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FANCL Report 2016
FANCL



To the readers of FANCL Report 2016

Since the 2015 edition, the FANCL Report has integrated financial and non-financial information in a single Annual Report to provide readers with a comprehensive understanding of the Company's business results and strategies.

[See our website for more detailed information about FANCL's IR and CSR activities.]

Corporate website www.fancl.jp/en/

Financial information (Shareholders/Investor Relations)



Non-financial information (CSR/ Environment/Social Contribution)



Online information can be accessed easily from the FANCL Report through the link located at the bottom of every odd-numbered page in the report.
* Common address for access from either computers or smartphones

Editorial Policy

- [Organizations] FANCL CORPORATION and the FANCL Group
- [Businesses] Cosmetics, nutritional supplements and other businesses
- [Applicable Period] Fiscal 2016 (from April 1, 2015 to March 31, 2016)
* Some areas include information from before March 31, 2015 and after April 1, 2016.
- [Reference Guidelines] ■ ISO 26000 ■ Environmental reporting guidelines of Ministry of the Environment ■ United Nations Global Compact, etc.



United Nations Global Compact Signatory
FANCL became a signatory to the United Nations Global Compact in April 2013. FANCL abides by the 10 principles in the Global Compact, including in regard to human rights, labor, the environment and anti-corruption, and seeks to contribute toward development of a sustainable society, and to enhance corporate value.



Status as a Socially Responsible Investment
* As of January 4, 2016
FANCL has been selected as a constituent stock for the Morningstar Socially Responsible Index (MS-SRI). MS-SRI is Japan's first domestic socially responsible index, and is an index of share prices from 150 companies that Morningstar Japan K.K. selects from among those listed in Japan assessed as having an excellent social record.

Founding Philosophy

Eliminate the "Negatives" with a Sense of Justice

Corporate Philosophy

"Can Achieve More"

The FANCL Group is a corporation that truly cares for people. FANCL has strived to eliminate customers' negative experience and pursue gentleness, safety, 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.

FANCL's Stance

FANCL
正直品質。

* 正直品質。...Honest Quality

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Forward-Looking Statements	
Forward-looking statements contained within this report are based on information the FANCL Group could obtain at the time of its production. Actual results may vary and statements are subject to change depending on changes in a variety of factors.	

To Our Shareholders and Other Stakeholders



Staying Ahead
of the Times,
Creating the Future

In the late 1970s, many women were deeply concerned by serious skin problems due to preservatives and other additives found in cosmetics. Harm from cosmetics had become a major social issue.

Outraged that cosmetics that were supposed to make women more beautiful were actually damaging their skin, I conducted repeated investigations on my own. What I learned inspired the concept of *Mutenka** cosmetics completely free of additives. Trial-and-error paid off in 1982 with the completion of the world's first *Mutenka* cosmetics, which are at the heart of FANCL.

Ever since, we have embraced challenges in an array of businesses, guided by the philosophy of eliminating the “negatives” (anxieties, inconveniences, and dissatisfactions) in the world with a sense of justice. FANCL HEALTH SCIENCE CORPORATION is taking on the new challenge of extending healthy life spans with an eye to preventive healthcare to tackle the social issue of reducing Japan's health care costs, which total around ¥40 trillion.

Further, FANCL has continued to create products thoroughly rooted in evidence at every stage of the process by capitalizing on its business model of an integrated

manufacturing and sales framework. In May 2016, the FANCL Research Institute's second laboratory was completed. We will further reinforce those R&D capabilities.

We are living in a time of unprecedented change, affected by various social issues including global warming, human rights violations stemming from national and religious conflicts, oppressive labor conditions, and the coming of an aging society.

FANCL is committed to operating with an eye to problems the world faces. To that end, we became a signatory to the United Nations Global Compact in April 2013. With the United Nations Global Compact's Ten Principles, ISO 26000, and Japan's Ministry of the Environment's Environmental Reporting Guidelines as standards for activities, organizations throughout the Group set goals and carry out their work. Going forward, we will continue to report with integrity and transparency about those activities to all stakeholders.

Kenji Ikemori

Kenji Ikemori
Chairman & CEO, Representative Director

FANCL Group History

- | | | |
|------|-----------|--|
| 1980 | April | Kenji Ikemori founded an individual cosmetics sales company
Launched mail-order sales of cosmetics |
| 1981 | August | Incorporation of Japan fine chemical Sales Co., Ltd. (FANCL CORPORATION) |
| 1982 | December | Launched <i>Mutenka</i> skin care products continuously developed since FANCL's founding |
| 1989 | February | ATTENIR CORPORATION established |
| 1994 | February | Launched mail-order sales of nutritional supplements |
| 1995 | March | Opening of the first FANCL House shop in Aoba-dori, Shizuoka; FANCL began expansion of directly-managed stores |
| 1996 | October | Opening of first overseas store in Hong Kong |
| 1997 | July | FANCL INTERNATIONAL, INC. established in the U.S. |
| | August | Launched online product orders |
| 1998 | November | Initial public offering as Japan Securities Dealers Association over-the-counter issue |
| 1999 | February | FANCL SMILE Co., Ltd. (special subsidiary) established |
| | July | Launched sales of nutritional supplements at 7-Eleven convenience stores |
| | August | FANCL Dormer Corporation established |
| | December | FANCL listed on First Section of Tokyo Stock Exchange |
| 2000 | March | FANCL ASIA (PTE) LTD. established in Singapore |
| | August | Launched <i>FANCL Kale Juice</i> at Three F convenience stores |
| | September | Launched <i>Facial Washing Powder</i> at Lawson convenience stores |
| 2002 | October | FANCL B&H CORPORATION established |
| 2003 | April | FANCL Ginza Square opened |
| 2008 | January | <i>boscia</i> , LLC established in the U.S. |
| | July | NICOSTAR BEAUTECH Co., Ltd. established |
| | August | FANCL Kanto Distribution Center opened |
| 2013 | June | FANCL College opened, the headquarters of employee training centers |
| | October | FANCL Ginza Square re-opened |
| 2014 | March | The 1st “Hybrid Shop” opened in Kyoto Porta, a shop combining “Beauty Shop” and “Health House” |
| | April | Transitioned to a holding company structure |
| 2015 | May | Medium-term Management Plan (FY2016–18) announced |



Mutenka skin care product (1982)



ATTENIR cosmetics (1989)



Nutritional supplements (1994)



Germinated brown rice advertisement (1999)



Kale juice advertisement (2000)



The grand re-opening of FANCL Ginza Square (2013)



The 1st “Hybrid Shop” opened in Kyoto Porta (2014)

 www.fancl.jp/en/about/history/

* FANCL's *Mutenka* products contain no additives, preservatives, sterilizers, petroleum surfactants, fragrances, mineral oils, ultraviolet absorbers, or artificial colorings.

Introduction of the FANCL Group

Putting into practice an integrated approach to R&D, manufacturing, and marketing



Holdings

FANCL CORPORATION
FANCL

Since its establishment, FANCL's philosophy has been to eliminate the "negatives" in the world, providing products and services for "beauty" and "health." In April 2014, FANCL shifted to a holding company structure. FANCL CORPORATION encompasses core sales channels (mail-order sales, retail store sales, wholesale, overseas business), FANCL College (employee education unit), the FANCL Research Institute, and the FANCL Group's support divisions. It draws on those components in advancing operations.



