FANCL Corporation

Consolidated Financial Statements for the Interim Period of the Fiscal Year Ending March 31, 2016

April 1, 2015 to September 30, 2015

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

SUMMARY OF FINANCIAL STATEMENTS (consolidated)

Interim Period Results for the Fiscal Year Ending March 31, 2016

FANCL CORPORATION **October 29, 2015**

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

www.fancl.jp/en/ Contact: Kazuyuki Shimada
Senior Managing Director and General Manager of Group Support Center
Telephone: +81-45-226-1200

President, Representative Director: Kazuyoshi Miyajima,

Scheduled date for submission of interim *hokokusho* (securities report): November 13, 2015

Scheduled date for distribution of dividends: December 4, 2015

Availability of supplementary explanatory material for interim results: Available

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

1) Consolidated results for the interim period (April 1, 2015 to September 30, 2015) of the fiscal year ending March 31, 2016

(1) Consolidated Operating Results

Millions of yen, rounded down

	Six months ended September 30, 2015		Six months ended September 30, 2014	
		% change		% change
Net sales	43,192	18.2	36,542	(5.7)
Operating income	116	(61.2)	300	(57.6)
Ordinary income	221	(47.3)	420	(55.2)
Net income attributable to owners of the parent company	127	(77.7)	573	--
Earnings per share (¥)	2.02	--	9.02	--
Earnings per share (diluted) (¥)	1.99	--	8.96	--

Notes: 1. The percentages shown above are a comparison with the same period in the previous fiscal year.
2. Comprehensive income: Six months ended September 30, 2015: ¥135 million (-76.3%)
Six months ended September 30, 2014: -¥573 million (--%)

(2) Consolidated Financial Position

Millions of yen, rounded down

	As of September 30, 2015	As of March 31, 2015
Total assets	82,857	85,311
Net assets	70,326	73,214
Shareholders' equity/total assets (%)	84.1	85.1

Shareholders' equity: As of September 30, 2015: ¥69,723 million
As of March 31, 2015: ¥72,634 million

2) Dividends per share

	FY ended March 31, 2015	FY ending March 31, 2016
Interim period	17.00	17.00
Year-end	17.00	17.00 (forecast)
Annual	34.00	34.00 (forecast)

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

3) Consolidated forecasts for the fiscal year ending March 31, 2016 (April 1, 2015 to March 31, 2016)

Millions of yen

	Fiscal year ending March 31, 2016	%
Net sales	90,000	15.9
Operating income	1,500	(62.5)
Ordinary income	1,650	(61.5)
Net income	900	(60.9)
Earnings per share (¥)	¥14.06	--

Note: 1. The percentages shown above are a comparison with the previous full fiscal year
2. Changes to the consolidated forecasts during the period under review: None

4) Other

(1) Transfer of important subsidiaries during the period: None
Note: Indicates transfers of specified subsidiaries resulting in changes in the scope of consolidation during the period under review.

(2) Use of simplified accounting methods or special accounting procedures: None

(3) Changes in accounting policy, changes in accounting estimates, and restatements:

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

(4) Number of outstanding shares (common stock)

1. Number of shares outstanding (including treasury shares)	September 30, 2015	65,176,600 shares	March 31, 2015	65,176,600 shares
2. Number of treasury shares	September 30, 2015	2,603,405 shares	March 31, 2015	1,152,357 shares
3. Average number of shares during the first quarter period	Six months to September 30, 2015	63,299,074 shares	Six months to September 30, 2014	63,591,035 shares

Important Notice

Disclosure of status of quarterly report review procedures:

At time of disclosure of this quarterly financial report the review procedures for quarterly securities reports as stipulated under the Financial Instruments and Exchange Law was in progress.

Appropriate use of financial forecasts:

Forecasts, etc., recorded in this document include forward-looking statements that are based on management's estimates, assumptions and projections at the time of publication. A number of factors could cause actual results to differ materially from expectations. For further detail, please see Page 7: 1. Operating Results, Section 3, Forecasts for the fiscal year ending March 31, 2016.

