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FANCL

正直品質。

FANCL Report 2018

ALL-FANCL,
ONE-FANCL
ACTION 2020

A photograph showing several hands of different people joined together in a circle, symbolizing unity and teamwork. The hands are in various colors of sleeves, and the background is a bright, slightly blurred indoor setting.

Message from the Founder

“Breaking through convention” is a principle that underpins every facet of our operations.



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

The damage to women's skin was largely due to excessive cosmetics use and the preservatives widely used to prevent cosmetics from spoiling. To address this issue, we introduced certain products in compact 5mL containers allowing women to completely use our cosmetics before they could spoil. This inspired the additive-free *Mutenka*, concept and led to FANCL's release of the world's first *Mutenka* cosmetics.

As Japan continues its path toward a super aging society, the sharp rise in health care costs is placing an increased burden on the nation's fiscal health. Clearly the best solution is to reduce the number of individuals suffering from an illness or discomfort. Taking a keen interest in the health food business since 1993, FANCL introduced the term "supplement" to the Japanese vocabulary while marketing a series of products at an affordable price in a bid to dispel any suspicions and the high-cost image associated with health foods.

Indicative of their "efficacy in body" design, FANCL's supplements can be effectively absorbed by the body in just the right amounts while offering a lasting effect over a long period of time. This is one of the Company's many hallmarks that help distinguish it from its peers.

As a part of the Company's ongoing endeavors, the FANCL Research Institute's second laboratory was completed in 2016. Through its R&D network, the Company continues to engage in world-class research.

FANCL also strives diligently to address a host of social issues. The Company received the Minister of State for Special Missions Award from Japan's Cabinet Office as a "Leading Company Where Women Shine" in 2015.

As far as its environmental activities are concerned, FANCL provides high-value-added products and services on an ongoing basis while working to reduce its environmental impact. The Company was honored with the 2017 Chairman's Prize, the Energy Conservation Center, Japan (Successful Case of Energy Conservation Category) in February 2018.

Looking ahead, we will continue to place the utmost importance on fulfilling our corporate social responsibility and take a proactive stance toward engaging in new activities.

Kenji Ikemori
Chairman & Founder,
Representative Director

Kenji Ikemori

[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.

A Track Record of Eliminating The “Negatives”

FANCL is committed to eliminating the “Negatives” of dissatisfaction, anxiety, and inconvenience for all people throughout the world.

1980

1980

Kenji Ikemori founded a sole-proprietor cosmetics sales company. Launched mail-order sales of cosmetics

1981

Incorporated Japan fine chemical Sales Co., Ltd. (Current FANCL CORPORATION)

1982

Launched sales of *Mutenka* skin care products, the world's first cosmetics to be completely free of additives



1989

Launched sales of ATTENIR cosmetics that embody the concepts of high quality and high fashion sense at an affordable price



1990

1992

Introduced postbox-sized packaging for delivery to the home



1994

Launched mail-order sales of health foods and nutritional supplements



1995

Opened the first FANCL House shop

1997

Launched online product orders

1997

Launched a Designated Delivery Place that enables customers to identify a location for product delivery whether at or away from home with no signature of receipt required

1999

Launched sales of undergarments. Launched sales of *Hatsuga Genmai* (germinated brown rice)

2000

2000

Launched the online and catalogue sales FANCL Additional Point Program

2000

Launched sales of the tasty *FANCL Kale Juice* at an affordable price through convenience stores for easy purchase on a daily basis



2004

Launched “SDI System,” a telephone consultation service about the interaction of health supplements and drugs



2010

2015

Launched sales of *Enkin*, *Total Fat Support*, and *Blood-Pres Support* utilizing the system of “Foods with Function Claims”



2016

Launched sales of *Beauty BOUQUET*, a cosmetic line for mature adults over the age of 60



2017

Launched sales of special capsule products for *Nestlé Wellness Ambassador*, a joint development project between Nestlé Japan Ltd. and FANCL



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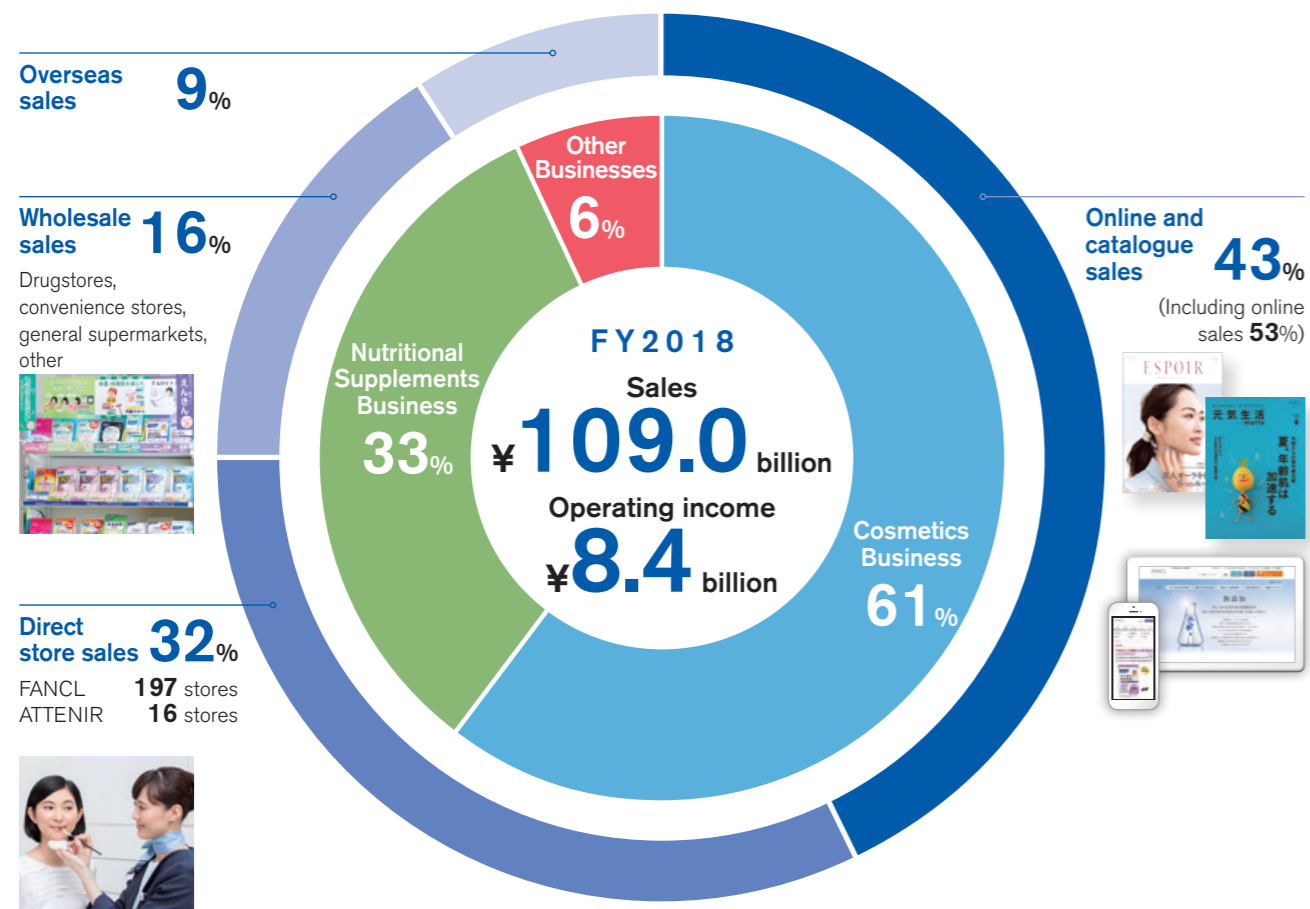
Forward-Looking Statements

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.

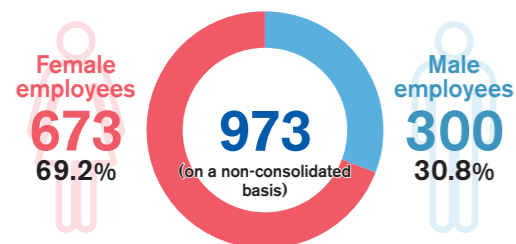
FANCL at a Glance

The FANCL Group is committed to eliminating the “Negatives” of dissatisfaction, anxiety, and inconvenience throughout the world focusing mainly on its Cosmetics and Nutritional Supplements businesses. While developing sales channels that are in tune with the times, the Group engages in a wide range of online and catalogue, direct store, wholesale, and overseas sales activities.

Sales by Business and Sales Channel



Diversity: Empowering Our Female Employees



Of the Company's 29 directors five are women. The percentage of women in management stands at 45.2%.

→ P24

Global Business Development: Countries and Regions of Sales



Beauty Domain

FANCL Cosmetics

Mutenka cosmetics help address a variety of issues while drawing out the natural beauty of the skin.



boscia

Launched in the U.S. in 2002, boscia is a botanical cosmetics brand that draws on the strengths of FANCL's Mutenka cosmetics. boscia products are popular among women in Europe and the U.S. (Not sold in Japan)



ATTENIR

Based on the products concept of “high quality and high fashion sense at an affordable price,” ATTENIR emerged with the aim of supplying its customers with value that exceeds market price.



Undergarments

Eliminating the “Negatives” associated with women's undergarments, FANCL's original lineup delivers exquisite comfort and a unique sense of beauty.



Health Domain

Supplements

As a partner that is working to promote lifelong health while helping people lead invigorating lives, FANCL is supporting society in an era of 100-year lifespans.



Kale Juice / Hatsuga Genmai (germinated brown rice)

Achieving good health through a sound daily diet, FANCL's kale juice-related products and Hatsuga Genmai deliver abundant nutritional benefits essential to good health.



FANCL's Value Creation

Through its founding philosophy, FANCL instills in the hearts and minds of each and every employee the founder's aspiration to eliminate the "Negatives" with a sense of justice. Guided by this founding philosophy and corporate philosophy that the Company "Can Achieve More," FANCL has continued to hone its brand value. Taking full advantage of the wellspring of value creation that it has nurtured since its foundation, FANCL will work diligently to ensure its ongoing sustainable growth while enhancing its corporate value by practicing "Honest Quality."



Business Model (integrated manufacturing and sales framework)

FANCL is distinguished by its integrated manufacturing and sales framework. In addition to engaging in the research, planning, manufacture and sale of products through a variety of channels in its own right, the Company ensures that customer feedback is promptly reflected in every facet of this process. Paying the utmost attention to providing “Honest Quality,” FANCL continues to create safe and reliable products.



Addressing Social Issues

Support for Sustainable Development Goals (SDGs)

The Sustainable Development Goals (SDGs) put forward by the United Nations comprise 17 initiatives that are designed to protect the environment, ensure economic growth and development and help build an equitable and stable society. FANCL supports these SDGs and is working with stakeholders to resolve social issues in the fields of environmental conservation and social contribution activities.