Head Office (Yokohama)

Group Company

FANCL COSMETICS CORPORATION
(Consolidated subsidiary)
FANCL

FANCL COSMETICS plans, develops, and sells *Mutenka* cosmetics, food for beauty, undergarments, and sundries. Its mission is: Be beautiful now and in the future. Making healthy, energetic and beautiful skin with *Mutenka*, to support customers' lifestyles. As an organization of specialists devoted to delivering "beauty," FANCL COSMETICS strives to forge close ties with individual customers so as to provide products and services that delight.



(From left) Mild Cleansing Oil, Facial Washing Powder

FANCL HEALTH SCIENCE CORPORATION
(Consolidated subsidiary)

FANCL
ヘルスサイエンス

FANCL HEALTH SCIENCE plans, develops, and sells supplements, kale juice, and *Hatsuga Genmai* products. As Japan's leading health-support company, FANCL HEALTH SCIENCE establishes and supports customers' health across their entire lifetime to achieve "Good Aging" (Living your whole life in good health, both physically and mentally). It will stay tuned to customers' desires and problems to deliver health food products with value.



(From left) Kale Juice-Premium, Age Bracket-Based Supplements, Calorie Limit for the Mature Aged®

ATTENIR CORPORATION
(Consolidated subsidiary)

Attenir

ATTENIR got its start setting out to break conventional cosmetics bonds with the "high quality, low cost, high fashion sense" product concept. With the brand statement "generous is beauty," ATTENIR offers cosmetics, health food products, and fashion items. Ever since its founding, ATTENIR has maintained an unshaken corporate attitude of "moving together with customers," and issued a declaration to "retain the product quality and luxury of a leading brand but offer at one-third of the market price or lower."



The Inner Effector

FANCL Hatsuga Genmai Co., Ltd.
(Consolidated subsidiary)

FANCL *Hatsuga Genmai* was established in 1999 with the vision of supporting health in Japan with daily food staples. It manufactures *Hatsuga Genmai* (germinated brown rice) products, which are more nutritious than brown rice and can easily be mixed with white rice and cooked. PSG (an active ingredient of Pre-germinated brown rice, the acylated Steryl Glucoside fraction), which was discovered via *Hatsuga Genmai* research, holds promise for being beneficial for a wide range of lifestyle diseases.



(From left) Hatsuga Genmai Fukkura, Hatsuga Genmai Hakumaijitate, Hatsuga Genmai Kin no Ibuki



FANCL ASIA (PTE) LTD
(Consolidated subsidiary)
FANCL INTERNATIONAL, INC.
(Consolidated subsidiary)
boscia, LLC
(Consolidated subsidiary)

In 1996, overseas development began with Hong Kong. In 1997, FANCL INTERNATIONAL was established in the U.S. as the headquarters for North America. In 2000, FANCL ASIA was established in Singapore as the headquarters for Asia. In addition to the sale of FANCL products in the U.S., we sell *boscia* products—a brand launched to target North American customers.



boscia black series

FANCL B&H CORPORATION
(Consolidated subsidiary)

FANCL B&H has four factories in Japan, and manufactures cosmetics, quasi-drugs, and health food. All factories have production systems and clean environments that place the utmost attention on "safety and peace of mind." In particular, *Mutenka* cosmetics are manufactured in an environment on par with that for pharmaceuticals. Further, a solar power generation system was introduced at the environment-conscious Shiga factory in 2011. About 16% of electricity used at the Shiga factory comes from solar power.



Solar panels at the Shiga factory

NICOSTAR BEAUTECH Co., Ltd.
(Consolidated subsidiary)

NICOSTAR BEAUTECH is a consulting-type ODM* company that leverages the FANCL Group's production technology. It handles contract manufacturing, sales, and development of quasi-drugs and cosmetics tailored to customers' diverse needs.

* Original Design Manufacturing: Handling everything from product design through production.

FANCL SMILE Co., Ltd.
(Non-consolidated subsidiary)

FANCL SMILE is a special subsidiary established to help people with disabilities to be independent members of society. In addition to the shipment of direct marketing materials and bundling of cosmetics samples, FANCL SMILE's 47 employees handle tasks like assisting with production at health food factories and recovering used paper at the FANCL headquarters. In an array of occupational areas, they are bringing out their potential.



Employees of FANCL SMILE

FANCL Insurance Service Corp.
(Non-consolidated subsidiary)

FANCL Insurance Service engages in non-life insurance agency and life insurance solicitation-related operations.

FANCL FARM Co., Ltd.
(Non-consolidated subsidiary)

FANCL FARM produces, processes, and sells organic agricultural products.

FANCL (Shanghai) Business Consulting Limited
(Non-consolidated subsidiary)

FANCL (Shanghai) Business Consulting is responsible for product registration in China.

Green Hill Co., Ltd.
(Non-equity method affiliate)

Green Hill manufactures kale juice.

Overview of the Medium-term Management Plan (Fiscal 2016 to 2018)

Basic Approach

Maximize use of investments in advertising with aim of doubling sales in five years

Grow sales through strategic investment

- In the Beauty and Health business, invest in advertising at levels significantly higher than usual to achieve higher brand awareness and sales.
- Maximize advertising effects by improving the store network, investing aggressively to create a network of 350 directly managed stores while working to expand wholesale sales channels.
- Develop consistent advertising to publicize the Company's corporate stance and promote its philosophy.
- Grow sales by using heavily marketed star products to stimulate consumer purchases of complementary items.

Reinforce business foundation

- Improve the capacity utilization of existing manufacturing equipment, and work to improve productivity and reduce unit costs.
- Make full use of the second R&D facility that opened in May 2016 to strengthen R&D and increase the speed of product development.

Fiscal 2018 targets

Consolidated net sales

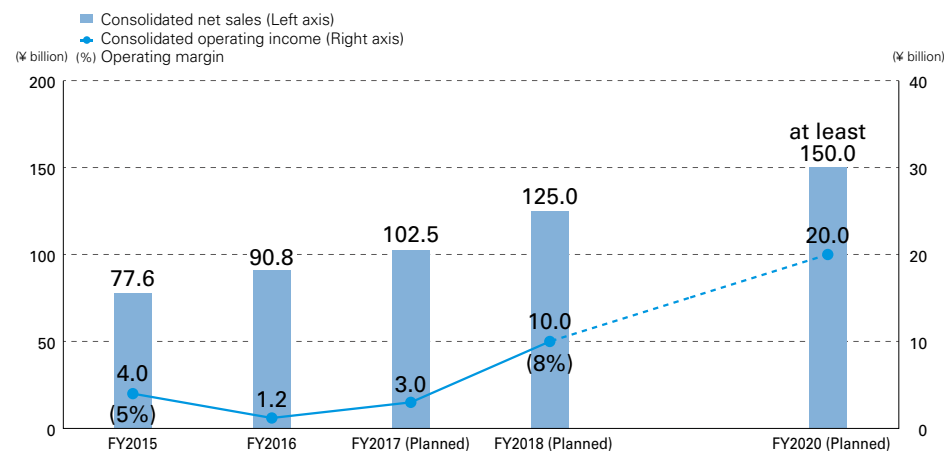
¥125.0 billion
(1.6 times higher than FY2015)

Consolidated operating income

¥10.0 billion
(2.5 times higher than FY2015)

Return on equity (ROE)

At least 8%
(FY2015: 3%)



Return on equity (ROE) 3% → at least 8% → at least 10%

Shareholder return policy

Dividends	Maintain a dividend payout ratio of at least 40% of profit attributable to owners of parent
Acquisition of treasury stock	Flexibly consider the acquisition of treasury shares with the aim of improving the capital efficiency ratio, while taking into account trends in the share price and future capital funding requirements
Cancellation of treasury stock	Treasury shares in excess of approximately 10% of the total number of outstanding shares will be cancelled

FY2016 Results and FY2017 Plan

Fiscal 2017 is a key year to ensure we achieve our goal of doubling sales Continue with strategy to take the lead in advertising

Target a v-shaped turnaround by strategically investing in advertisements in Fiscal 2016

In fiscal 2016, there was a significant increase in customers as a result of double the normal scale in advertising investment based on policies in the Medium-term Management Plan (FY2016–FY2018). Net sales increased 17.0% to ¥90,850 million in a v-shaped recovery.