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1. Operating Results

(1) Summary of business performance (consolidated)

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

During the interim period under review, a strong sense of overall stagnation continued for the Japanese economy, as recovery in consumer spending following the consumption tax increase remained slow, and production and export volumes declined due to a slowdown in emerging economies.

Looking ahead, while improvements are expected from various governmental policies as well as the effect of a drop in oil prices, with increased concern over the slowdown in overseas economies, the extent of economic recovery is expected to be modest.

During the period under review, consolidated sales increased 18.2% to ¥43,192 million, mainly due to a large increase in sales in the cosmetics and nutritional supplements businesses as a result of strategic investment in advertising based on policies in the new Medium-term Management Plan (FY2016 – FY2018). Despite an increase in gross profit resulting from the increase in sales, operating income declined 61.2% to ¥116 million, as a result of a large increase in spending on marketing compared with the same period last year. Ordinary income declined 47.3% to ¥221 million, and net income attributable to owners of the parent company declined 77.7% to ¥127 million.

Segment results are as follows:

1) Cosmetics Business

Sales

Sales from the Cosmetics business increased 17.8% to ¥25,990 million.

(Millions of yen, rounded down)

	Six months ended September 30, 2015		Six months ended September 30, 2014		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
FANCL Cosmetics	21,192	81.5	18,164	82.4	16.7
ATTENIR Cosmetics	3,419	13.2	3,381	15.3	1.1
boscia	893	3.4	--	--	--
Others	484	1.9	511	2.3	(5.3)
Totals	25,990	100.0	22,058	100.0	17.8

	Six months ended September 30, 2015		Six months ended September 30, 2014		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Mail order sales	10,885	41.9	10,383	47.1	4.8
Retail store sales	9,839	37.8	7,925	35.9	24.1
Wholesales and others	2,053	7.9	1,370	6.2	49.8
Overseas Sales	3,212	12.4	2,379	10.8	35.0
Totals	25,990	100.0	22,058	100.0	17.8

Sales of **FANCL Cosmetics** increased 16.7% to ¥21,192 million, with positive trends resulting from the effects of a *Mild Cleansing Oil* promotion, as well as the renewal of the facial whitening line and the launch of a new *Aging Care Facial Cleansing Cream* product.

Sales of **ATTENIR Cosmetics** increased 1.1% to ¥3,419 million, trending strongly due to the effects of a renewal of core product lines, and a campaign aimed at existing customers.

Furthermore, from the consolidated first quarter period, U.S. subsidiaries FANCL INTERNATIONAL, INC. and boscia, LLC have been included in the scope of consolidation, and the boscia brand contributed sales of ¥893 million in the interim period under review.

Results by sales channels were: mail order sales increased 4.8% year on year to ¥10,885 million, retail store sales increased 24.1% to ¥9,839 million, wholesale sales through other sales channels increased 49.8% to ¥2,053 million, and overseas sales increased 35.0% to ¥3,212 million.

Operating income

Despite an increase in marketing costs compared to the previous period, operating income increased by 98.9% to ¥2,588 million, mainly due to an increase in sales.

2) Nutritional Supplements Business

Sales

Nutritional supplement sales increased 23.3% to ¥13,769 million.

(Millions of yen, rounded down)

	Six months ended September 30, 2015		Six months ended September 30, 2014		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Mail order sales	5,177	37.6	4,360	39.1	18.7
Retail store sales	3,537	25.7	2,788	25.0	26.9
Wholesales and others	4,385	31.9	3,355	30.0	30.7
Overseas Sales	667	4.8	659	5.9	1.2
Totals	13,769	100.0	11,164	100.0	23.3

Revenues from **product sales** increased due to the effect of promotions and subsequent strong sales for dietary supplement *Calorie Limit for the Mature Aged* and *Enkin,* a supplement released on June 19 which assists with eye focus (labeled functional food).

Results by **sales channels** were: mail order sales increased 18.7% to ¥5,177 million, retail store sales increased 26.9% to ¥3,537 million, wholesale sales through other sales channels increased 30.7% to ¥4,385 million and overseas sales increased 1.2% to ¥667 million.