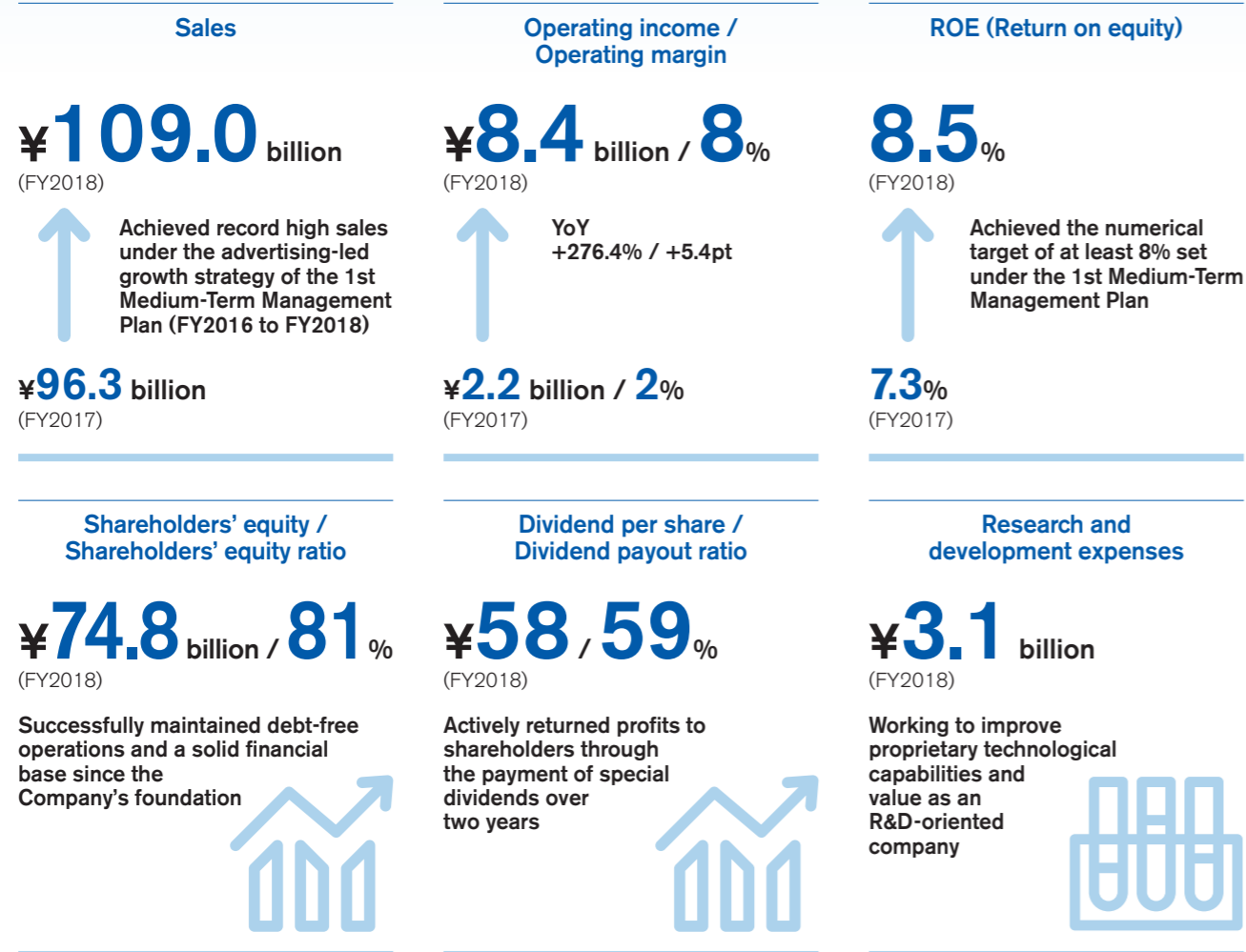
Signatory to the United Nations Global Compact

As a company that continues to expand globally, FANCL became a signatory to the United Nations Global Compact in April 2013. Positioning the 10 Principles of the Global Compact together with ISO 26000 and the Global Reporting Initiative (GRI) as the standards for all of its activities, all of the Group’s divisions, departments and facilities identify issues and carry out a PDCA cycle as a part of their ongoing activities. Moving forward, we will consistently report on our activities with a strong sense of integrity and transparency.



FANCL by the Numbers

Financial Highlights

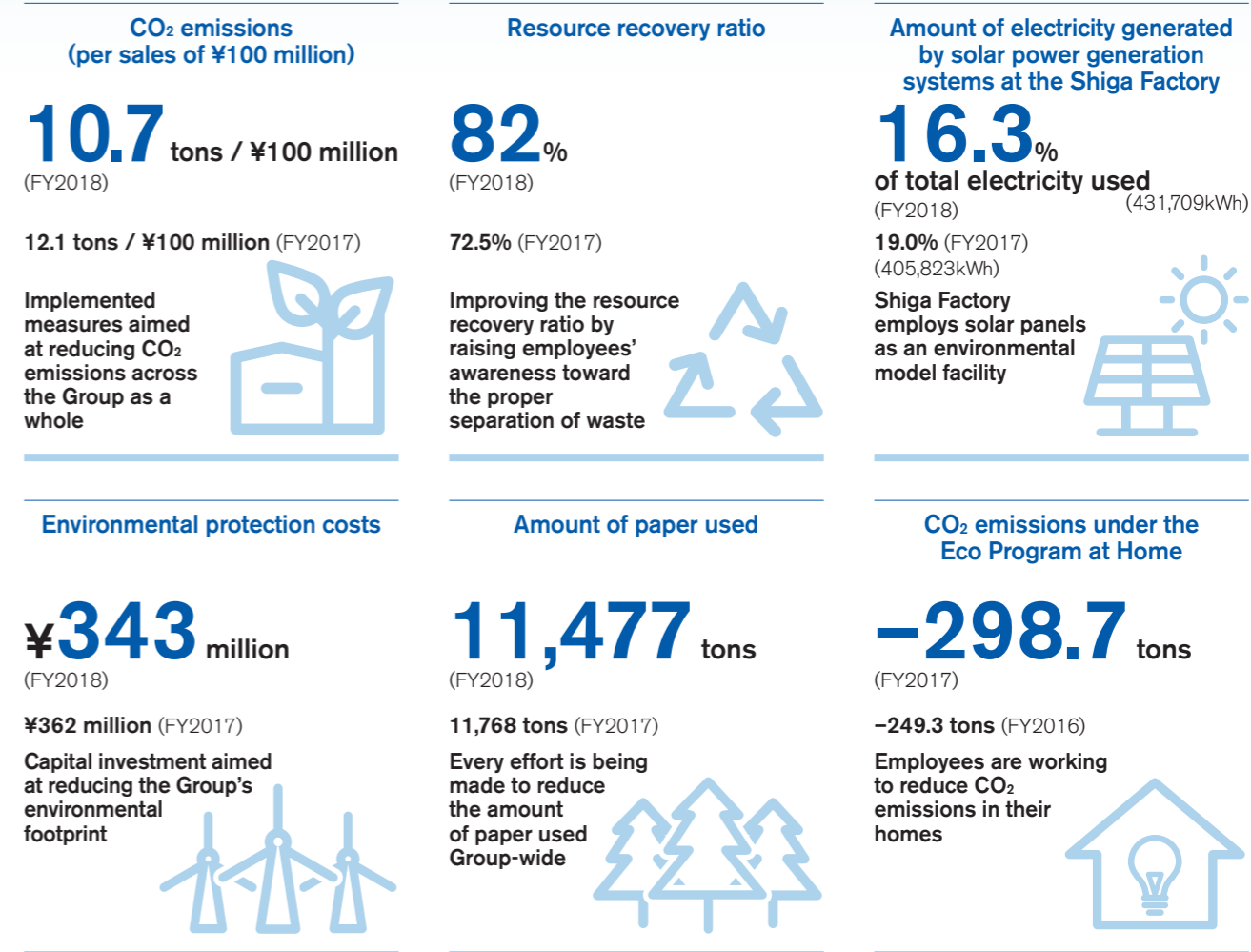


Financial Information www.fancl.jp/en/ir/library/finance_results/

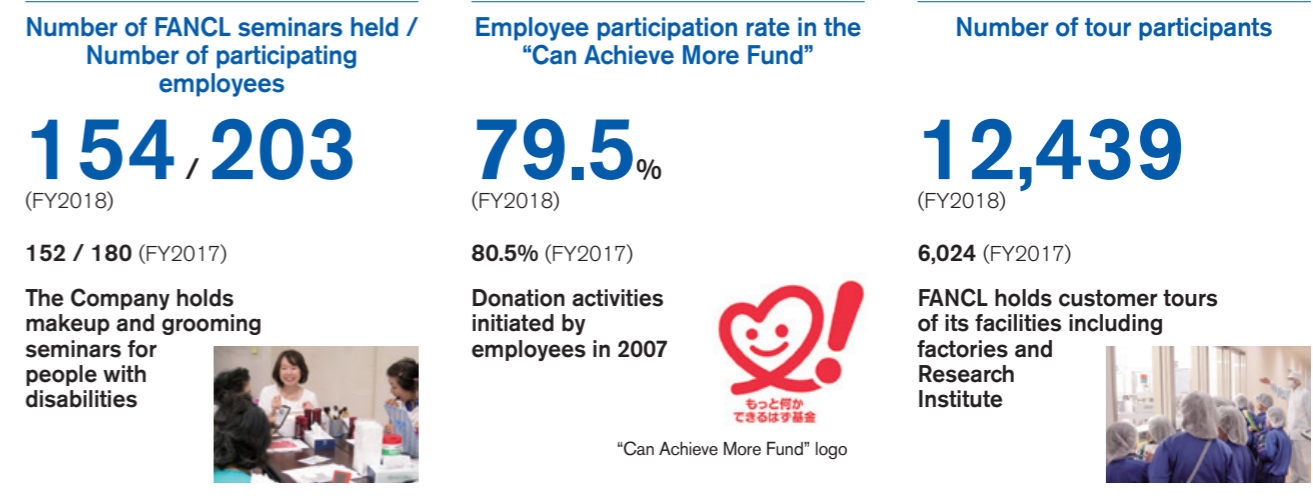
Employees



Environment



Society



Long-Term Vision and Medium-Term Management Plan

Since its founding, the FANCL Group has continued to provide value through beauty and health offerings, and in 2030 we will mark 50 years of operation. By 2030, the world we live in is expected to be dramatically different, with low birth rates, extreme population aging, and a decline in the working population.