In the FANCL Cosmetics Business there was an increase in customer activity due to a 35th anniversary campaign and expansion of sales channels that led to

record high sales. In the Nutritional Supplements Business, there was strong growth in sales resulting from the hit eye supplement *Enkin*, a food with functional claims labeling.

Despite an increase in gross profit resulting from the increase in sales, operating income declined 69.9% to ¥1,204 million, as a result of an increase in proactive advertising investments and selling, general and administrative expenses.

Continue with strategy to take the lead in advertising in fiscal 2017

Fiscal 2017 has been positioned as a key year to ensure we achieve our goal of doubling sales and we are continuing a strategy to take the lead in advertising. There will be three main policies when dealing with this.

1) Maximize effects of investment in advertising

FANCL will invest in advertising to cultivate new star products and create advertisements consistent with its corporate stance and way of thinking, and communicate its philosophy. The Company will also accelerate the opening of directly-managed stores and work to expand the store network to maximize the effects of investment in advertising.

2) Promote cross-selling

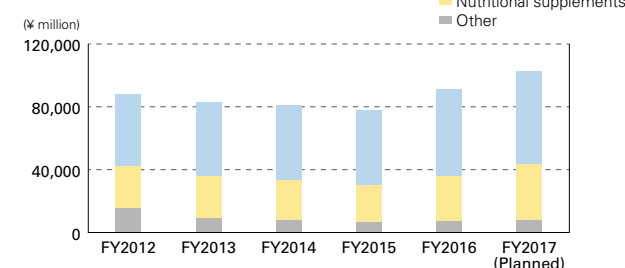
FANCL will proactively propose products that resolve customers' concerns to expand sales.

3) Cultivate markets for the middle-aged and elderly

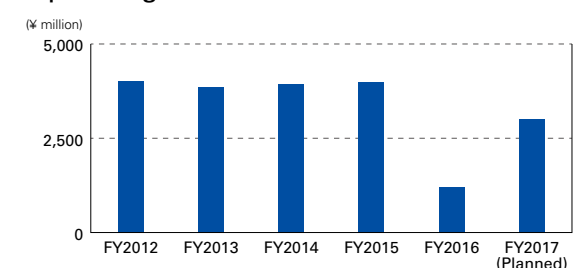
FANCL plans to launch FANCL cosmetic products for mature customers. For Nutritional Supplements, the Company will strengthen sales of supplements including *Enkin* and *Age Bracket-Based Supplements*.

In light of the above, in fiscal 2017 we forecast an increase in net sales of 12.8% to ¥102,500 million and an increase in operating income by 2.5 times to ¥3,000 million.

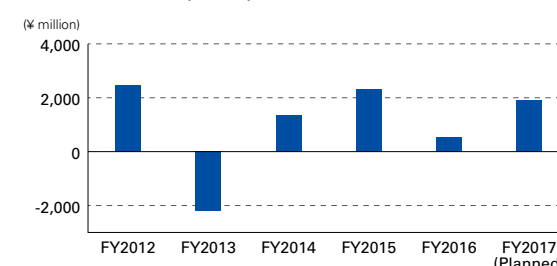
Sales



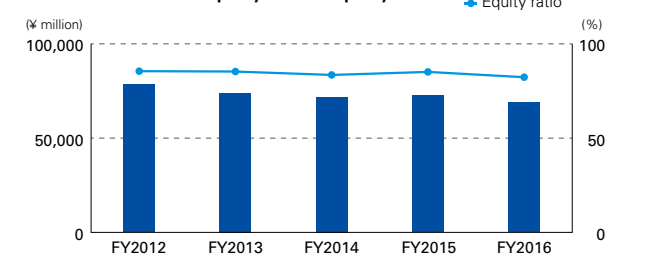
Operating income



Net income (loss)



Shareholders' equity and equity ratio



FANCL COSMETICS CORPORATION Taking on the challenges of new markets

Fiscal 2016 set another year for record sales

FANCL achieved record sales with positive trends resulting from the launch of new products including *Aging Care Washing Cream* and *Mutenka Active Conditioning*, and

the effects of promotions for core products such as *Mild Cleansing Oil*, and growth in wholesale sales to drugstores.

Forging new markets and aiming for further growth in fiscal 2017

In the facial cleansing category, an upgraded *Aging Care Washing Cream* was launched in April 2016 and the product line will be expanded by introducing it to drugstores. FANCL will also expand its network of drugstores handling its products, increasing the number of stores by 1,500 in one year to 10,000 stores. The Company will also continue to implement concentrated television promotions to increase sales mainly through wholesale channels.

In the skincare category, the Company will strengthen sales of *Mutenka Active Conditioning*. While maintaining a continuous approach through magazines and the internet

targeting women with a strong affinity for *Mutenka* cosmetics, the Company will also extend reach to nearby demographic groups to acquire more customers.

In the fall of 2016, FANCL plans the full-scale launch of cosmetics for mature-aged customers. The Company has developed a highly functional product targeting those aged 60 and over, made with a formula including original ingredients. The Company has paid consideration to user friendliness, and will be meticulous with its containers and packaging, making them simple and easy to use for people of this generation.



Aging Care Washing Cream TV commercial



Mild Cleansing Oil TV commercial


ATTENIR CORPORATION
From 'return to the starting point' to evolution

ATTENIR has announced a declaration to "retain the product quality and luxury of a leading brand, but offer at one-third of the market price or lower." New products expressing the philosophy behind this declaration have been released in succession since 2014, including the launch in February 2016 of *SkinClear Cleanse Oil* as a key item. ATTENIR seeks to create topical information on the web and build up the reputation of these products and work to secure support for its philosophy among customers.

In fiscal 2017 it will add innovative new products to its lineup, strengthen advertising developments mainly online, increase customers and instill a sound base for ATTENIR's re-growth.



SkinClear Cleanse Oil

FANCL HEALTH SCIENCE CORPORATION

(Nutritional Supplements, *Hatsuga Genmai* (Germinated Brown Rice), Kale Juice, Preventive Healthcare)

Cultivate star products to follow on from Enkin
Enkin, a food with function claims labeling, was a hit product in fiscal 2016

In the Nutritional Supplements Business sales, increased significantly due to the effects of promotions for *Calorie Limit for the Mature Aged*, a diet supplement; *Enkin*, a food with function claims labeling; and an increase in customers due to development of periodic delivery services.

With a 30% increase in mail-order supplement customer numbers compared to the previous fiscal year and success winning over middle-aged to elderly customers, business has entered a trajectory toward full-scale growth.

Aiming to set another new sales record in fiscal 2017

In addition to food with functional claims labeling such as *Enkin*, the Company will reinforce star product candidates *Age Bracket-Based Supplements* and *Glucosamine & Chondroitin Rakunobi*.

Since being launched in September 2015, *Age Bracket-Based Supplements* has sold briskly as a result of it being a product with a very intuitive concept. In fiscal 2017, TV promotions will be developed and the wholesale channel strengthened.

Glucosamine & Chondroitin Rakunobi was renewed in April 2016, improving it significantly to make it more functional and easier to take.



