

FANCL

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FANCL REPORT 2022



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Corporate Philosophy

Founding
PhilosophyEliminate the “Negatives”
with a Sense of JusticeCorporate
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.

Editorial Policy

Organizations FANCL CORPORATION and the FANCL Group
Businesses Cosmetics, nutritional supplements, and other businesses
Applicable Period FY Mar/2022 (from April 1, 2021 to March 31, 2022)
* Certain information included in this report covers the period before March 31, 2021 and after April 1, 2022.

Reference Guidelines

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



Sources for detailed information

Corporate Website Homepage
fancl.jp/en/IR Information
fancl.jp/en/ir/Sustainability
fancl.jp/en/sustainable/

In 2018, we put forward the FANCL Group's “Sustainable Declaration”: Building a Bright Future Together and expressed our commitment to contribute to the realization of a sustainable society by aligning ourselves with the Sustainable Development Goals (SDGs), which are targeted for 2030. Here in this report, we introduce activities under the three key themes of “Environment”, “Healthy Living”, and “Local Communities and Employees.”

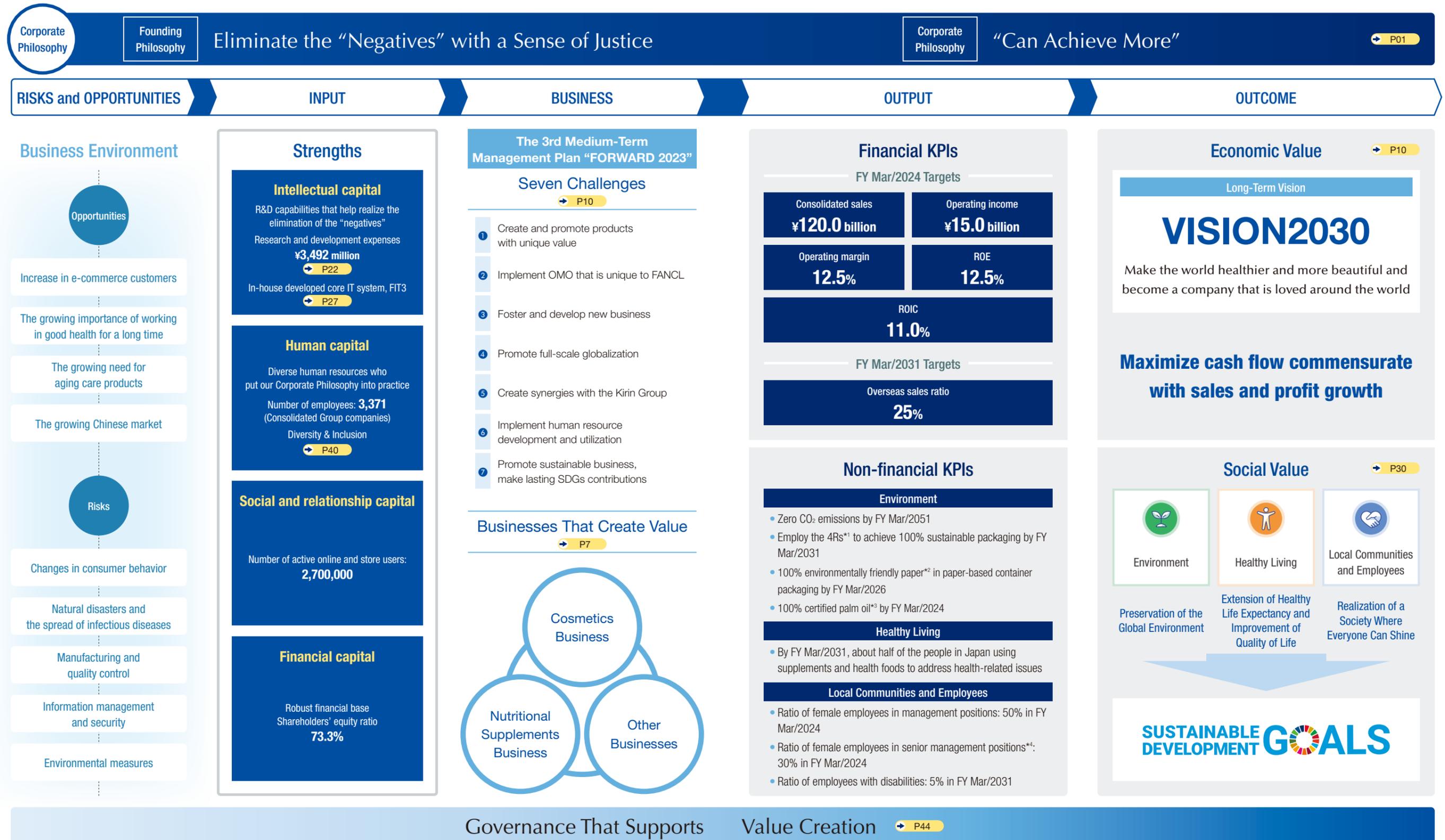
Sokomade-Yarimasu Channel
channel.fancl.jp/ (in Japanese)