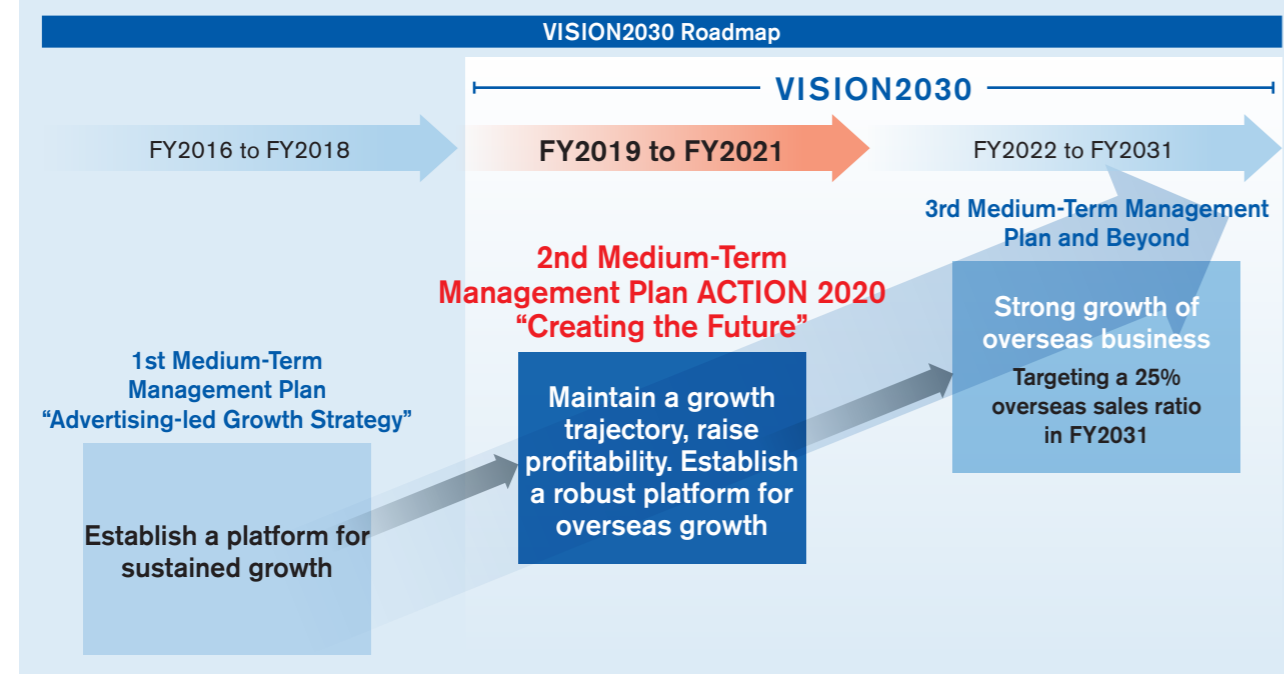
VISION2030 presents aims that will allow the FANCL Group to continue to create new value and achieve sustainable growth within such an environment. ACTION 2020, our 2nd Medium-Term Management Plan, stipulates our initiatives for the first three fiscal years on our way to achieving this vision.

VISION2030

Make the world healthier and more beautiful

Toward 2030, the FANCL Group aims to launch business ventures in a range of areas. In each business domain we aim to support customer lifestyles full of beauty and health, not only in Japan but on a global scale, as a corporate group that customers can trust and rely upon.

Beauty	Aim to diversify our brands in line with diversifying consumer values, transcending the boundaries of cosmetics to develop business centered on beauty-focused fashion and lifestyle offerings.
Health	Develop a new health business that supports a society in an era of 100-year lifespans, aiming to become the most widely-used supplement brand.
Beauty & Health	Actively expand the FANCL, boschia, and ATTENIR brands into overseas markets, aiming for each to become brands that are loved by customers worldwide.



2nd Medium-Term Management Plan ACTION 2020 "Creating the Future"

Numerical Targets		
Sales ¥126.0 billion	Operating income ¥12.6 billion (Operating margin 10%)	ROE (Return on equity) 10%
Policies		
1 Business Strategies		
Cosmetics	FANCL Cosmetics	[JAPAN] 1 Diversify the brand 2 Reinforce development of make-up, haircare, personal cosmetics, and other products [OVERSEAS] Position Asia as a key regional market and re-approach the North American market
	ATTENIR	1 Introduce products that exceed the expectations of prestige brand users 2 Strengthen fashion collections
	boschia	Strengthen activities in North America and extend into Europe and the Middle East
Health foods	[JAPAN]	1 Foster star products and consolidate the existing range 2 Rollout personal supplements 3 Strengthen BtoB businesses by making use of the FANCL brand and other companies' resources
	[OVERSEAS]	Position China as the most important market and extend operations in earnest
2 Channel Strategies		
Online and catalogue sales	Work to maximize sales and profit by utilizing both in-house (FANCL online and catalogue sales) and external online platforms	
Direct store sales	Clarify the role of showrooms, focusing on the experience element, and work to develop unique stores in popular, high quality locations	
Wholesale sales	Regularly launch wholesale specialized products and work to expand per-store sales	
3 Advertising Strategies		
<ul style="list-style-type: none"> Continue to invest ¥15.0 billion per year in advertising, positioning it as investment for the future Roll out both the corporate copy "Honest Quality" and product advertising to enhance brand value and expand sales Actively utilize online and social media tools to maximize the effects of advertisements 		
4 Management Foundation / ESG		
<ul style="list-style-type: none"> Strengthen R&D activities that contribute to results, invest in infrastructure including manufacturing, distribution and systems, reinforce the development and training of human resources who underpin the management foundation Refine the FANCL brand based on the concept of "Honest Quality" and establish a sustainable management foundation by protecting the environment, contributing to solutions that resolve social issues, strengthening corporate governance 		
5 Returns to Shareholders		
Strengthen returns to shareholders on the understanding that the distribution of profit to shareholders is an important management issue		
Dividends	Consider a dividend amount given a target consolidated dividend payout ratio of approximately 40% and DOE (dividend on equity) ratio of approximately 5%	
Acquisition of treasury shares	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 10% of the total number of outstanding shares will be cancelled	

Please refer to the following homepage for details regarding the Medium-Term Management Plan.
www.fancl.jp/en/ir/management/plan/

To Our Shareholders and Other Stakeholders

Achieving a V-shaped recovery in earnings through an advertising-led growth strategy.

Driving forward the ACTION 2020
2nd Medium-Term Management Plan
on the way to realizing VISION2030.



Kazuyuki Shimada
President & CEO, Representative Director

Results of the 1st Medium-Term Management Plan (FY2016 to FY2018) “Advertising-led Growth Strategy”

After returning to the FANCL management team in 2013, our founder Kenji Ikemori set out to relieve underperforming departments, make investments for the future, and implement other structural reforms aimed at transforming FANCL into a company that can grow once again. Upon putting together an organization with the ability to fully carry out these reforms, in fiscal 2016, FANCL initiated the long-awaited 1st Medium-Term Management Plan “Advertising-led Growth Strategy.”

During the 1st Medium-Term Management Plan, FANCL established policies targeting strategic investments in advertising, expanding wholesale sales and direct store channels as part of our efforts to ensure that advertising produces the maximum effect, and strengthening cross-selling, which resulted in significant returns.

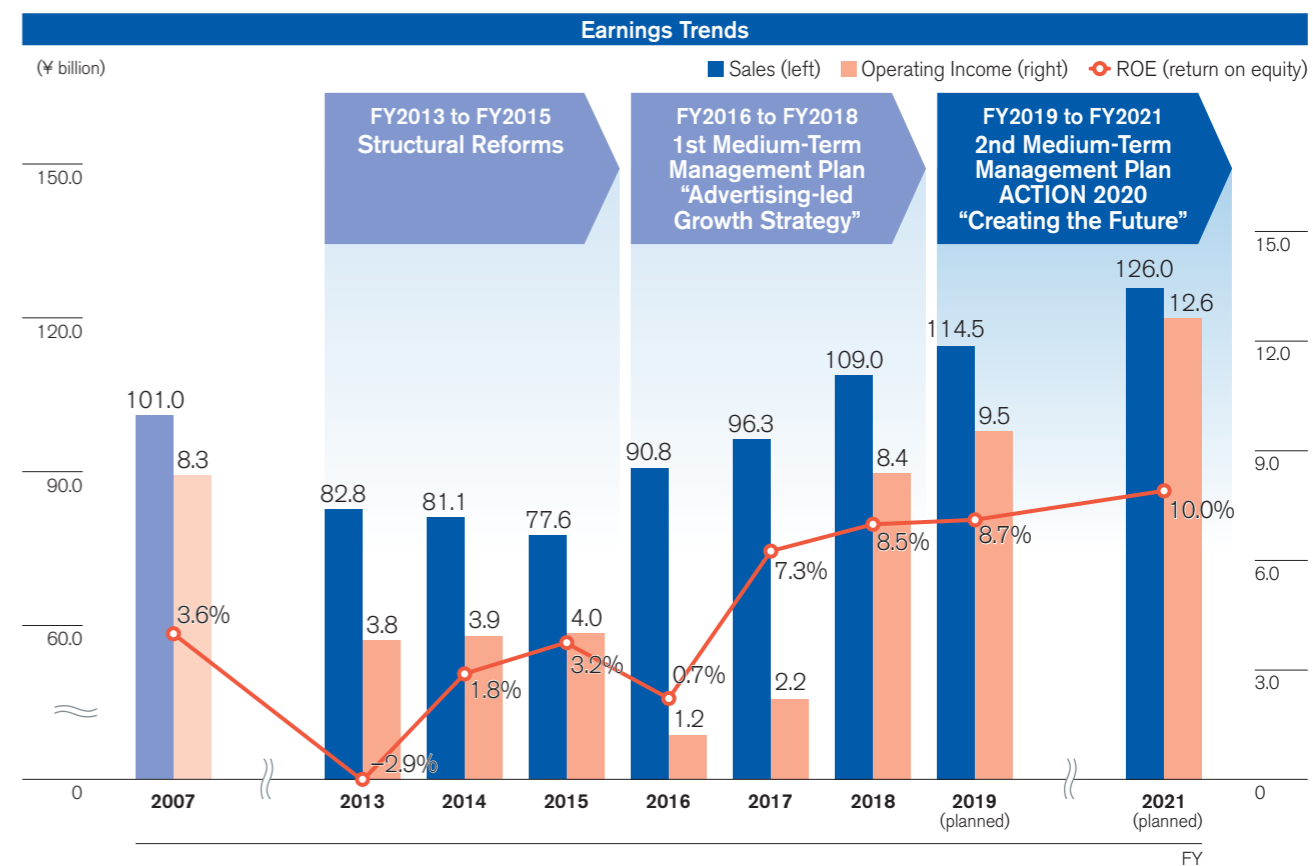
Having achieved a V-shaped recovery in earnings, fiscal 2018 saw a new record-high for sales, the first such record in 11 years. ROE (return on equity) also improved to a level that exceeded the initial target of 8%.

2nd Medium-Term Management Plan (FY2019 to FY2021) ACTION 2020 “Creating the Future”

Kicking off in fiscal 2019, the 2nd Medium-Term Management Plan defines this period as one of increasing profitability along a growth trajectory and creating a robust foundation for the strong growth of our overseas business and is thus named ACTION 2020 “Creating the Future.” Mobilizing the entire group, FANCL will implement this plan under the slogan of “ALL-FANCL, ONE-FANCL.”

The targets for fiscal 2021, the final year of the plan, are sales of ¥126 billion, operating income of ¥12.6 billion, and an ROE of 10%.

At the same time existing businesses are steadily expanding, FANCL will undertake new businesses as a way of sowing the seeds for the future and of leading to further growth in the years following fiscal 2022.