TV commercial for *Enkin*, a food with function claims labeling



TV commercial for *Calorie Limit for the Mature Aged*


Overseas
Rapid growth of boscia natural cosmetics

boscia is a line of natural cosmetics the Company is developing in partnership with the world's largest cosmetic retailer, Sephora. The strategy for this business is to enact fast and innovative product development to achieve high growth. The cosmetic has become Sephora's top-selling natural skincare brand and entered the top 10 for all skincare products. Product development is ahead of market needs and new products are launched yearly.

We aim to establish *boscia* as a third brand following FANCL and ATTENIR.



boscia TSUBAKI series

FANCL's Value Creation-1

R&D Creating New Value



Materials Research Group
Health Science Research Center
FANCL Research Institute
Misato Yazaki

R&D Vision

The FANCL Research Institute opens a new age of technological innovation

The FANCL Research Institute is always thinking about what it can do for customers, guided by the key phrase "innovation with the customers in mind." Our aspiration is innovation. In both the beauty and health arenas, we take a consistent approach from basic scientific and technological research including the investigation of new materials and assessment of efficacy to product development and applied research. We have set key themes as "knowing about customers' conditions," "boosting effects and functions," and "conveying those effects in an easy to understand manner." At the second factory completed in May 2016, we have deployed cutting-edge equipment and are forging ahead with neuroscience, dermatology, pharmaceutical formulation, and other research on revolutionary themes.

FANCL Research Institute

- Cosmetics Research Institute
- Functional Foods Research Institute
- Quality & Safety Research Center
- Research Promotion Office
- Beauty Science Research Center
- Health Science Research Center
- Innovation Research Center

FANCL Research Institute Organizational Chart

Researchers (including staff)

Cosmetics related	89
Supplements related	85
Others	14

188

(As of March 31, 2016)

Qualifications

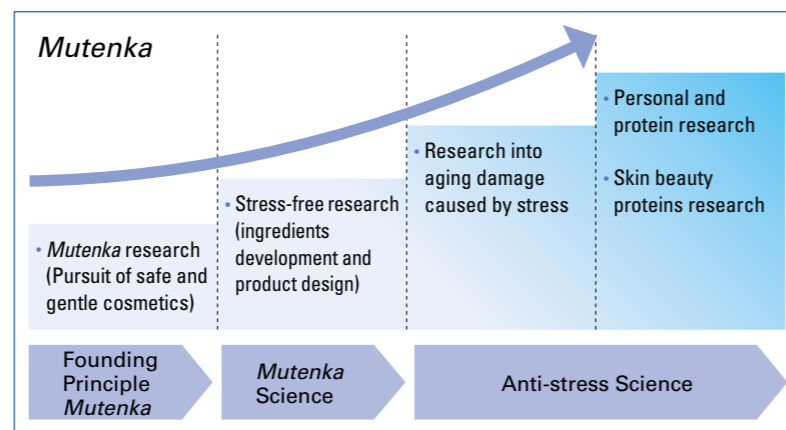
PhD	8
Pharmacists	8
Registered diettian/dietician	7
Veterinary doctor	1
Patent attorney	1
Clinical technician	1

Work has finished on the right-hand side part of the second laboratory

Cosmetics R&D

Continuously evolving *mutenka* anti-stress science

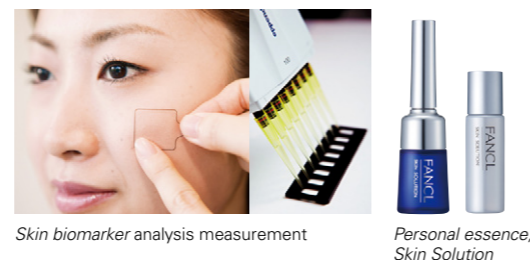
The creator of *Mutenka*, FANCL COSMETICS believes anti-stress skincare that is not only safe and gentle, but also enhances the skin's natural strengths has the power to unleash bare-skin beauty. The environment is growing increasingly stressful for the skin, and skin problems have become diverse. To meet the challenges in this age, we are conducting dermatology research that is at the cutting edge, even globally. We are not just looking to eliminate skin stress, but also investigating the relationship between stress and aging at the micro level—the skin's proteins.



Protein research

We successfully developed proprietary *Skin Biomarker Analysis* technology to analyze the skin's condition from the epidermis. Analysis of proteins can shed light on the root of each individual's varying skin problems as well as potential future risks. This inspired *Skin Solution*, a personal essence focused on addressing the underlying causes of skin damage, now and in the future.

Further, we discovered proteins that are key to beautiful skin during our protein research. We employed it to develop *Mutenka Active Conditioning*, a skincare product line that boosts the skin's innate power for beauty. By controlling the skin's proteins and thus also controlling skin stress, we want to be able to guarantee beautiful skin now and in the future.



Skin biomarker analysis measurement

Personal essence, Skin Solution



Mutenka active conditioning

Health Foods R&D

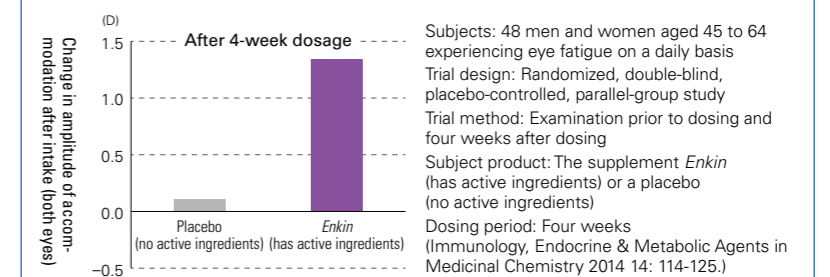
Utilizing Japan's food with functional claims labeling system

Japan's food with functional claims labeling system began in April 2015. FANCL HEALTH SCIENCE CORPORATION offers several products with functional claims labeling including Japan's first—*Enkin*, a supplement for eyes. We attribute our ability to lead peers in launching food with functional claims labeling to our daily, ongoing, diligent research. We will keep enhancing our lineup of food with functional claims labeling that offers solid safety and effects.



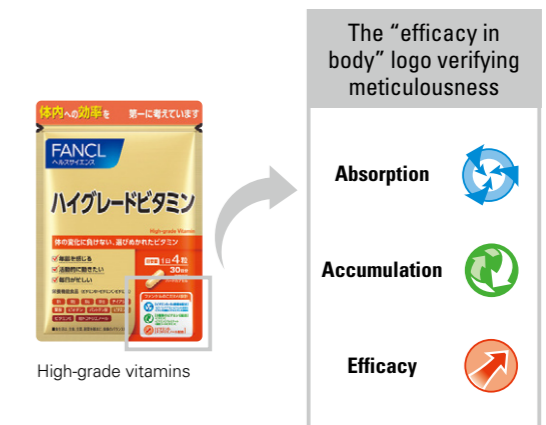
(From left): Bowel care, Total Fat Support, Enkin, Blood pressure care, Sleep care and Back Relax

Results of clinical trial on *Enkin's* ability to help the eyes focus on close objects



Efficacy in body

FANCL HEALTH SCIENCE CORPORATION's supplements prioritize "efficacy in the body." There are limits to the amount of ingredients the body can absorb, even for those materials it needs. There are also cases where excessive intake can harm, rather than help, the body. As such, FANCL HEALTH SCIENCE is extremely particular about all stages of supplement design—from selection of raw materials to how much of each should be added and processing technologies. The goal is to create supplements that the body can effectively absorb in just the right amount and offer long-lasting effects.