Operating income

The operating loss grew by ¥260 million to ¥379 million, mainly due to a large increase in marketing costs compared to the previous period.

3) Other Businesses

Sales

Other related business increased 3.4% year on year to ¥3,432 million

(Millions of yen, rounded down)

	Six months ended September 30, 2015	Six months ended September 30, 2014	Change (%)
Hatsuga genmai	1,254	1,153	8.7
Kale juice	1,363	1,342	1.6
Other	814	823	(1.0)
Totals	3,432	3,319	3.4

Hatsuga genmai (germinated brown rice) sales increased 8.7% to ¥1,254 million due to proactive sales tactics such as the airing of TV commercials.

Sales of Kale juice increased 1.6% to ¥1,363 million as a result of promotions launched for frozen kale juice.

Other sales decreased 1.0% to ¥814 million.

Operating income

The operating loss grew by ¥1,349 million to ¥1,276 million, due to factors such as a large increase in marketing costs for the Hatsuga genmai and Kale juice businesses compared to the previous period.

(2) Summary of consolidated financial position

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

Assets decreased ¥2,453 million to ¥82,857 million. The primary contributing factors were a decrease of ¥2,591 million in current assets and an increase of ¥137 million in fixed assets. Contributing to the decrease in current assets were a ¥4,999 million decrease in marketable securities, a ¥792 million increase in cash and deposits, a ¥748 million increase in merchandise and finished goods, and a ¥1,010 million increase in raw materials and supplies. The increase in fixed assets was primarily the result of a ¥733 million increase in tangible fixed assets due to an increase in "Other" tangible fixed assets, and a ¥608 million decrease in other investment assets due to a decline in investment securities.
Liabilities increased ¥434 million from the end of the previous fiscal year to ¥12,531 million. The primary contributing factors were an increase of ¥459 million in current liabilities and a decrease of ¥24 million in fixed liabilities. Factors contributing to the increase in current liabilities include a ¥587 million increase in notes and accounts payable, a ¥685 million increase in "Other" current liabilities due to an increase in accounts payable, and a ¥981 million decrease in income taxes payable.

Net assets decreased ¥2,887 million to ¥70,326 million. Contributing factors include a ¥2,416 million increase in treasury shares due to the purchase of own shares, a ¥1,088 million decline in retained earnings from dividend payments, and a ¥127 million increase in retained earnings due to the recording of net income attributable to owners of the parent.
As a result, the shareholders' equity ratio declined 1.0 percentage points from the end of the previous fiscal year to 84.1%.

Cash flow

Cash and cash equivalents as of September 30, 2015 were ¥26,453 million, ¥4,206 million lower than at the end of the previous fiscal year. The main contributing factors are detailed below.

Cash flows from operating activities

Cash flow gained in operating activities during the interim period under review was ¥595 million compared to an inflow of ¥1,082 million in the interim period of the previous fiscal year. Factors increasing operating cash flow included depreciation expenses of ¥1,521 million, a decrease of ¥368 million in trade receivables, an increase of ¥501 million in trade payables, and a decrease of ¥550 million in other current liabilities. Factors reducing operating cash flow included an increase of ¥1,415 million in inventories, and a decrease of ¥1,443 million in income taxes paid.

Cash flows from investing activities

Cash used in investing activities during the interim period under review was ¥1,538 million, compared to an outflow of ¥106 million in the interim period of the previous fiscal year. Factors reducing investment cash flow included outlays of ¥1,641 million for acquisitions of tangible fixed assets, and ¥580 million for acquisitions of intangible fixed assets. Factors increasing investment cash flow included inflows of ¥620 million for repayment of investments in silent partnerships.

Cash flows from financing activities

Cash flow used in financing activities during the interim period under review was ¥3,570 million, compared to an outflow of ¥1,111 million in the interim period of the previous fiscal year, and was primarily due to outlays of ¥2,488 million due to the purchase of own shares, and ¥1,086 million for dividend payments.