Cosmetics

Diversifying the FANCL Cosmetics Brand and Strengthening Its Global Expansion

FANCL Cosmetics

Having achieved domestic sales of ¥45 billion, it has become important for FANCL Cosmetics to open new target groups given that room for growth has narrowed as a single brand. Therefore, we plan to diversify the brand for different target groups.

In addition to *Beauty BOUQUET* (launched October 2016), a brand targeted at the mature demographic and customers over the age of 60, a new brand called *AND MIRAI* (launched in April 2018) was introduced for consumers around the age of 30 and a new brand will be introduced targeting consumers around the age of 40 (tentative launch in fiscal 2020) as a means of opening up new customer groups.

During these three years, FANCL will strengthen both domestic growth and global deployment. In addition to China, Hong Kong, Taiwan, and Singapore, in which FANCL already has a presence, successive product launches will be made in other regions in Asia. Moreover, the expansion of the FANCL brand in the U.S. will be re-approached.

Brand Diversification		
	Key Products	Channel
FANCL Prestige 	Personal Cosmetics	Select no. of Japanese dept. stores, (Overseas)
The FANCL Meticulous Quality "Enriched x Mutenka" 	Mutenka skin care, Mutenka make-up, Mutenka hair care, etc. Mild Cleansing Oil, Facial Washing Powder, etc.	Online and catalogue, direct stores Online and catalogue, direct stores, wholesale
Neo FANCL Convenience, high volume "Culture x Mutenka" 	<i>Beauty BOUQUET</i> (60yo +), <i>AND MIRAI</i> (30yo +/-), New brand (40yo +/-)	Wholesale (online and catalogue, direct stores)

ATTENIR and boscia Maturing into Brands That Drive Business Growth

ATTENIR

Having returned to its founding principle of delivering luxury brand quality at one-third the market price, ATTENIR has achieved a full recovery. From fiscal 2019, steps will be taken to position ATTENIR as the focus of a re-growth stage and to expand business.

ATTENIR will ceaselessly introduce innovative and unique cosmetics that will respond to the expectations of prestige brand consumers with the aim of expanding the customer base. Moreover, its collections that deploy high-quality apparel and sundries will be positioned as key categories to be strengthened.

ATTENIR will also evolve its unique web-based circular communication model to further strengthen the emotional

appeal among its customers as well as to disseminate information over the web.

boscia

Primarily focused on business in North America, the introduction of innovative products led boscia to record its highest sales in its history in fiscal 2018, making for 16 consecutive periods of record sales. Fiscal 2019 has been positioned as boscia's first year of globalization, during which time boscia will further strengthen its brands in the North American region and enter Europe and the Middle East for the first time.

boscia will also work to open up unique sales channels, expanding beyond its current wholesale channels to strengthen internet sales and open new direct model stores.



SkinClear Cleanse Oil



ATTENIR WHITE GENESIS



Charcoal (Black) Collection



Health Foods

In addition to strengthening our existing health food business, FANCL plans to grow its business by developing BtoB business that will expand the customer base for nutritional supplements and by launching Personal Supplements that meet the specific needs of individual customers.

Increasing Profitability by Nurturing Star Products and Consolidating Products

Following on from *Calolimit*, *Enkin*, and Age-Bracket Based Supplements, FANCL plans to nurture and strengthen its next generation of star products, such as *Naishi Support*. We feel that *Naishi Support* is a promising product given the characteristically high ratio of middle-aged male customers and the many customers over the age of 40 who have a strong awareness of health. Over the next few years, *Naishi Support* will be developed to the scale of *Calolimit* and *Enkin*.

With a focus on Foods with Function Claims that respond to the health concerns of middle aged and older consumers, FANCL will continue to develop products based on its technological capabilities.

At the same time, FANCL plans to raise profitability by continuing to consolidate products and by reorganizing its product selection into one from which it is easier to select products for specific purposes.



Calolimit Enkin (Anti-aging eye care) Age-Bracket Based Supplements Naishi Support (Weight and body fat care)

Creating Unique Markets by Launching Personal Supplements

In fiscal 2019, FANCL will launch Personal Supplements to create unique markets that our competitors have yet to touch. Utilizing online as the primary sales channel,

supplements will be sold that deliver the personalized nutrients required by individual customers based on the results of medical consultations and examinations.

Strengthening BtoB Business Using the FANCL Brand and Partner Resources

By reinforcing our brand, research capabilities, technological capabilities, and BtoB businesses using the resources of our partner companies, FANCL will create new opportunities to consume supplements through food and beverages.

Nestlé Japan Ltd. and DyDo DRINCO, Inc., companies with which we already work, have posted results that greatly exceeded their expectations, so the next step in business deployment is already being devised with a positive outlook.



Nestlé Wellness Ambassador



"Calolimit" Refined Green Tea Plus

Positioning the China Supplement Business as a Future Pillar of Growth

China is considered to be the most important market and is therefore defined as a pillar of growth. In fiscal 2018, FANCL concluded a distributorship agreement related to our health foods business in China with China Sinopharm International

Corporation, a subsidiary of the China National Pharmaceutical Group Corporation, one of the largest pharmaceutical companies in China. Likewise, earnest preparations are being made for full-scale entry into the China market.

Management Foundation Reinforcement and ESG Initiatives

By strengthening results-producing research and development, and by making forward-looking investments in manufacturing, distribution, IT systems, and other infrastructure, FANCL is both working to build a foundation for growth and pro-actively training the human resources that will support the business foundation.

Reinforce Management Foundation	
Research	<ul style="list-style-type: none"> Accelerate the development of new star products and products for global sale Develop OEM products and processed foods that utilize our unique technologies
Production	<ul style="list-style-type: none"> Build on our domestic production platform with a view for sales expansion (enhancement of supplement production capacity, robotization, automation, etc.)
IT Systems	<ul style="list-style-type: none"> Further advance the "FIT" foundation IT rebuilding project Integrate IT systems for all channels (summer 2018) Enrich marketing data and utilize AI (2020)
Logistics	<ul style="list-style-type: none"> Streamline logistical operations to minimize the impact of delivery fee increases Prepare to build a new logistics center in anticipation of expanded sales
Human resources	<ul style="list-style-type: none"> Develop personnel who embody the company's corporate philosophy Develop global human resources Provide human resource training to strengthen the sales skills and the expertise of our store and customer service center staff



Supplement filling machine at the Chiba Factory



FANCL College

In managing the company under the founding philosophy of "Eliminating the 'Negatives' with a Sense of Justice" and in aiming to maintain our status as a company that is needed by all of our customers and stakeholders, FANCL has formulated the FANCL Group Sustainable Declaration, called "Building a Bright Future Together."

In terms of the environment, we will work to expand the availability of environment-conscious products based on the Eco Plan. In addition, we will work with our business partners to ensure procurement considers the global environment. In terms of society, focus will be placed on better

promoting initiatives unique to our company for those with disabilities, as well as diversity management under the slogan "Of course everyone is different."

In terms of governance, along with further reinforcing corporate governance, we are working to provide continuous training to the next generation of management through the "Ikemori Leadership Training" program, launched in 2013 to nurture successors to our founder Kenji Ikemori.

These initiatives will refine the FANCL brand as based on "Honest Quality" and will establish a sustainable management foundation.

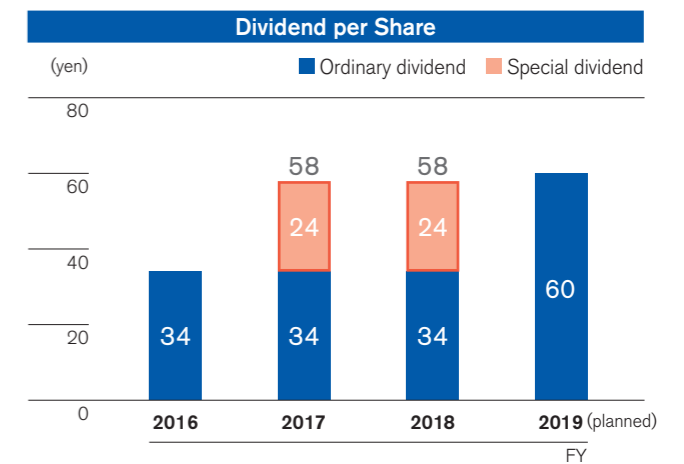
ESG Initiatives	
Environment	<ul style="list-style-type: none"> Work to expand the availability of environmentally conscious products based on the FANCL Group Eco Plan and reinforce the communication of information Engage in procurement that takes into consideration the global environment
Social	<ul style="list-style-type: none"> Support independence for seniors and people with disabilities Promote diversity management Further promotion of healthy management for an active work environment
Governance	<ul style="list-style-type: none"> Foster next generation of management through Ikemori Leadership Training program Implement shareholder returns that consider medium- to long-term earnings, cash flow, and capital efficiency Strengthen dialogue with stakeholders and investors



Changing the Shareholder Return Policy to Further Strengthen the Return on Profits to Shareholders

Upon determining the dividend for fiscal 2019, DOE (dividend on equity) has been adopted as the new standard in order to ensure that profit sharing corresponds to earnings trends and to provide a stable dividend.

The dividend is set with a target consolidated dividend payout ratio of **40%** and a DOE (dividend on equity) of **5%**



Toward Achieving the 2nd Medium-Term Management Plan: ACTION 2020 "Creating the Future"

When I was appointed president and CEO, I valued working together with all of our officers and employees above everything else. Based on my desire to build an organization that can unify and bring out the full power of our research, manufacturing, operations, and sales capabilities, I devised the "ALL-FANCL, ONE-FANCL," slogan. At this point, I feel that we are able to work together as a team in various areas throughout the company.

I intensely desire to make us a company at which those employees who like this company, its products, and its customers, and that want to work for FANCL throughout their careers, can continue to work. As such, we must be a

company that is always energetic and that continues to profit. I am constantly aware that stagnation means regression and know that we must take on new challenges with an eye on the future.

With the credibility built up by FANCL, our strong bonds with our customers, and our high technological capability as our foundation, we plan to maximize the value of FANCL. We will ensure growth by mobilizing the entire company and persevering in this endeavor. We will work to respond to the expectations of all of our stakeholders, and therefore humbly request your continued support.

"With the credibility built up by FANCL, our strong bonds with our customers, and our high technological capability as our foundation, we plan to maximize the value of FANCL."

President & CEO,
Representative Director

Kazuyuki Shimada



FANCL's Challenge in Eliminating the "Negatives"

Dialogue 01

20th
ANNIVERSARY



Opening Markets with New Added-Value *Mild Cleansing Oil* Products

To celebrate the product's 20th anniversary, FANCL launched a revised product of its mainstay *Mild Cleansing Oil* in November 2017. We gathered the members of each department involved in creating the revised products to discuss the challenges of developing new features and added value.

The Challenge of Advancing Our Headline Products under an Integrated Manufacturing and Sales System

Yayoi Teramoto: FANCL's *Mild Cleansing Oil* product has been a big hit for the Company, garnering the top share of sales in oil cleansing products. Even so, we were not content with the status quo and have undertaken certain revisions with the goal of adding new features and producing even better products.