High-grade vitamins

FANCL's Value Creation-2

Creating Safe and Reliable Products

Production Department #1, Chiba Plant, Supervisory Headquarters, FANCL B&H CORPORATION Naofumi Imura

* Protective mask removed to enable clear photo

Quality Control

Production management that realizes safety and reliability

We produce both cosmetics and health food products under a management framework in line with good manufacturing practices (GMP). From raw material selection to shipments, FANCL conducts inspections utilizing its own rigorous standards. We also employ a traceability system, keeping manufacturing records for every single product that show when and in which factory the product was produced, as well as what raw materials were used.

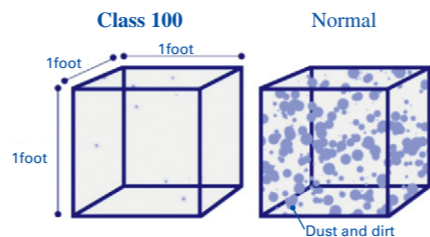
Standards for Production Bases

Company Name	Production Bases	Standards		FSSC 22000*2	Facility Clean Room	Company subject to Energy Conservation Act*3
		GMP*1	Standards			
		Cosmetics	Health Foods			
FANCL B&H CORPORATION	Chiba	○			○	○
	Shiga	○			○	
	Yokohama		○		○	
	Gunma	○			○	
FANCL Hatsuga Genmai Co., Ltd.	Nagano			○	○	○

*1 Good Manufacturing Practices (GMP) was drawn up by the U.S. Food and Drug Administration to maintain production management and quality control for such items as cosmetics, pharmaceuticals and foods.
 *2 Internationally recognized Food Safety System Certification (FSSC) 22000
 *3 The Energy Conservation Act (Act on the Rational Use of Energy) is an act that requires any company with annual energy use of 1,500 kiloliters or more of energy when converted to a crude oil basis to file results of energy saving measures and a medium-term plan to the Ministry of Economy, Trade and Industry

All factories have clean rooms*4. Moreover, filling of all *Mutenka* cosmetics products occurs in Class 100*5 clean booths, the same high classification of cleanliness as pharmaceuticals manufacturing.

*4 A clean room is a space with clean, temperature- and humidity-controlled air with significantly reduced levels of airborne dust and dirt.
 *5 Class 100 denotes a space with 100 or fewer dust or debris particles of 0.5 μm (1/1,000th of 1 mm) or larger per 1 cubic foot (30.48 cm) of air.



Nagano plant has global safety standards

In November 2015, FANCL Hatsuga Genmai Co., Ltd.'s Nagano factory obtained the internationally recognized Food Safety System Certification (FSSC) 22000. The hygienic factory environment in which *Hatsuga Genmai* (germinated brown rice) products are safely produced is also highly praised by many of the business partners to which products are supplied.



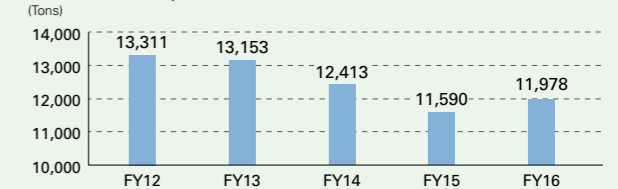
Environmental Activities

Activity Policy Be grateful for the blessings of nature in all aspects of corporate activity and aim to contribute to the preservation of the environment and biodiversity

Initiatives to Reduce CO2

We strive to conserve energy at offices, factories, and so on by upgrading equipment and improving operations. For instance, we put in place valves that automatically control the supply of steam used for things like sterilization and manufacturing at factories, and started using timers for operation of boilers that produce steam—shutting them off on holidays and at night when products are not being manufactured. We successfully slashed our gas consumption. Deploying these improvements initially made at one factory to other factories is contributing greatly to the reduction of CO2 emissions.

FANCL Group's CO2 emissions



* Figures for FY2016 have a carbon offset of about 100 tons
 * Figures are calculated by the FY2016 CO2 emission coefficient



Steam supply is automatically controlled through a valve

Recycling Resources

At FANCL Hatsuga Genmai Co., Ltd.'s Nagano factory, nutrient-rich wastewater is discharged during the production of *Hatsuga Genmai* (germinated brown rice) products. It is put to use for things like growing fruit trees and vegetables. Additionally, rice bran and rice fragments deemed unsuitable for use in products during sorting for qualities such as color and size are recycled for a variety of purposes including feed for livestock and raw material for compost. In fiscal 2016, 208 metric tons of this material was recycled.

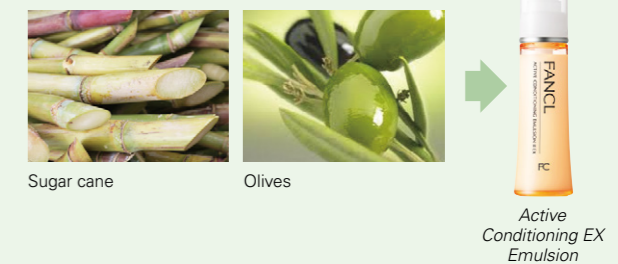


Rice fragments and rice bran utilized as fertilizer at an asparagus field (left) and as feed at a chicken farm (right)

Biodiversity

Sustainable botanical squalene

Despite being in danger of extinction, many sharks are captured. If sharks become extinct, marine life ecosystem balances will also be destroyed. Squalene distributed as a raw material is generally obtained from sharks of the genus *Centrophorus*. However, some of FANCL COSMETICS CORPORATION's products including *Active Conditioning EX Emulsion* use squalene from botanical sources such as sugar cane and olives.



Back Relax (Lower-back pain care) puts salmon heads to good use

It would be great if the massive amount of salmon heads that are discarded during marine product processing were effectively used as resources. FANCL HEALTH SCIENCE CORPORATION has made some headway on that front. Specifically, it uses proteoglycan extracted from the nasal cartilage of salmon heads that had been wasted before as a raw material for *Back Relax*.



Extract raw material from salmon nasal cartilage

Back Relax

FANCL's Value Creation-3

In Pursuit of Customers' Perspectives



Beauty Training Group
Training Division
FANCL College
Yuki Nagasu

Making Customers' Opinions Visible

To ensure that the feedback we receive from customers via phone, e-mail, and postcards distributed at retail stores are shared throughout the organization and improvements rapidly implemented, we compiled *Yahho System*, a database of customers' opinions.

Customer feedback in fiscal 2016
About 366,000
(FY15 About 366,000)

Services Born from the Customers' View

Supplement & Drug Interactions (SDI) database

Some supplements and drugs do not mix. FANCL HEALTH SCIENCE CORPORATION compiled a database based on scientific evidence of interactions among about 100 FANCL supplements and around 30,000 types of prescription and over-the-counter drugs. Pharmacists, registered dieticians, and other specialist staff at the Supplement Consultation Center promptly answer customers' questions so that customers taking medication can also get the supplements they need with peace of mind.



Health Consulting Group, Sales Support Department,
Business Sales Division
FANCL HEALTH SCIENCE CORPORATION
Hanayo Tsuchiya

An unlimited return and exchange guarantee system for carefree use of products

Sometimes, even products a person has used for a long time suddenly do not agree with their skin or constitution. So that customers can feel greater ease in using products, FANCL accepts returns and exchanges indefinitely. When customers return products, we inquire why and use that feedback in areas including product development.