(3) Forecasts for the fiscal year ending March 31, 2016

The full-year consolidated results forecasts are unchanged from that announced on May 11, 2015.

2. Other

(1) Changes to subsidiaries during the period

As of the first quarter period, FANCL INTERNATIONAL, INC. and boscia, LLC, which were non-consolidated subsidiaries, have been included in the scope of consolidation as they have become more material.
Furthermore, the fiscal year end of FANCL INTERNATIONAL, INC. and boscia, LLC is December 31. Because this is within three months of the consolidated fiscal year end, their financial statements as of March 31, 2015 have been used in the preparation of the consolidated quarterly financial statements.
All necessary adjustments have been made for significant transactions that occurred in the period up until the end of the quarterly period.

(2) Use of special accounting procedures: None

(3) Changes in accounting policy, changes in accounting estimates, and restatements:

Change in accounting policy

The Accounting Standard for Business Combinations (Accounting Standards Board of Japan (ASBJ) Statement No.21) of September 13, 2013, the Accounting Standard for Consolidated Financial Statements (ASBJ Statement No.22) of September 13, 2013, and the Accounting Standard for Business Divestitures (ASBJ Statement No.7) of September 13, 2013, have been applied from the first quarter period, and a change in presentation has been made to 'net income' for the quarterly financial results. To reflect these changes in presentation, the consolidated financial statements for the interim period of the previous consolidated fiscal year, and the previous consolidated fiscal year, have been restated.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

Millions of yen, rounded down

	As of September 30, 2015	As of March 31, 2015
ASSETS		
I. Current assets:		
Cash and cash equivalents	19,445	18,652
Notes and accounts receivable	8,653	8,721
Marketable securities	7,007	12,006
Merchandise and products	3,778	3,030
Work in progress	17	21
Raw materials and supplies	4,044	3,034
Others	2,459	2,534
Allowance for doubtful accounts	(47)	(49)
Total current assets	45,359	47,951
II. Fixed assets:		
Tangible fixed assets		
Buildings and structures	25,116	25,007
Accumulated depreciation and accumulated impairment loss	(14,193)	(13,896)
Buildings and structures (net)	10,922	11,111
Machinery and transport equipment	7,201	6,870
Accumulated depreciation and accumulated impairment loss	(6,078)	(5,938)
Machinery and transport equipment (net)	1,123	931
Furniture, tools and fixtures	7,353	7,111
Accumulated depreciation and accumulated impairment loss	(6,220)	(6,018)
Furniture, tools and fixtures (net)	1,132	1,092
Land	11,951	11,951
Lease assets	393	384
Accumulated depreciation and accumulated impairment loss	(258)	(228)
Lease assets (net)	134	155
Others	1,333	622
Total tangible fixed assets	26,599	25,865
Intangible fixed assets		
Others	2,992	2,980
Total intangible fixed assets	2,992	2,980
Investments and other assets		
Investment securities	5,657	6,087
Others	2,248	2,426
Total investments and other assets	7,906	8,514
Total fixed assets	37,498	37,360
Total Assets	**82,857**	**85,311**

Consolidated Balance Sheets, continued

Millions of yen, rounded down

	As of September 30, 2015	As of March 31, 2015
LIABILITIES		
I. Current liabilities:		
Notes and accounts payable	2,702	2,115
Accrued income taxes	630	1,612
Allowance for bonus	1,097	966
Allowance for points	1,457	1,420
Others	4,965	4,280
Total current liabilities	10,853	10,394
II. Long-term liabilities:		
Allowance for directors' retirement bonuses	--	88
Retirement benefit liabilities	1,051	1,063
Asset retirement obligations	366	359
Others	260	190
Total long-term liabilities	1,677	1,702
Total liabilities	12,531	12,096
NET ASSETS		
Shareholders' equity		
Common stock	10,795	10,795
Additional paid-in capital	11,706	11,706
Retained earnings	50,819	51,468
Treasury stock	(3,778)	(1,362)
Total shareholders' equity	69,541	72,607
Other comprehensive income		
Foreign currency translation adjustment	160	--
Total adjustments related to retirement benefits	20	27
Total other comprehensive income	181	27
Warrants	603	579
Total net assets	70,326	73,214
Total Liabilities and Net Assets	**82,857**	85,311