Hideki Miwake: At the laboratory, we returned to the roots of the products, focusing first on where customers were dissatisfied. FANCL uses its *Yahho System* to allow employees to share amongst themselves the opinions of the company's customers. In addition to looking at these opinions, the company analyzes the results of surveys given to those who have never used *Mild Cleansing Oil* products. Because many people commented on darkened

(plugged) pores and cleansing oils that made their skin dry, we decided to focus on formulas that had advanced pore-care features and moisturized the skin.

Yayoi Teramoto: In product planning, we focused on the usability of Mr. Miwake's prototypes, and repeatedly evaluated samples provided thanks to the cooperation of our female employees who shared this concern over darkened pores.

Akiyuki Kawashima: The shift in the formula meant changes in the manufacturing process. A more efficient process contributed to energy savings without compromising product quality. This also resulted in an improvement in the amount of work hours required to produce the products.

Mild Cleansing Oil products sell at a rate of about one product every four seconds, and are the most produced products in terms of volume at FANCL B&H's three factories (in Chiba, Gunma, and Shiga). Cooperation of the factories was essential in the revamping of the products, and we were successful thanks to the combined efforts of all those involved at each of the facilities.

Thanks to collaboration with Mr. Miwake from the initial stages, we were able to successfully launch new high-quality products that were also environmentally friendly.

What We Can Do to Remain Cherished by Our Customers

Yumi Hirai: In the Customer Service Division, we have prepared a script for our operators in cooperation with the research department so that customers can learn how the new product features can change their skin and make their skin more attractive and comfortable. Prior to launch, Ms. Teramoto spoke to the operators directly, including telling them so-far untold stories in regard to how the products were developed. We believe we can convey the appeal of the products to our customers with a sense of passion by sharing developer stories that are not listed in the manual.

Masako Inoue: In addition to the new features, the Store Sales Division, which deals directly with our customers, is focused on instilling a sense of excitement for the new products by letting customers know the thoughts of team members who contributed to the development of the product.

The Company also conducts on-the-job training and study sessions within the stores. The experience of being in the store allows employees to invite visitors to try out

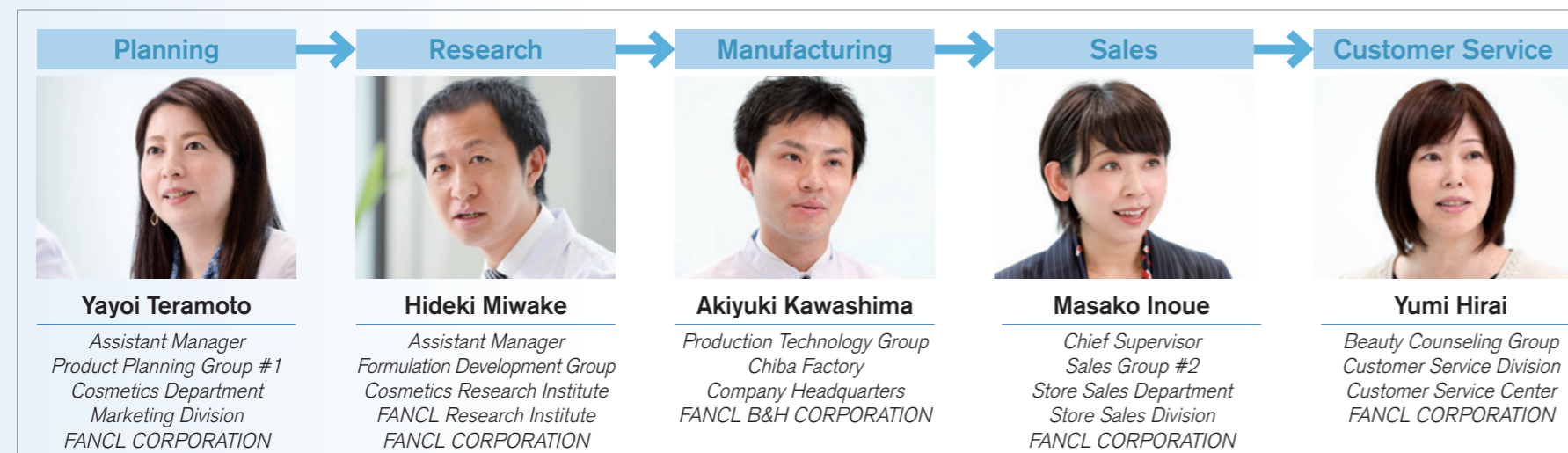
and appreciate the appeal of the products and more clearly convey the features of the revised products to customers through face-to-face dialog.

I was also able to participate in the development phase as a monitor. Feedback from key points in the survey served to further improve the final product.

Efforts in the ALL-FANCL, ONE-FANCL Policy

Yumi Hirai: The revised *Mild Cleansing Oil* products appear to have been very well received and our customers have been telling us how much they enjoy using the products. We are also recommending the products with confidence to those who have yet to try them.

Yayoi Teramoto: Responding to the opinions of our customers, received either in stores or through the call center, is an important issue for the Company as these opinions serve as an important tie between the Company and its customers, which leads to new challenges. We will strive to maintain this spirit as we continue to increase the number of loyal FANCL enthusiasts. We intend to work together as a whole under the ALL-FANCL philosophy to further eliminate customer negatives.



Dialogue 02



Finding Solutions through Joint Development with Nestlé Japan

FANCL has teamed up with Nestlé Japan in a project to solve nutritional and health problems. The first stage of cooperation involved the joint development of capsule products for the *Nestlé Wellness Ambassador*. The following contains key points in discussions with three individuals involved in development efforts.

Masayasu Tsuda: Nestlé Japan launched *Nestlé Wellness Ambassador* as a health services platform aimed at bolstering the lifespans of its customers in spring of 2017. With the goal of developing products that meet the needs of more of its customers, the company invited FANCL, a

pioneer in supplements and a company with a great deal of knowledge and technical expertise in the area to participate in joint development efforts.

While the project was run on a very tight schedule, the two companies shared a commitment to solving problems while maintaining a focus on the customer's point of view. Amid such a favorable relationship, progress was indeed smooth.

Kazumasa Wakayama: Thanks to a shared set of values, we were able to respect each other's opinions and by coming together as one, the members were able to overcome a series of hurdles. We also shared the same idea of not shying away from a challenge. Indeed, the word "can't" wasn't part of the vocabulary and we were able to



overcome obstacles thanks to a shared commitment to finding solutions. One issue we focused on in particular was the taste of beverages.

Masayasu Tsuda: We tested an enormous amount before each of the members was satisfied. While I believe we were somewhat demanding in our requests, FANCL never failed to exceed our expectations, which is probably a result of the Company's open and free-flowing corporate culture. I also believe cooperation between the research and other departments served to produce a wonderful result.

Yuko Tsukamoto: There is a lot we have learned from Nestlé Japan, including in regard to promoting speed in development and building excitement in our customers. I believe this contributed to our growth as individuals as well.

Kazumasa Wakayama: FANCL has an integrated manufacturing and sales system, and the Company has developed a number of in-house products to date, though it appears likely that it will become more and more necessary in the coming days to combine our strengths with those of others in order to create new value. In that sense, this collaboration can serve as a touchstone for FANCL as it continues to expand.

Masayasu Tsuda: We were happy to hear customers drinking the product say things such as "I'm happy to have something that perfectly meets my needs" and "finally, a solution to a problem I've had for several years." Trust in FANCL and its brand are indeed strong.

Yuko Tsukamoto: Thank you very much for your kind words. We also received a great deal of positive feedback from our customers and investors in regard to this project via the stores and our customer service line. Perhaps more than anything else, I'm happy to see sales volume has well exceeded our initial expectations.

Masayasu Tsuda: In the future, we would like to work not only on product development, but also product promotions. It would be good to make use of the strengths of both companies in order to make our customers healthier and feeling more beautiful.

Kazumasa Wakayama: Of course! I think we can develop the next big idea through collaborations such as this. We look forward to working with you in the future and developing new services from a medium to long-term perspective.



Nestlé Wellness Matcha: Red

Nestlé Wellness Matcha: Calolimit

Nestlé Wellness Latte Daily Beauty Support

Masayasu Tsuda

Manager
E-Commerce Division
Direct & Digital Transformation
Department
Nestlé Japan Ltd.

Yuko Tsukamoto

Germinated Brown Rice & Kale Juice
Business Planning Group
Business Planning Department
Marketing Division
FANCL CORPORATION

Kazumasa Wakayama

Executive Director
Marketing Division
Deputy General Manager
FANCL CORPORATION

Sampling and Tasting Campaign at FANCL Direct Store Nationwide

For the launch of the first two jointly developed products, FANCL held a sampling and tasting campaign at its direct store in Japan, inviting many of its customers to come and try the new products.

A large number of people bought products following the tastings, with many looking forward to the release of the third product.



Tastings at the FANCL Ginza Square

Efforts to Support "Corporate Value" – Concern for the Environment –

Environmental Policy

In all aspects of our corporate activities, we are grateful for the bounty provided by nature, and aim to contribute to the preservation of the environment and biodiversity.

Receiving the "Energy Conservation Grand Prize" for Global Warming Countermeasures Conducted throughout the Group



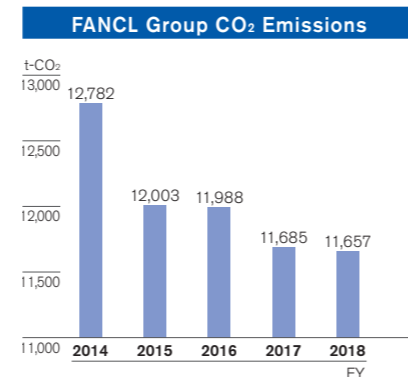
Target: 26% Reduction in CO₂ Emissions in Fiscal 2031 (compared to fiscal 2014)

We have constructed a network of equipment and devices across all of our sites, including factories and offices, and direct stores. Being able to understand at a glance the status of energy usage enables us to conduct efficient energy conservation measures.

Given this, we were recognized for our efforts to reduce CO₂ at locations throughout the Group, and honored by receiving the 2017 Chairman's Prize, the Energy Conservation Center, Japan (Successful Case of Energy Conservation Category) in February 2018. (Sponsor: The Energy Conservation Center, Japan)

Award Theme

Group-wide energy conservation activities through the implementation of an integrated energy conservation platform. Having built a network of equipment and devices at each of our business sites, we were able to realize "visualization of electricity" and accomplish a single point of management for all environmental data. In particular, by working to place emphasis on boilers and compressor countermeasures, and ventilation countermeasures, we were successful at conserving energy and cutting costs.



Environmental Education for Employees



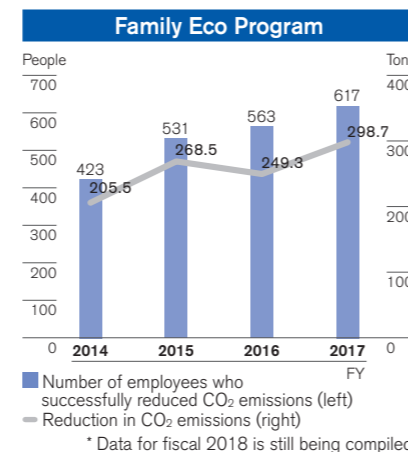
Under the theme of "Seriously Fun eco," we implemented proactive education on the environment for employees.