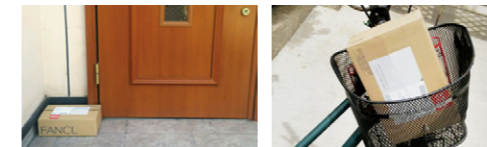


Return and exchange form

Designated drop-off area service: easy on customers and the environment

We want to make receiving orders of fresh *Mutenka* products a breeze. We therefore offer a service where customers for whom home deliveries are not convenient for work or other reasons can specify a place to leave their orders with no signature of receipt required.

Another benefit of this service is that it helps cut CO₂ emissions from vehicles making repeated delivery attempts.

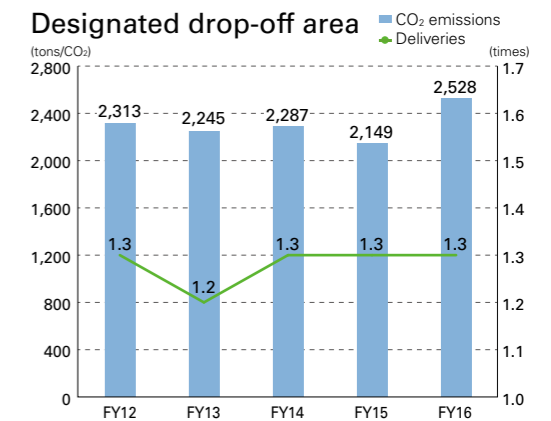


Delivery left at a front door

Delivery left at in a bicycle basket

Eco Partner Point System at stores

FANCL retail outlets have offered the Eco Partner Point system since fiscal 2005. It awards ¥5 worth of points to customers who do not require a shopping bag when they purchase products. The usage rate in terms of the number of sales was about 65.5% in fiscal 2016, representing an annual reduction of roughly 3.13 million shopping bags.



FY2016 Eco Partner Point use **65.5%**
(FY15 68.1%)

Bump dots for people with visual impairments and the elderly

Bump dots are FANCL-designed stickers with raised surfaces that are attached to products to enable people with visual impairments and the elderly to identify the contents by touching the labels. This service started in 1998 and employees of FANCL SMILE Co., Ltd. who have visual impairments improved the labels to make them easy to identify.



Bump dot labeling

Employee Training through Customers' Eyes

Protection of personal information

FANCL distributes the Compliance Code of Conduct Handbook, which clarifies rules that employees should observe, to all employees and utilizes it in training. In addition, we take up priority compliance issues every year as part of employee education initiatives. In fiscal 2016, we strove to bolster personal information management, with a companywide re-assessment of administrative procedures to protect important customer information. This was partially driven by attention on our administrative mechanisms for protecting personal information.



Compliance Code of Conduct Handbook

FANCL College training

FANCL College is focusing on thoroughly communicating the founding philosophy, fostering the next generation of management, and developing highly specialized personnel. In particular, it provides training to reinforce customer service skills and raise the awareness of retail and customer service center staff, looking to develop talent that can deal flexibly with a wide range of customers. In fiscal 2016, FANCL College added training on communications with seniors for customer service center staff. Such training is leading to a better understanding of customers' unique traits and greater customer satisfaction.

Number of lectures in fiscal 2016 **1,168**
* Training for stores, customer service center and headquarters
Number of lecture participants in fiscal 2016 **6,988**

FANCL's Value Creation-4

Work Environments Bringing Out Diverse Personnel's Strengths

Center: Kazuyoshi Miyajima
President & COO, Representative Director
Right: Saori Fujisaka
Group Manager, Store Sales Group #1,
Retail Sales Department, Retail Sales Division,
FANCL CORPORATION
Left: Hitomi Tamura
Group Manager, Product Planning Group #2,
Product Planning Department, Marketing Division,
FANCL COSMETICS CORPORATION



Equality and support give rise to workplaces where staff can thrive

Gender equality since foundation underpins workplaces where women shine

Miyajima: When I recently met with JAPAN POST President Toru Takahashi, he remarked that FANCL is a company where women play active roles. I recognized anew that we have earned a reputation for empowering women. Ms. Tamura and Ms. Fujisaka, how do you feel about that actually working at the Company?

Tamura: I work in the Product Planning Division. FANCL has lots of women employees, so the work environment is good. I became a section manager in the fall of 2015. Many management positions are filled by women who are raising children, so even if we suddenly need to take time off work because our child is ill, everyone at the office naturally supports each other. Of course there are frameworks in place, and co-workers offer support on their own volition, which enables me to work with a sense of security.

Fujisaka: I agree with Ms. Tamura. I feel that women

section managers who have children are often noticed by other women employees in similar circumstances, and they challenge and support each other. The head of the Retail Sales Division is also a woman, which I think conveys a strong message to women employees that career advancement is possible if they work at it. One potential path is from store staff to store manager and then on to supervisor. Part-time employees can also become contract employees, which is another area in which FANCL has many role models.

Miyajima: FANCL was selected as a leading company where women shine for fiscal 2016 in late 2015 under a program being implemented by Japan's Gender Equality Bureau Cabinet Office and won the 2015 Minister of State for Special Missions Award for Leading Companies Where Women Shine. While being recognized as a workplace where women can thrive is an honor, it is not something that we are consciously doing. Lots of women have worked at FANCL ever since it was established, and gender equality is deep in our roots.

Tamura: I agree. I feel strongly that there is a corporate atmosphere of equality, and I think that the Company is a great place to work where not just women but men and women support each other and can unleash their abilities. I really feel that makes it a place where women can naturally flourish.

Looking to advance further with greater work style diversity

Miyajima: At FANCL, programs such as childcare leave for women and shortened work hours are actively being used. However, we need to encourage more men to take childcare leave. At the same time, promoting use of caregiving leave is another pressing task. Looking at resignation notices, there are managers who cite caregiving as the reason for leaving. The average age of our employees now is 38, so I want to address this before it is too late.

Fujisaka: I was actually asked for advice from a 40-year-old experienced store manager who felt that it would be hard to continue working in the way they wanted to because they were taking care of their parents. I encouraged them to take caregiving leave, and I want to provide appropriate advice so that they do not resign if at all possible.

Tamura: When my mother broke a bone recently, I helped out with the housework two to three times a week. Luckily, it did not turn out to be anything serious, but it got me thinking about what I would do if my parents became immobile.



Mother of one child, took maternity leave in 2013

Miyajima: Male employees in particular seem to still be reluctant to apply for caregiving leave. Since some work can be done on a computer, we would like to enhance programs for working at home, shortened work hours, and so forth. Also, making teleconferences a normal part of operations, as happens overseas, may be important for diversifying work styles.

Tamura: I think that working completely from home would be difficult since there are times when in-person discussions are needed, but giving employees more options such as working from home one or two days a week enhances work-life balance.

With work styles becoming more diverse, flexibility in human resource development is also vital

Fujisaka: Looking to realize the vision of 350 directly managed stores, FANCL is hiring more women raising children

as part-time employees. Many part-timers are women for whom child-rearing demands have let up a bit, and who desire to be beautiful themselves. They are very vibrant.

Miyajima: It is important for human resource development to be in tune with the diversification of work styles, so that all employees can put their strengths further into play. We established the *meister* position* to ensure supportive on-the-job training at stores.

Fujisaka: There are nine *meister*, and they are admired by store staff. They are truly reliable and indispensable.

Miyajima: In Japan, the phrase management position gets thrown around a lot, but I think it is a mistake to believe that managing people is a job role. A leader's real role is to ensure that everything goes smoothly, without holding up work. I think genuine hierarchical relationships are developed naturally through the course of work itself. I also believe a leader is someone who can conduct on-the-job training and tie that to team development.

Tamura: I certainly do not sense forced hierarchical relationships at FANCL. I call my superiors by their name, not their job title. I do not regard members of my team as subordinates either.