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

Consolidated statements of income

Millions of yen, rounded down

	April 1, 2015 to September 30, 2015	April 1, 2014 to September 30, 2014
Net sales	43,192	36,542
Cost of sales	12,808	10,868
Gross profit	30,384	25,674
Selling, general and administrative expenses	30,267	25,373
Operating income	116	300
Non-operating income		
Interest income	4	3
Dividend income	0	10
Rental income	52	6
Gain on foreign exchange	4	7
Other non-operating income	72	113
Total non-operating income	134	141
Non-operating expenses		
Rent expenses on fixed asses	17	--
Provisions for allowance for bad debt	0	0
Other non-operating expenses	12	21
Total non-operating expenses	30	21
Ordinary income	221	420
Extraordinary income		
Income from sale of fixed assets	0	--
Gain on reversal of subscription rights to shares	1	3
Gain on reversal of allowance for business withdrawal	--	122
Gain on investments in silent partnerships	36	--
Other	--	0
Total extraordinary income	38	125
Extraordinary loss		
Loss on disposal of fixed assets	10	6
Impairment loss	--	7
Loss on closure of stores	28	37
Other	8	3
Total extraordinary loss	46	55
Income before income taxes	212	490
Income and other taxes	440	183
Adjustments to income and other taxes	(355)	(266)
Total income and other taxes	85	(83)
Net income	127	573
Net income attributable to owners of the parent company	127	573

Consolidated statements of comprehensive income

	Millions of yen, rounded down	
	April 1, 2015 to September 30, 2015	April 1, 2014 to September 30, 2014
Income before minority interests	127	573
Other comprehensive income		
Net unrealized holding gain on other securities	--	4
Foreign currency translation adjustment	14	--
Adjustments related to retirement benefits	(6)	(4)
Total other comprehensive income	7	(0)
Comprehensive income	135	573
(Breakdown)		
Comprehensive income attributable to owners of the parent company	135	573
Comprehensive income attributable to minor interests	--	--

(3) Consolidated statements of cash flows

Millions of yen, rounded down

	April 1, 2015 to September 30, 2015	April 1, 2014 to September 30, 2014
I. Cash flows from operating activities		
Income before income taxes	212	490
Depreciation	1,521	1,393
Impairment losses	--	7
Share-based compensation expenses	34	42
Increase (decrease) in allowance for doubtful accounts	(2)	(8)
Increase (decrease) in allowance for bonuses	130	(71)
Increase (decrease) in allowance for points	37	(32)
Increase (decrease) in retirement benefit liabilities	(18)	10
Increase (decrease) in allowance for directors retirement benefits	(88)	2
Increase (decrease) in allowance for business withdrawal	--	(185)
Interest and dividend income	(5)	(13)
Gain (loss) from foreign exchange	(3)	26
Loss (gain) from investment in silent partnerships	(36)	--
Loss (gain) on sale of fixed assets	(0)	--
Loss from disposal of fixed assets	10	6
Loss on closure of stores	28	37
Gain on reversal of warrants	(1)	(3)
Decrease (increase) in trade receivables	368	2,209
Decrease (increase) in inventories	(1,415)	(689)
Decrease (increase) in other current assets	172	(352)
Decrease (increase) in other fixed assets	0	5
Increase (decrease) in trade payables	501	(575)
Increase (decrease) in other current liabilities	550	(1,055)
Increase (decrease) in other noncurrent liabilities	86	(7)
Others	(49)	(15)
Sub-total	2,032	1,220
Interest and dividends received	5	21
Income taxes paid	(1,443)	(159)
Net cash provided by (used in) operating activities	595	1,082
II. Cash flows from investing activities		
Acquisition of tangible fixed assets	(1,641)	(928)
Income from sale of tangible fixed assets	0	--
Acquisition of intangible fixed assets	(580)	(460)
Income from sale and redemption of investment securities	40	1,000
Income from repayment of investments in silent partnerships	620	--
Other payments	(123)	(68)
Other income	146	350
Net cash provided by (used in) investing activities	(1,538)	(106)
III. Cash flows from financing activities		
Disposal of treasury stock	51	19
Acquisition of treasury stock	(2,488)	(0)
Cash dividends paid	(1,086)	(1,079)
Others	(46)	(50)
Net cash provided by (used in) financing activities	(3,570)	(1,111)
IV. Effect of exchange rate changes on cash and cash equivalents	5	(19)
V. Net increase in cash and cash equivalents	(4,508)	(154)
VI. Cash and cash equivalents at the beginning of the period	30,659	32,377
VII. Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	301	--
VIII. Cash and cash equivalents at end of period	26,453	32,222