Principal Training

Hands-on experience sorting garbage To reduce the waste coming from work sites, all employees are given hands-on training so that they would be able to correctly sort garbage.

Family Eco Program A gift certificate is presented if a family's bill for electricity, gas and water achieves the target figure. Families can enjoy themselves while carrying out environmental activities.

Environmental Training for New Employees New employees conduct brush clearing and tree planting operations at FANCL Smile Forest in Doshi-mura, Yamanashi Prefecture.



Hands-on garbage sorting experience



Family Eco Program where employees work to cut CO₂ at home



Environmental Training for New Employees

→ Please see P07 for details on efforts with regard to SDGs

Eco-Friendly, Customer-Friendly Products and Services

Cutting Container Resources

We are moving forward to make things easier to use, together with conserving container resources. Fiscal 2018 was the first year FANCL adopted biomass PE* containers for Mild Cleansing Shampoo and Moist Body Wash, and by changing the shape, we were able to reduce the use of plastic.

Annual plastic usage amount
4.3t reduction

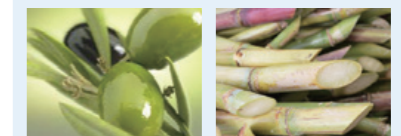
* Plant-derived plastic made from sugar cane leftovers, which had previously been wasted.



Mild Cleansing Shampoo
Moist Body Wash

Adopting Eco-Friendly Plant-Derived Squalene

The raw material squalene is primarily obtained from shark liver oil. However, as FANCL takes the perspective of ecological preservation, all of our skincare products use squalene derived from plant sources, specifically olives and sugar cane.



Olives

Sugar cane



Active Conditioning EX emulsion

Reuse of Product Containers

In order to minimize product waste after use, we are encouraging a refilling system whereby reuse of containers is possible.



Beauty BOUQUET Foaming Face Wash "Bottle" and "refiller"



(FANCL eco Mark is not applicable)

(FANCL eco Mark is not applicable)

Resource Recycling

The leftovers generated from the production process of kale juice are sold to local farmers as cattle feed.

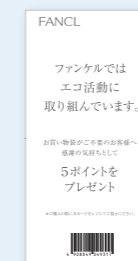


Fiscal 2018 feed recycling volume **271.1t** (95% of overall leftovers)

Environmental Activities with Our Customers

FANCL direct stores introduced the Eco Partner Point System in fiscal 2005, where customers who decline a shopping bag are awarded points worth ¥5 when they purchase products.

Fiscal 2018 usage rate **60%**
(a reduction of 3.16 million shopping bags)



Reducing Cardboard Volume

In tandem with efforts to reduce volume of cardboard used, we are conducting "envelope shipping." Products are shipped in a dedicated envelope after inserting an air cushion bag. To simplify disposal after having received the product, waste sorting is made easy as glue is not used on the envelope and impact bag.



TOPICS FANCL happy eco – Creating the Future with Our Customers

In June 2018, we formulated the FANCL eco Mark as proof of meeting the FANCL eco Standards. Going forward, at the same time as working to upgrade and expand eco-friendly products, we will strengthen the disclosure of environmental information and conduct environmental activities together with our customers.



FANCL eco Mark

Efforts to Support “Corporate Value” – FANCL’s Human Resources –

Together with our aim for growth as a company that truly cares for people, we respect the individuality of each person and their diverse values.

FANCL’s Approach to Human Resources

Human Resource Philosophy

We aim to be a company where employees work toward their dreams.

Human Resource Vision

We aim to create a work environment that attracts: People who take on challenges for people and society, People who desire to grow, and People who produce results.

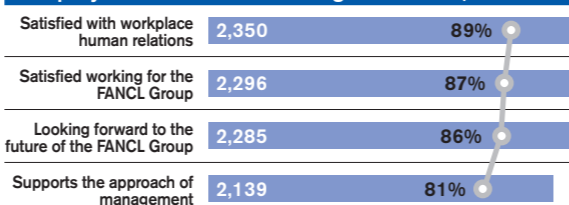


FANCL Receives the Special Jury Prize,
NIKKEI Smart Work Awards 2018

Employee Evaluations with Regard to Management

At the FANCL Group we assess the opinions of all employees with regard to work styles and management. From the results of surveys, we were able to learn that there was a high degree of satisfaction with regard to current management and work environment. We will continue to pursue flexible work styles and will enthusiastically move forward on implementing work style reform.

Employee Evaluation of Management (Multiple Answers)



New Establishment of “Regional Regular Employee”

System, and Switching from Contract and Part Time Employee Systems to a “Non-Fixed-Term Contract” System

From April 1, 2018, the FANCL Group changed the contract status of contract employees who work at direct stores throughout Japan, to that of “regional regular employees.” We also switched the status of all 891 employees who were contract and part-time employees at head office and factory operations, and part-time employees at direct stores, to “non-fixed-term contracts.”

Based on the concept of having workers play an active role at the FANCL Group, long term and with peace of mind, we will continue to advance work style reforms and develop a working environment where all employees can over the course of their working life engage in their tasks with vitality.

Further Promotion of Diversity Management



Slogan

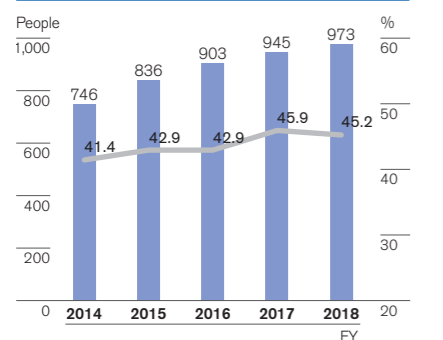
“Of course everyone is different.”

Policy

Based on the slogan of “Of course everyone is different,” and as a corporation that truly cares for people, the FANCL Group seeks to elicit the unique characteristics and capabilities of a diverse group of employees who bring a variety of personal values and thinking, and aims to generate an ongoing stream of new value.

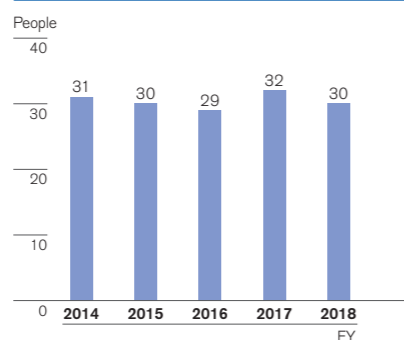


Number of Employees, Percentage of Women in Management Positions



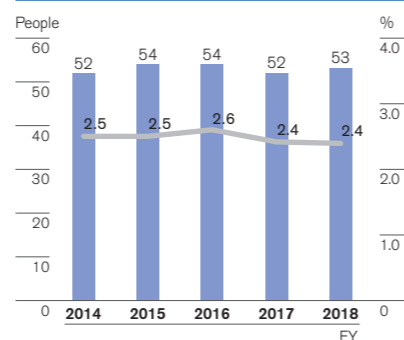
■ Number of employees (left)
— Percentage of women in management positions (right)

Number of Employees Aged 60 or Over*



* Including fixed-term employees

Number of Employees with Disabilities, Percentage of Total*



■ Number of employees with disabilities (left)
— Percentage of employees with disabilities (right)
* Including special subsidiaries
Legally mandated employment ratio: 2.2%

→ Please see P07 for details on efforts with regard to SDGs

Initiatives for Supporting Diversity in Work Styles

Support measures	Childrearing assistance system (Yoiko Teate) * Employees with children receive a monthly stipend of ¥10,000 per child (until aged 18)	Active seniors * Employment category in which even those aged 65 years and above can work
Fiscal 2018 results	697 people	6 people

Special Subsidiary FANCL SMILE Co., Ltd. and Employment of Those with Disabilities

We established FANCL SMILE Co., Ltd. as a special subsidiary in February 1999 with the intention of facilitating the independence of those people with disabilities. Making the most of their capabilities in connection with the Group’s operations, this company’s employees include three who are currently working at a FANCL B&H CORPORATION factory, one at a call center, one conducting store operations, and four engaged in mail delivery operations at the head office among others.



FANCL SMILE employees working at a factory

TOPICS

Upon President & CEO Kazuyuki Shimada’s attendance at a meeting of male leader advocates urging a declaration on action to “Create a Society in which Women Shine,” held on March 5, we announced the details of our initiatives.



Advocates’ meeting

Promotion of Health Management



FANCL Group’s “Declaration of Health Management”

Slogan

“The greatest testament we can make to beauty and health.”

Health Philosophy

The “health of employees” is the foundation upon which the entirety of FANCL Group’s efforts for health and beauty rests. Based on this awareness, as pioneers in the health food industry, we will pursue the creation of a culture in which top priority is placed on health, and in undertaking the execution of sound management. Our endeavors to generate new value and eliminate the “Negatives” will remain ongoing.



Recognized by 2018 Certified Health and Productivity Management Organization Recognition Program – White 500 –



Recognized as Class AAA, Yokohama Health Management Certification 2018

Health Management

FANCL, which offers products and services associated with health and beauty, has put efforts into systems and other initiatives that enable employees to work in beauty and health. We will continue to use our “Declaration of Health Management” as a slogan, and will aim to practice efforts and activities that achieve other goals as well.

Fiscal 2018 Results

Average number of vacation days taken	11.4 days (previous fiscal year: 11.6 days)
Average number of overtime hours per month	7.5 hours (previous fiscal year: 7.7 hours)
Rate of regular health checkups	100% (previous fiscal year: 100%)

TOPICS

The Company held a Family Day with the aim of interaction between the family members of workmates, leading to a deepening of mutual understanding and the creation of a workplace where employees can smoothly perform their duties on August 25.

Participating were 37 people (including 18 children) from 12 families



Efforts to Support "Corporate Value" – Social Contribution Activities –

Basic Policy

"Can achieve more" for tomorrows in which people can spend time in beauty and health. We value relationships with local communities and interaction with people with disabilities.

For a Society in Which Everyone Can Spend Time in Beauty and Health

FANCL Seminars

Since 1988, we have been leveraging our business activities by holding FANCL Seminars, free seminars at which instruction on grooming and make-up is given. Employees serve as the instructors.

Types of Seminar	Target participants
Grooming seminars	People attending special assistance schools
Lively makeup seminars for the elderly	People aged 60 or over
Makeup seminars for the visually impaired	Visually impaired people

Feedback from Employee Participant

Having participated as a Grooming Seminar instructor, I was once again able to recognize FANCL's integrity and the strengths of our additive-free cosmetics. I think giving consideration to how we could pique each student's interest led to a deepening of our understanding of the products and reinforcing our presentation skills. FANCL Seminars not only provide a framework for social contribution activities, but they also provide good opportunities that lead to practical work.



Shinichiro Miya
Strategic Planning Group, Business Strategy Department
ATTENIR CORPORATION

Support for Disaster-Affected Regions

After the Great East Japan Earthquake, the FANCL Group launched the "Save Tohoku Project for Beauty and Health" and has dispatched employee volunteers to disaster victims in the disaster-affected regions and to Company locations in Kanagawa Prefecture.