Fujisaka: When I was officially appointed a section manager, the section head advised me to not to be patronizing and to focus on developing people. That was a moment where I really realized that such an attitude was part of the corporate culture supporting FANCL.



Mother of two children, took maternity leave in 2008 and 2010



* *Meister*: Provides on-site guidance to ensure that part-time employees obtain the knowledge and skills needed as retail store staff.

Group Performance	FY2016	FY2016
Number of employees (full-time)	903 (of whom 598 are women)	Number of foreign national workers 44
Number of directors	23 (of whom 5 are women)	Number of employees aged over 60 29
Percentage of women in management	42.9%	Ratio of employees with disabilities* (including special subsidiary) 2.6% (Legally required ratio is 2.0%)

Note: Figures are the totals for FANCL CORPORATION, FANCL COSMETICS CORPORATION and FANCL HEALTH SCIENCE CORPORATION unless marked by an asterisk (*).



At the presentation ceremony
Upper left: Kenji Ikemori, FANCL CORPORATION
Chairman & CEO

	FY2016
Number of people working shorter hours for childcare	76
Number of people taking leave to support childbirth	11
Number of people taking leave to care for sick children	20
Number of people taking caregiving leave	17
Average monthly overtime	(Per person) 7.88 hours

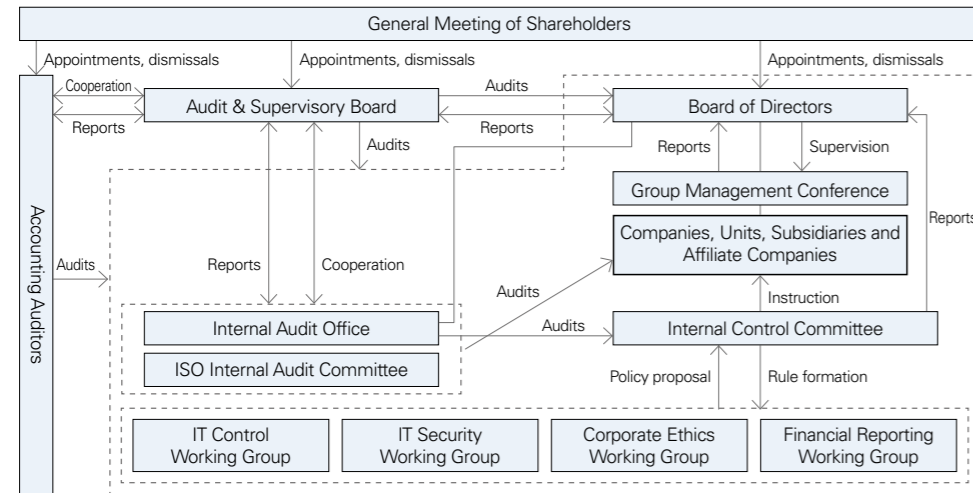
	FY2016
Number of people upgraded from part-time to contract employee status	10
Number of people upgraded from contract to full-time employee status	51
Mid-career recruits	41

Acquired the Kurumin mark symbolizing childcare support from the Ministry of Health, Labour and Welfare

Corporate Governance

- Basic Policy**
- FANCL will raise management efficiency and transparency by sincerely enhancing corporate governance
 - Internal control within the Group will be built and established on the foundation of FANCL's corporate philosophy

Corporate Governance Framework



Governance at a Glance As of June 25, 2016

Organizational Design	Company with an Audit & Supervisory Board
Number of directors	15
Of which, outside directors	2
Number of Audit & Supervisory Board members	4
Of which, outside Audit & Supervisory Board members	2
Number of independent officers	4
Number of Board of Directors meetings in fiscal 2016	17
Tenure of directors	1 year
Stock option system	Yes
Compliance regulations	Yes

The enhancement of corporate governance is regarded 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 a risk management system.

The management framework as of June 25, 2016, was 15 directors (of whom 2 are outside directors), 4 Audit & Supervisory Board members (of whom 2 are outside Audit & Supervisory Board members) and 9 executive officers. The tenure of directors is one year.

The Board of Directors decides on and supervises the execution of important business matters. The Group 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.

FANCL has adopted an Audit & Supervisory Board system. Audit & Supervisory Board members attend meetings of the Board of Directors, Group Management Conference and other important meetings, expressing opinions as necessary in order to enhance the effectiveness of auditing regarding management's decision making. Audit & Supervisory Board members also exchange opinions with senior management on a regular basis, providing an impartial management monitoring system.



A Board of Directors meeting

Disclosure of Information to Shareholders and Investors

1) Enhancing communication through disclosure

FANCL strives to disclose information in a fair and timely manner to investors inside Japan and overseas. In addition to timely disclosure of information such as summary reports of financial results, it also discloses detailed supplementary materials and the like.

FANCL has also started utilizing the timely information disclosure service, TDnet provided by the Tokyo Stock Exchange to distribute English materials and further strengthen its information disclosure to foreign investors. In addition to this, FANCL was also selected as an excellent corporate website in Nikko Investor Relations Co., Ltd.'s 2015 Content Ranking of Corporate Websites by All Listed Companies in Japan.



www.fancl.jp/en/ir/



Annual General Meeting of Shareholders

2) Dialog with shareholders and investors

Individual investors: FANCL aims to make the Annual General Meeting of Shareholders as open as possible by avoiding the traditional dates when many other companies are also holding their meetings and holding it on a Saturday so that many shareholders are able to attend. The 35th Annual General Meeting of Shareholders on Saturday, June 20, 2015 was attended by 4,319 shareholders. At the customary reception after the meeting, directors and employees met directly with shareholders to promote communication.

Institutional investors: FANCL holds quarterly briefings on financial results, small meetings for analysts and institutional investors and periodical facility tours of laboratories, stores and the like, as well as more than 250 individual meetings per year. For foreign investors, it actively participates in conferences in Japan and overseas and the director responsible for investor relations provides explanations on management strategy to cultivate investors.

FANCL uses shareholder and investor opinions from such dialog in its management and IR activities.

Message from an Outside Director

Continuing to take on challenges armed with "human kindness"

When I was appointed an outside director of FANCL in 2009 it seemed to have lost sight of its corporate identity. In 2013, Chairman Ikemori returned to frontline management. I think this was extremely positive for FANCL, but I think Chairman Ikemori was hesitant out of deference for his successor.

Recently, various companies have been strengthening initiatives for corporate governance, but FANCL has unified to reflect Ikemori-ism as a strategy and when that looks like going too far, directors including myself, will remonstrate in a process that I think is probably proper governance for FANCL now.

FANCL is an extremely "kind" company. I think it is a company with sincere kindness, naturally to its customers, but also for shareholders as well as for employees. FANCL can arm itself with that kindness to achieve growth and I would like to freely extend my assistance going forward.



Norito Ikeda
Outside Director

- 2001 The Bank of Yokohama, Ltd., Representative Director (Chief Financial Officer)
- 2002 The Bank of Yokohama, Ltd., Representative Director (Chief Personnel Officer)
- 2003 The Bank of Yokohama, Ltd., Director and Yokohama Capital Co., Ltd., Representative Director and Chairman
- 2003 The Ashikaga Bank, Ltd., President and CEO (Representative Director)
- 2009 FANCL Corporation Director (Current)
- 2016 Japan Post Bank Co., Ltd., President and CEO (Current)

Response to the Corporate Governance Code

In its efforts to ensure sustainable growth and increases in corporate value over the medium to long term, FANCL has duly considered the basis and spirit of the Corporate Governance Code applied from June 1, 2015.

