017	April 1, 2016 to September 30, 2016
Net sales	51,857	46,164
Cost of sales	15,028	13,817
Gross profit	36,829	32,347
Selling, general and administrative expenses	33,092	32,948
Operating income	3,736	(601)
Non-operating income		
Interest income	2	2
Dividend income	0	0
Rental income	51	52
Other non-operating income	84	87
Total non-operating income	138	142
Non-operating expenses		
Rent expenses on fixed asses	17	17
Loss on foreign exchange	--	46
Provisions for allowance for bad debt	1	0
Other non-operating expenses	13	18
Total non-operating expenses	32	82
Ordinary income	3,843	(541)
Extraordinary income		
Income from sale of fixed assets	--	0
Gain on reversal of subscription rights to shares	2	34
Gain on sale of investment securities	--	4,440
Gain on investments in silent partnerships	5	--
Total extraordinary income	8	4,476
Extraordinary loss		
Loss on sale of fixed assets……	--	0
Loss on disposal of fixed assets	3	22
Impairment loss	0	59
Loss on closure of stores	83	18
Other	1	1
Total extraordinary loss	89	102
Income before income taxes	3,762	3,832
Income and other taxes	698	594
Adjustments to income and other taxes	578	(634)
Total income and other taxes	1,276	(40)
Net income	2,485	3,873
Net income attributable to owners of the parent company	2,485	3,873

Consolidated statement of comprehensive income

Millions of yen, rounded down

	April 1, 2017 to September 30, 2017	April 1, 2016 to September 30, 2016
Income before minority interests	2,485	3,873
Other comprehensive income		
Foreign currency translation adjustment	(41)	(151)
Adjustments related to retirement benefits	24	(0)
Total other comprehensive income	(17)	(152)
Comprehensive income	2,468	3,720
(Breakdown)		
Comprehensive income attributable to owners of the parent company	2,468	3,720
Comprehensive income attributable to minor interests	--	--

(3) Consolidated Statement of Cash Flows

Millions of yen, rounded down

	April 1, 2017 to September 30, 2017	April 1, 2016 to September 30, 2016
I. Cash flows from operating activities		
Income before income taxes	3,762	3,832
Depreciation	1,368	1,482
Impairment loss	0	59
Increase (decrease) in allowance for doubtful accounts	24	6
Increase (decrease) in allowance for bonuses	263	41
Increase (decrease) in allowance for points	3	56
Increase (decrease) in retirement benefit related obligation	(728)	(9)
Interest and dividend income	(2)	(3)
Loss (gain) from foreign exchange	(7)	92
Loss (gain) on sale of investment securities	--	(4,440)
Loss (gain) from sale of fixed assets	--	(0)
Loss on disposal of fixed assets	3	22
Loss on store closures	83	18
Gain on reversal of subscription rights to shares	(2)	(34)
Decrease (increase) in accounts receivable	(1,436)	624
Decrease (increase) in inventories	11	(36)
Decrease (increase) in other current assets	(25)	141
Decrease (increase) in other fixed assets	4	5
Decrease (increase) in accounts payable	347	(281)
Increase (decrease) in other current liabilities	377	(652)
Increase (decrease) in other fixed liabilities	(2)	(11)
Others	(105)	(39)
Sub-total	3,938	873
Interest and dividends received	2	3
Income taxes paid	(840)	(1,233)
Refund of income taxes	683	197
Net cash provided by (used in) operating activities	**3,783**	**(159)**

Consolidated Statement of Cash Flows (continued)

Millions of yen, rounded down

	April 1, 2017 to September 30, 2017	April 1, 2016 to September 30, 2016
II. Cash flows from investing activities		
Payment for acquisition of tangible fixed assets	(755)	(2,020)
Income from sale of tangible fixed assets	3	78
Payment for acquisition of intangible fixed assets	(393)	(163)
Income from sale and redemption of investment securities	--	9,785
Payments of loans receivable	--	(5)
Proceeds from liquidation of subsidiaries	--	183
Other payments	(66)	(70)
Other proceeds	124	58
Net cash used in investing activities	(1,087)	7,845
III. Cash flows from financing activities		
Proceeds from disposal of treasury stock	509	375
Payment for purchase of treasury stock	(1)	(0)
Cash dividends paid	(1,823)	(1,062)
Others	(44)	(47)
Net cash used in financing activities	(1,359)	(736)
IV. Effect of exchange rate changes on cash and cash equivalents	(7)	(121)
V. Net increase in cash and cash equivalents	1,328	6,828
VI. Cash and cash equivalents at the beginning of the period	31,609	26,040
VII. Cash and cash equivalents at end of period	32,938	32,869

(4) Notes to the consolidated financial statements

Items related to going concern:
No applicable items

Note on significant change in shareholders' equity
No applicable items

Transfer of important subsidiaries during the period
From the consolidated first quarter period, consolidated subsidiaries and special subsidiaries FANCL COSMETICS CORPORATION and FANCL HEALTH SCIENCE CORPORATION were removed from the scope of consolidation due to their dissolution following an absorption-type merger, with FANCL Corporation as the surviving company.

Segment information

Business Segments

1. Six months ended September 30, 2017

(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	31,424	17,049	3,383	51,857	--	51,857
(2) Inter-segment sales or transfers	--	--	--	--	--	--
Total sales	31,424	17,049	3,383	51,857	--	51,857
Operating income (loss)	4,341	202	58	4,602	(865)	3,736

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 (¥865 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. Six months ended September 30, 2016

(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	27,132	15,431	3,600	46,164	--	46,164
(2) Inter-segment sales or transfers	--	--	--	--	--	--
Total sales	27,132	15,431	3,600	46,164	--	46,164
Operating income (loss)	1,642	(1,026)	(392)	223	(825)	(601)

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 (¥825 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.