May 15, 2018

FANCL Corporation
TSE 1st Section: 4921

Notice regarding introduction of performance-linked stock price-based (phantom stock) compensation plan

Yokohama, May 15, 2018—At a board meeting held today, FANCL CORPORATION resolved to revise its executive compensation program and introduce a new performance-linked stock price-based (phantom stock) compensation plan with the aim of providing incentives for reaching Medium-Term Management Plan targets, and to promote management from the perspective of shareholders.

1. Purpose of revision of executive compensation program

Compensation of executives at the Company comprises two types of remuneration - monthly remuneration and stock compensation-type stock options. The monthly remuneration is determined by the role of each director and business performance, and the stock compensation-type stock options are intended to provide an incentive for directors to increase shareholder value during their term.

Based on the judgment that the establishment of an appropriate company performance-linked compensation and stock-based compensation will contribute to the enhancement of corporate governance, the decision was made to introduce a new performance-linked compensation for the purpose of enhancing incentives to achieve targets set out in the three-year Medium-Term Management Plan, with payout amounts determined by the degree of achievement of consolidated sales and operating income targets set out in the Medium-Term Management Plan.

While the Company has already introduced retirement compensation in the form of stock compensation-type stock options paid to all directors other than outside directors, this newly introduced performance-linked compensation will be linked to both business performance and stock price in the form of a stock price-based (phantom stock) plan, which will further promote management from the perspective of shareholders.

In conjunction with the establishment of the phantom stock plan, the Company will work to clarify the calculation method for the variable portion of the monthly remuneration, restructuring it as an incentive to achieve annual business performance targets. Additionally, for the purpose of ensuring fairness, transparency, and objectivity of proceedings the Company will establish 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.

2. Outline of stock price-linked compensation (phantom stock) plan

(1) Eligibility

FANCL Corporation Directors, Executive Directors and Executive Officers (excludes outside directors).

(2) Performance evaluation period

The relevant three-year Medium-Term Management Plan period

On March 23, 2018, FANCL announced its 2nd Medium-Term Management Plan (FY2019 to FY2021), and plans to formulate and announce new Medium-Term Management Plans every three years.

(3) Payout calculation

The payout amount will be decided based on the number of points granted to each director position as decided by the board of directors, multiplied by a payout rate (0-200%) linked to the degree of achievement of the Medium-Term Management Plan, and the market value of the Company's stock at the end of the evaluation period. The maximum total payout under the phantom stock plan shall be ¥250 million.

The company will not pay dividends or dividend equivalents for phantom stock grantees, even if the company distributes dividends on common stock.

(4) Timing and form of payout

Payouts will be made in monetary form within three months after the end of the final year of each three-year Medium-Term Management Plan period.

3. Terms of introduction

At the 38th Annual General Meeting of Shareholders scheduled to be held on June 23, 2018, the company plans to request approval for a revision of the remuneration limit for the introduction of the **performance-linked stock price-based (phantom stock) compensation** plan. The introduction of the phantom stock plan is subject to approval from shareholders.

4. Other

Details of the phantom stock plan will be disclosed in the company's securities report.

ENDS

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