(4) Notes to the consolidated financial statements

Items related to going concern:
No applicable items

Note on significant change in shareholders' equity
No applicable items

Segment information

Business Segments

1. Six months ended September 30, 2015 (Millions of yen, rounded down)

	Business Segments			Total	Eliminations or Corporate*2	Consolidated *3
	Cosmetics Business	Nutritional Supplements Business	Other Businesses *1			
1. Sales and operating income:						
(1) Sales to external customers	25,990	13,769	3,432	43,192	--	43,192
(2) Inter-segment sales or transfers	--	--	--	--	--	--
Total sales	25,990	13,769	3,432	43,192	--	43,192
Operating income (loss)	2,588	(379)	(1,276)	933	(816)	116

Notes:
1. The Other Businesses segment consists of sundries, personnel effects, comfort undergarments, Hatsuga genmai (germinated brown rice), and kale juice.
2. The adjustment amount on segment income (loss) of (¥816) million includes total company expenses not distributed to each reportable segment and consist primarily of costs related to the General Affairs section of the parent company not included in the reportable segments.
3. Segment income (loss) is adjusted for operating income (loss) as recorded in the consolidated financial statements.

2. Items related to changes in the classification of reporting segments
From the first quarter period, as a result of a review of reporting segments for the purpose of ensuring appropriate understanding of the financial situation and operating results of the Fancl Group, several business segments which were previously included in "Other" have now been grouped into the "Other Businesses" segment.
The results for the previous interim period are also presented using the new segment classification method.

2. Six months ended September 30, 2014 (Millions of yen, rounded down)

	Business Segments			Total	Eliminations or Corporate*2	Consolidated *3
	Cosmetics Business	Nutritional Supplements Business	Other Businesses *1			
1. Sales and operating income:						
(1) Sales to external customers	22,058	11,164	3,319	36,542	--	36,542
(2) Inter-segment sales or transfers	--	--	--	--	--	--
Total sales	22,058	11,164	3,319	36,542	--	36,542
Operating income (loss)	1,301	(118)	72	1,255	(954)	300

Notes:
1. The Other Businesses segment consists of sundries, personnel effects, comfort undergarments, Hatsuga

genmai (germinated brown rice), and kale juice.

2. The adjustment amount on segment income (loss) of (¥954) million includes total company expenses not distributed to each reportable segment and consist primarily of costs related to the General Affairs section of the parent company not included in the reportable segments.
3. Segment income (loss) is adjusted for operating income (loss) as recorded in the consolidated financial statements.

Significant post-balance sheet events

At a board meeting held on October 29, 2015, and pursuant to the provisions of Articles 236, 238, 240-1 of the Companies Act, it was resolved that the Company would issue the following incentive stock options to directors and executive officers and directors of subsidiaries:

1. Number of eligible persons:
   Directors: 10
   Executive Officers: 9
   Directors of subsidiaries: 9
2. Date of allotment of stock options:
   December 1, 2015
3. Total number of stock options:
   Undecided
4. Class of shares to be issued:
   Common stock
5. Number of stock to be issued:
   100 shares issued per stock option
6. Total amount payable upon exercise of stock options:
   ¥1 per share
7. Exercise period:
   December 2, 2015 to December 1, 2035
8. Share value and incorporated assets in case of issue of shares upon exercise of stock options:
   Undecided