Under the banner of providing "Support for the Victims' Minds and Bodies," we will continue to provide support for the disaster-affected regions in the years to come.

Fiscal 2018 Results

Number of times held:
154 (152 times during the previous fiscal year)

Number of participating employees:
203 (180 in the previous fiscal year)

External Commendations for Fiscal 2018 Seminars

11th Kanagawa Children and Child-Raising Support Awards

Received **Encouragement Award**

10th Kanagawa Prefecture Barrier-Free Urban Development Awards

Received **Soft Category Award**

Kanagawa Prefecture

Certified for **Health Support Program**



A FANCL Seminar for the visually impaired



Activity at reconstruction public housing

Donation Activities with Stakeholders

Along with stakeholders, FANCL donates funds in line with its action policy.

Type	Year started	Donations made in fiscal 2018	Main recipient
Shareholder donations	2006	¥1,168,000	Japanese Red Cross
FANCL Classic Fund	2007	¥3,036,000	Social welfare entity Houmon-no-Ie
Employee donations to the "Can Achieve More Fund"	2007	¥6,100,000	Japan Philanthropic Association
Customer donations of points	2008	¥3,100,000	Michinoku Future Fund

→ Please see P07 for details on efforts with regard to SDGs

Development of Products and Services That Everyone Can Easily Use

Utmost Attention Paid to Ease of Use in Development of Beauty BOUQUET Series Containers

Showing the consideration given to the changes in grip strength and visual acuity that appear with advancing age, the containers for the Beauty BOUQUET series of cosmetics, launched in October 2016, resulted from repeated trial-and-error testing. Supervised by the Jitsuken user research organization, the objective of the testing was to eliminate any likely difficulties in seeing or using the products. Container development was undertaken to eliminate the "Negatives," FANCL's founding philosophy, for example by designing a cap that is prevented from dropping when held in the hand, and pumps that are easy to push with little effort.



Beauty BOUQUET

External Commendations

Japan Packaging Contest 2017
Won **Accessible Design Packaging Award**

Thought Given to Bump Dot Labeling by Visually Impaired Employees

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 special subsidiary FANCL SMILE Co., Ltd., who have visual impairments, improved the labels to make them easy to identify in 2014.



Bump dot labeling

Global Social Contribution Activities

FANCL Kids Baseball Held in Peru Supporting the Futures of Children Around the World

Republic of Peru

Since 2010, FANCL has been a special co-sponsor of our baseball class, FANCL Kids Baseball, at which FANCL partner Tatsunori Hara serves as instructor. The class continues to donate baseball gear that is no longer used to countries that suffer from a lack of equipment. In November 2017, we held the first overseas class (sponsored by the Japan International Cooperation Agency, or JICA) in Peru in South America and were able to teach local children courtesy and discipline through baseball. Through this social contribution activity, we will support the futures of children and strive to improve our corporate value through the creation of FANCL fans.



The baseball class in Peru



Donation of equipment to Peruvian children



Kazuyoshi Miyajima
Vice Chairman, Executive Director

Fiscal 2018 Results

Number of items donated:
1,393 (2,867 in the previous fiscal year)

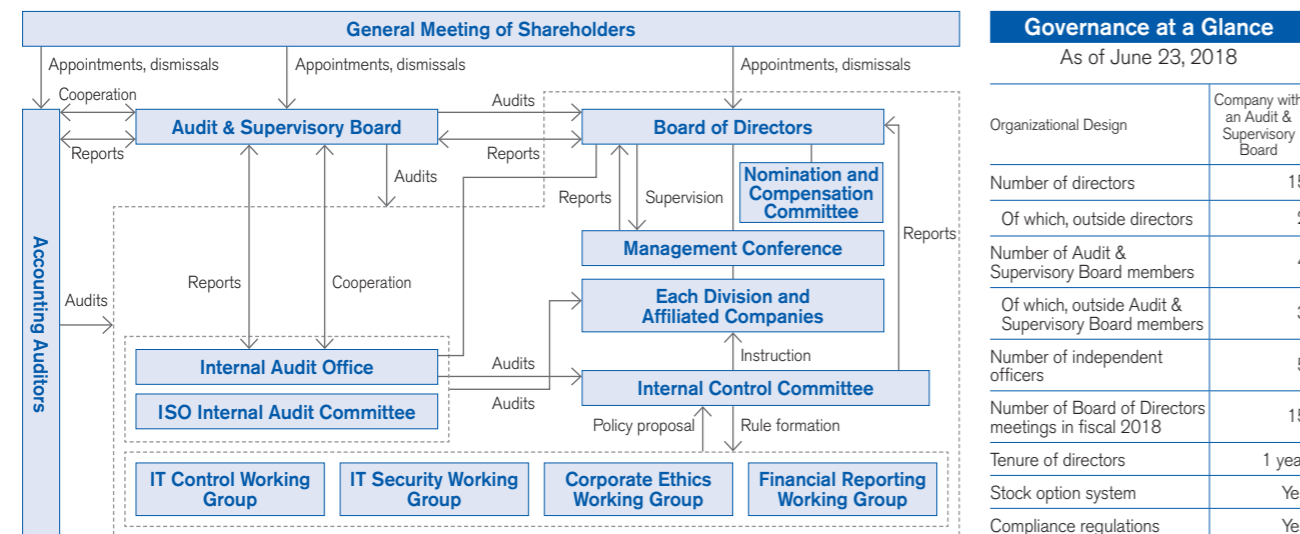
Countries that received donations:
8 (9 in the previous fiscal year)

Efforts to Support "Corporate Value" – Corporate Governance –

Basic Policy

FANCL will raise management efficiency and transparency by sincerely enhancing corporate governance. Putting in place and developing internal control within the Group will be based entirely on FANCL's corporate philosophy.

Corporate Governance Framework



Governance at a Glance

As of June 23, 2018

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	3
Number of independent officers	5
Number of Board of Directors meetings in fiscal 2018	15
Tenure of directors	1 year
Stock option system	Yes
Compliance regulations	Yes

The management framework as of June 23, 2018 was 15 directors (of whom two are outside directors), four Audit & Supervisory Board members (of whom three are outside Audit & Supervisory Board members) and nine executive officers (excluding executive directors). The tenure of directors is one year.

The Board of Directors decides on and supervises the execution of important business matters. The Management Conference conducts preliminary deliberations on matters for decision by the Board of Directors, and deliberates on important matters regarding management, within the scope of authority granted by the Board of Directors.

FANCL has adopted an Audit & Supervisory Board system. Audit & Supervisory Board members attend meetings of the Board of Directors 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.

From fiscal 2019, the Company will put in place the Nomination and Compensation Committee, whose members will include outside directors, in a bid to enhance management transparency and objectivity.



Board of Directors

Independent Officers

The Company appoints outside directors and outside Audit & Supervisory Board members in order to provide opinions and recommendations from a diverse array of perspectives as well as in an effort to strengthen supervisory functions with regard to business execution. It is the policy of the Company to appoint individuals who retain a sufficient degree of independence rather than individuals associated with affiliates, major shareholders, and important business partners. Of note, the Company's outside directors and outside Audit & Supervisory Board members are registered as independent directors with the Tokyo Stock Exchange because they all meet the requirements of independent director specified by the Tokyo Stock Exchange.

Independent officers	Major Activities of Fiscal 2018	Attendance	
		Board of Directors	Audit & Supervisory Board
Outside Director Norito Ikeda	Fulfills supervisory functions by appropriately making inquiries and recommendations based on his experience and expertise as a management specialist cultivated over many years as a manager at financial institutions.	15 / 15 (100%)	–
Outside Director Katsunori Koseki	Fulfills supervisory functions by appropriately making inquiries and recommendations based on his abundant experience and specialized perspective as tax accountant.	15 / 15 (100%)	–
Outside Audit & Supervisory Board Member Toshio Takano	Fulfills these functions mainly through proposals intended to ensure the adequacy and appropriateness of Board of Director decision-making based on his abundant experience and professional perspective as a public prosecutor and lawyer. In addition, he makes proposals at Audit & Supervisory Board meetings.	15 / 15 (100%)	11 / 11 (100%)
Outside Audit & Supervisory Board Member Tsuneyoshi Seki	Fulfills these functions mainly through proposals intended to ensure the adequacy and appropriateness of Board of Director decision-making based on his abundant experience and professional perspective as certified public accountant. In addition, he makes proposals at Audit & Supervisory Board meetings.	15 / 15 (100%)	11 / 11 (100%)
Outside Audit & Supervisory Board Member Hideki Minamikawa	Fulfills these functions mainly through proposals intended to ensure the adequacy and appropriateness of Board of Director decision-making based on his abundant experience and expertise obtained from serving at government agencies. In addition, he makes proposals at Audit & Supervisory Board meetings.	9 / 11 (82%)	8 / 8 (100%)

Officers' Compensation

The compensation paid to directors is made up of a basic component and as stock compensation-type options at the time of retirement. The basic component is determined by the president & CEO acting under the delegated authority of the Board of Directors and is paid on a monthly basis in line with a variety of factors including each officer's position, whether standing or non-standing, role, duties and performance. Compensation paid at the time of retirement is set and applied as an incentive for officers to increase shareholder value during their term. In specific terms, payments are made in the form of stock compensation-type options to directors who hold the concurrent position of executive officer. Audit & Supervisory Board members are only paid a basic component. The amount is determined through deliberation and is based on the duties and responsibilities of each Audit & Supervisory Board member.

In addition to directors' compensation mentioned above, from fiscal 2019 the Company has decided to make available performance-linked compensation for the purpose of enhancing incentives to achieve targets set out in the 2nd Medium-Term Management Plan, with payout amounts determined by the degree of achievement of consolidated sales and operating income targets set out in the Plan. In addition to performance, the Company has introduced a new performance-linked stock price-based (phantom stock) compensation plan with the aim of further promoting management from the perspective of shareholders. Additionally, for the purpose of ensuring fairness, transparency, and objectivity of proceedings the Company has established a Nomination and Compensation Committee, in which outside directors will take a leading role in the nomination of executive candidates and decisions regarding executive compensation.

Executive Officer Compensation, etc., in Fiscal 2018

Executive officer classifications	Total Compensation, etc. ¥ million	Total compensation, etc., by type ¥ million		Number of Target Officers
		Basic compensation	Stock options	
Directors (excluding outside directors)	385	283	101	10
Corporate auditors (excluding outside Audit & Supervisory Board members)	21	21	–	2
Outside officers	37	37	–	5

The Ikemori Leadership Training Program: Developing the Next Generation of Managers

Since September 2013, the Company's in-house training division FANCL College has conducted the Ikemori Leadership Training program, which aims to pass along the ideas of the Company's founder Kenji Ikemori and develop the next generation of managers. The Ikemori Leadership Training program features lectures by Kenji Ikemori himself about perspectives, inventiveness, and decision-making criteria for managers as well as discussions on new business ideas. Ten participants elected by employees attend this two-year training program, during which they deepen their understanding of the FANCL philosophy while learning to acquire a managerial viewpoint. Participants in this program have been appointed as FANCL directors, executive officers, and presidents of subsidiaries. Going forward, the Ikemori Leadership Training program will strive to produce numerous graduates who will take their place as the next generation of managers.