In a compulsory Corporate Governance Report submitted to the Tokyo Stock Exchange, FANCL discloses and submits compliance or explains non-compliance

with regard to the Corporate Governance Code and to enhance the corporate governance structure. FANCL also proactively complies with the Code's dictates that "the Board should analyze and evaluate its effectiveness" and disclose "reasons for selection of candidates for directors" and Audit & Supervisory Board members.



* The full text can be read on our website.

www.fancl.jp/en/ir/management/interview/

Social Activities

Basic Policy Join the community and share values with people with disabilities

Involvement with Houmon-no-le

FANCL's social activities began in 1987 when the Group got involved with Houmon-no-Ie, a facility for people with severe disabilities, located in Sakae-ku, Yokohama City. Through mixing with people using the facilities, their families and facility staff, the hospitality of our employees has increased.

A meal with Houmon-no-le in fiscal 2016

Number of participating employees **59**



A meal in the FANCL Building

FANCL Seminars

Since 1988, we have conducted FANCL Seminars free of charge at special-needs schools, welfare centers for the elderly, and other facilities, teaching about makeup, attire and health.

FANCL Seminars in fiscal 2016 **137** times

Number of participating employees **222**



A FANCL Seminar at a welfare center

Support for recovery from the Great East Japan Earthquake and Kumamoto earthquakes

Employees can utilize a social contribution leave system and take part as employee volunteers in business-related activities such as hand-massaging and provision of kale juice. Activities have been going on since May 2011 to aid recovery from the Great East Japan Earthquake and May 2016 for the Kumamoto earthquakes.

Activities supporting recovery from the Great East Japan Earthquake from May 2011 to March 2016

Number of times implemented **169** times

Number of participating employees **887**



An employee giving a hand massaging to an evacuee

Can Achieve More fund

FANCL established the fund in June 2007 with the objective of enabling employees to participate in social contribution activities in an easy manner. Participating employees can apply to have donations withdrawn from their monthly wage in increments of ¥100 and paid to an organization of their choice.

Number of donation recipients in fiscal 2016 **30** organizations

Percentage of participating employees **81.6%**



The fund logo

Sports-based social activities

FANCL makes use of its health business to conduct sports-based social activities with community residents and groups.

Main Sports Activities in Fiscal 2016

Sports	Name
Senior golf	FANCL Classic
Children's baseball class	FANCL Kid's Baseball 2015
Civic marathon	Yokohama Marathon 2016
Aerobics for people with disabilities	17th FANCL SMILE Adapted Aerobics Contest



Employee volunteers at the Yokohama Marathon



The FANCL SMILE team competing in the aerobics contest

Corporate Overview (As of March 31, 2016)

Company name FANCL CORPORATION
 Address 89-1 Yamashita-cho, Naka-ku, Yokohama, Kanagawa-ken
 Telephone +81(45)226-1200 (switchboard)
 Representative Kazuyoshi Miyajima, President & COO, Representative Director
 Established August 18, 1981
 Paid-in capital ¥10,795 million
 Number of employees 703
* Not including contract and part-time employees (1,223 on consolidated basis)
 Research Institute FANCL Research Institute, Totsuka-ku, Yokohama, Kanagawa-ken
 Principal banks The Bank of Tokyo-Mitsubishi UFJ, Ltd., Sumitomo Mitsui Banking Corporation, Mizuho Bank, Ltd.

Board of Directors (As of June 25, 2016)

Chairman & CEO, Representative Director..... Kenji Ikemori	Audit & Supervisory Board Member (Standing)..... Seiichiro Takahashi
President & COO, Representative Director..... Kazuyoshi Miyajima	Audit & Supervisory Board Member (Standing)..... Junji Iida
Vice President, Representative Director..... Tsuyoshi Tatai	Outside Audit & Supervisory Board Member..... Toshio Takano
Senior Managing Director..... Mayuko Yamaoka	Outside Audit & Supervisory Board Member..... Tsuneyoshi Seki
Senior Managing Director..... Kazuyuki Shimada	Executive Officer..... Yukihiko Ishigami
Executive Managing Director..... Tomochika Yamaguchi	Executive Officer..... Kohji Yamaguchi
Executive Director..... Toru Tsurusaki	Executive Officer..... Akiko Matsugaya
Executive Director..... Yasushi Sumida	Executive Officer..... Shoko Matsukuma
Executive Director..... Yoshihisa Hosaka	Executive Officer..... Koichi Matsumoto
Executive Director..... Hiromichi Aoto	Executive Officer..... Katsuyuki Anzai
Director..... Akihiro Yanagisawa	Executive Officer..... Junji Nagasaka
Director..... Kenichi Sugama	Executive Officer..... Toyokazu Inaba
Director..... Gen Inomata	Executive Officer..... Nobuyuki Uematsu
Outside Director..... Norito Ikeda	
Outside Director..... Katsunori Koseki	

Third-Party Opinion

I have long had the impression that FANCL is practicing some unique CSR, and having looked over Chairman Ikemori's message opening this report, it became perfectly clear to me. The founding philosophy of eliminating the "negatives" (anxieties, inconveniences, and dissatisfactions) in the world with a sense of justice is at the core of CSR, which involves unearthing the latent needs of stakeholders and resolving them while carrying out business. Since foundation, FANCL has applied a consumer's perspective to safe *Mutenka* cosmetics and preventive healthcare and developed an affordably priced health foods business from the standpoint of popularizing healthier diets. In so doing, FANCL has grown as a company that takes on challenges too daunting for industry competitors, and I think that these perspectives are reflected in the business performance and the founding philosophy. Moreover, signing the UN Global Compact in 2013 showed that FANCL was intent on taking a full-scale approach to resolving issues on a global scale after it had spent a long time focused mainly on domestic issues. Having turned its attention to global issues such as climate change and human rights was an indispensable strategy for a company that will continue to expand business, including overseas. What is most sought of companies now in global society is the construction of a responsible supply chain. In short, companies must respond to the requirements of each stakeholder in the cycle from gathering raw materials through to production, consumption and disposal or recycling. From a biodiversity perspective, FANCL uses the likes of vegetable squalene and salmon heads in its ingredients and raw materials. While these are commendable initiatives, the focus of important global issues has moved on to the role palm tree plantation plays in destroying tropical rainforests, preservation of water resources, bans on animal testing, and a shift toward organic or fair trade materials. Ethical products showing consideration for society and the environment are spreading, especially among the young. Along with the development of unparalleled ethical products, I look forward to the unique corporate strategies FANCL will enact in line with its "Can Achieve More" corporate philosophy.



Mariko Kawaguchi
 Senior Analyst, Management Strategy Research Department, Daiwa Institute of Research Ltd.

Joined Daiwa Securities Co. Ltd. in 1986 after completing a Master's degree at Hitotsubashi University's Graduate School. She transferred to Daiwa Institute of Research Ltd. in 1994, and after conducting corporate research, served in 2010 as General Manager for CSR in Daiwa Securities Group Inc., and then General Manager of the Corporate Communication Department. From July 2011, she returned to Daiwa Institute of Research and became a senior analyst in April 2012. Her areas of responsibility are sustainable investment, CSR, social business and ethical consumption. She is a director of the UN Global Compact Network Japan, chief executive and secretary general of Social Investment Forum Japan, chartered member of the Securities Analysts Association of Japan, and a trustee of the Sustainability Forum Japan. She is the author of "Social Finance Textbook," published by the Japan Productivity Center, and the co-author of "Introduction to Socially Responsible Investing" and "CSR: Raising Corporate Value," published by Nikkei Inc., among other publications.