The Ikemori Leadership Training program

Communication with Shareholders and Investors

FANCL makes every effort to disclose information to investors in and outside of Japan in a fair and timely manner, in accordance with its disclosure policy. In addition to financial results and timely disclosure notifications, we also publish financial results briefing materials, videos, question and answer documents and other materials for analysts and institutional investors. Through proactive engagement with shareholders and investors, we reflect their opinions in our management and IR activities.

General Meeting of Shareholders

With the aim of having "open" shareholder meetings, our General Meeting of Shareholders is held on a Saturday so that shareholders can easily attend, as we intentionally avoid dates when other companies also hold meetings. We also provide sign language interpretation out of consideration for those shareholders who may be hard of hearing. At our customary post-meeting social event, shareholders have opportunities to communicate directly with directors and employees.

Individual Investors

We proactively engage in dialog with individual investors, inviting them on tours of our factories to introduce the particular care that we put into making safe and worry-free products, holding seminars for individual investors that are carried out by securities companies, as well as investment seminars for women, among other activities.

Institutional Investors and Analysts

FANCL holds results briefings every quarter so that institutional investors and analysts can gain a broad understanding and make appropriate evaluations with regard to the Company's management strategy and initiatives. We also conduct activities such as setting up briefings to explain our Medium-Term Management Plan and hold small meetings led by the president and top management of business divisions. In addition to providing more meticulous explanations, we proactively offer facility tours, such as of factories, logistics centers and general research laboratories. Such activities create opportunities for participants to get a feel for FANCL's research, technological capabilities and the Company's high levels of service and quality.

In our IR activities, we place paramount importance on, and enthusiastically accommodate requests for individual interviews that enable direct dialog. In fiscal 2018 we conducted numerous such interviews, approximately 330, both within and outside of Japan. Moreover, in addition to actively encouraging the attendance of overseas investors in conferences held in Japan, we periodically hold overseas (the U.S. and Hong Kong) IR events, and make efforts to attract new investors.



General Meeting of Shareholders



Facility tour

37th Annual General Meeting of Shareholders

(June 17, 2017)


Attendance: **5,574** people

Fiscal 2018 Results

IR engagements: **About 330**

TOPICS

FANCL's IR site was selected as an excellent corporate website in Nikko Investor Relations Co., Ltd.'s 2017 Content Ranking of Corporate Websites by All Listed Companies in Japan, and has received the Bronze Award from "Gomez IR Site Ranking 2017," by Morningstar Japan K.K. With our constant emphasis on making enhancements, we strive to make this a site that is easy to understand and that is a rich source of information.

 Shareholders/Investor Relations
www.fancl.jp/en/ir/



Message from an Outside Audit & Supervisory Board Member



I want FANCL to continue to defend its wonderful corporate culture in the years ahead

Tsuneyoshi Seki

Outside Audit & Supervisory Board Member

I have been an outside Audit & Supervisory Board member since 2016, and the impression of FANCL gained from outside is that of a company that earnestly practices its FANCL Stance message of "Honest Quality." As a certified public accountant, I have seen many kinds of corporate management, but FANCL's level of "honesty" is of a kind not found elsewhere. In companies where accounting scandals or deplorable events occur, there are certain kinds of problems in their corporate culture, such as the spread of an overriding emphasis on profit among enterprises, and many such problems are immediately noticeable with experience. With regard to FANCL, "honesty," that is to say high ethical standards, have permeated down to each and every employee, including the management team.

Since the relevant information is provided and lectures on details of the business situation given in advance to enable the handling of sufficient information in an input state, lively discussions take place at every Board of Directors' meeting.

On the human resources side, the ratio of women returning to work after childcare leave has historically reached 100% for many years, so that a climate in which women find it easy to work and enables them to demonstrate their strengths is deeply rooted. I also sense very strongly the awareness of the need to develop the human resources to pass on the philosophy, such as there being a mechanism in place to foster the next generation management by having Chairman Ikemori, the Company's founder, himself serve as a lecturer.

In fiscal 2018, FANCL's financial results showed significant growth in both sales and profits. The levels of quality and service for which the research, planning, manufacturing and marketing departments have collectively striven have been accepted by customers, and it can be said that the efforts so far are showing results. In 2030, which is the final year of the long-term vision, however, consumer needs and the structure of the world will have changed significantly. In order for FANCL to respond to those changes and further increase its brand value, the Company must create new products and services by not resting on its laurels but by demonstrating a venturesome spirit. However, there is one thing that should never change even under such circumstances. That is to retain the climate of "Honest Quality," which is the biggest attraction of FANCL that I mentioned at the beginning.

Companies that pursue only profits and lose their sense of "honesty" cannot attain sustained growth. I would like to continue to audit steadily from an outside viewpoint so that FANCL does not deviate from its path of "Honest Quality."

Tsuneyoshi Seki

- 1990 Registered as Certified Public Accountant
- 1995 Joined Deloitte Touche Tohmatsu (now Deloitte Touche Tohmatsu LLC)
- 1997 Managing Director of Sanseki Co., Ltd.
- 2003 Partner in Deloitte Touche Tohmatsu (now Deloitte Touche Tohmatsu LLC)
- 2014 Established Tsuneyoshi Seki Certified Public Accountant Office (Current)
- 2016 FANCL CORPORATION Outside Audit & Supervisory Board Member (Current)

Website



Shareholders/Investor Relations

www.fancl.jp/en/ir/

Management Policies/Systems	Message from the Founder, Medium-term Management plan (FY2019-FY2021), Corporate Governance, Board of Directors, Business Risks, Disclosure Policy
IR Library	Financial Results, Presentation Materials, Financial Highlights, FANCL Report (Annual Report), News Releases



CSR/Environment/Social Contribution

www.fancl.jp/csr/ (in Japanese)

CSR Topics	Report on monthly CSR activities
Corporate Governance	Corporate governance policy, governance report, audit structure and systems, and other information
Human Rights	Policy regarding Human Rights and other Matters Including the Promotion of Diversity
Employment Practices	Personnel-related data, types of employment, and other information
Environment	Environmental policy, environmental activities, and other information
Fair Business Practices	Procurement and purchasing policy, purchasing mechanisms, and other information
Consumer Issues	Research, production, customer service, and other information
Community Participation	Social activities policy, employee donation activities, and other information
External Evaluations and Awards	External evaluations, awards received, and other information
FANCL Report (Annual Report)	Information can be accessed/downloaded in PDF format

TOPICS

FANCL has received the Award for Excellence in Environmental Reporting at the 21st Environmental Communication Awards.

Receiving recognition was the disclosure of the Company's formulation of CO₂ target reductions, by fiscal 2031, as stated in our 2017 FANCL Report, an integrated report published last year, as well as the case studies that demonstrated our advanced and robust efforts to make products in consideration of the environment.

Our efforts in pursuit of a sustainable society are active and ongoing, and we will continue to disclose information associated with our environmental initiatives.



FANCL Report 2017



The Environmental Communication Awards ceremony



Corporate Information

Corporate Overview (As of March 31, 2018)

Company name	FANCL CORPORATION
Address	89-1 Yamashita-cho, Naka-ku, Yokohama, Kanagawa-ken
Telephone	+81(45)226-1200 (switchboard)
Representative	Kazuyuki Shimada President & CEO, Representative Director
Established	August 18, 1981
Paid-in capital	¥10,795 million
Number of employees	973 * Not including contract and part-time employees
Research Institute	FANCL Research Institute Totsuka-ku, Yokohama, Kanagawa-ken
Principal banks	MUFG Bank, Ltd. Sumitomo Mitsui Banking Corporation Mizuho Bank, Ltd.

Board of Directors

(As of June 23, 2018)

Chairman & Founder, Representative Director	Kenji Ikemori	Audit & Supervisory Board Member (Standing)	Seichiro Takahashi
Vice Chairman, Executive Director	Kazuyoshi Miyajima	Outside Audit & Supervisory Board Member	Toshio Takano
President & CEO, Representative Director	Kazuyuki Shimada	Outside Audit & Supervisory Board Member	Tsuneoyoshi Seki
Senior Managing Director	Tomochika Yamaguchi	Outside Audit & Supervisory Board Member	Hideki Minamikawa
Executive Managing Director	Toru Tsurusaki	Executive Officer	Hiromichi Aoto
Executive Director	Yasushi Sumida	Executive Officer	Akiko Matsugaya
Executive Director	Yoshihisa Hosaka	Executive Officer	Koichi Matsumoto
Executive Director	Yukihiro Ishigami	Executive Officer	Nobuyuki Uematsu
Executive Director	Kazumasa Wakayama	Executive Officer	Junji Nagasaka
Executive Director	Yuna Akashi	Executive Officer	Katsuyuki Anzai
Director	Akihiro Yanagisawa	Executive Officer	Shoko Matsukuma
Director	Kenichi Sugama	Executive Officer	Yoko Mamizuka
Director	Gen Inomata	Executive Officer	Kohji Yamaguchi
Outside Director	Norito Ikeda		
Outside Director	Katsunori Koseki		

Group of Companies

(As of April 1, 2018)

Name of Company	Principal Business Activities
ATTENIR CORPORATION [Consolidated subsidiary]	Engages in the sale of cosmetics and fashion brands based on the philosophy of "continuing to offer luxury brand quality at one-third of the market price or lower."
FANCL ASIA (PTE) LTD [Consolidated subsidiary]	Oversees sales activities in Asia & Oceania region.
FANCL B&H CORPORATION [Consolidated subsidiary]	Production of cosmetics, quasi-drugs, nutritional supplements and FANCL germinated brown rice.
NICOSTAR BEAUTECH Co., Ltd. [Consolidated subsidiary]	Engages in the sale and contract manufacturing of cosmetics and quasi-drugs.
FANCL INTERNATIONAL, INC. [Consolidated subsidiary]	Distributes cosmetics and nutritional supplements in the United States.
boscia, LLC [Consolidated subsidiary]	Expanding cosmetic sales globally.
FANCL SMILE Co., Ltd. [Non-consolidated subsidiary]	(A special subsidiary) Promotes the employment of people with disabilities; undertakes a variety of activities including the setup of various catalogues.
FANCL Insurance Service Corp. [Non-consolidated subsidiary]	Insurance agency, engaged in soliciting insurance contracts and associated operations.
FANCL FARM Co., Ltd. [Non-consolidated subsidiary]	Engages in the production, processing, and sale of agricultural products.
FANCL (Shanghai) Business Consulting Limited [Non-consolidated subsidiary]	Engages in the registration of cosmetics and supplements in China.

Editorial Policy

Organizations	FANCL CORPORATION and the FANCL Group
Businesses	Cosmetics, nutritional supplements and other businesses
Applicable Period	Fiscal 2018 (from April 1, 2017 to March 31, 2018)

* Some areas include information from before March 31, 2017 and after April 1, 2018.

Reference Guidelines

- ISO 26000
- GRI
- Ministry of Economy, Trade and Industry's Guidance for Collaborative Value Creation



Status as a Socially Responsible Investment

* As of January 4, 2018

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.