FANCL maintains an integrated system that extends from research to manufacturing and sales. This is why there are so many episodes, including thoughts and secret stories of the research and development that has gone into the creation of our products, and the reason behind the various aspirations that make up our corporate activities.

FANCL's “Sokomade-Yarimasu Channel” is a corporate brand website that is designed to provide information to customers in an honest and sometimes humorous manner.

Value Creation Process

Taking full advantage of the wellspring of value creation that we have nurtured since our foundation, we will work diligently to ensure our ongoing sustainable growth while enhancing our corporate value by adhering to our Corporate Philosophy.



*1 Reduce, Reuse, Recycle, Renewable *2 Certified paper, non-wood paper, recycled paper, etc.

*3 Covering FANCL Corporation, ATTENIR CORPORATION cosmetics, and health foods *4 Managerial positions of departmental deputy manager and above

A History of Eliminating the “Negatives”

Dissatisfactions, anxieties and inconveniences, no matter how small, are the “negatives” upon which FANCL maintains its focus. Bringing to bear our outside-the-box sensibility and originality, we welcome the challenge of eliminating such “negatives,” and that is the starting point for all our corporate activities. FANCL is committed to transforming dissatisfaction into satisfaction, anxiety into peace of mind, and inconvenience into convenience. To support lifestyles of beauty and health, we offer products and services that meet the highest standards of safety while providing peace of mind. Aiming to eliminate the negatives to an even greater degree—this is our ongoing challenge.

Birth of *Mutenka* Cosmetics

When cosmetics pollution emerged as a major social issue during the latter half of the 1970s, many women became troubled and anxious about having rough skin. The wife of Kenji Ikemori, FANCL's founder, was no exception.

Kenji Ikemori began researching this issue owing to a frank and earnest skepticism toward why cosmetics intended to beautify the skin would cause skin to become rough. Based on his research, he discovered that preservatives and other additives were one such reason.

Thinking he would make cosmetics without additives if these indeed were the root cause of the problem, Kenji Ikemori founded a cosmetics company with the aim of creating preservative-free products. Despite his endeavors, he soon discovered that completely removing preservatives was a challenge.

The breakthrough in finding a solution to this predicament was a small vial of only 5 ml, unbefitting to cosmetics. The concept of adopting a vial size that could be fully used before the contents spoiled thereby enabled the creation of preservative-free cosmetics.

Undertaking challenges by thinking beyond the conventional wisdom of the industry in order to eliminate the “negatives” of the world lies at the heart of FANCL.



A selection of the Company's cosmetics at the time of its foundation



Evolution in cosmetic lotions



Supplements at the start of online and catalogue sales



Personal ONE fully custom-made personal supplements

Creation of the Supplement Market

Twenty-eight years ago, FANCL's founder, Kenji Ikemori, held an acute sense of crisis regarding the increasingly imbalanced nature of nutrition in Japan in an age of satiation. Although health foods were an ideal solution for supplementing nutrition in order to protect the health of the populace in Japan, the health foods at the time were expensive and presented uncertainty in terms of safety.

His sense of mission to change an industry that could only be considered abnormal, to protect the health of Japan, surged, and drove him to launch the Health Food Business.

FANCL undertook every step of production in-house, from raw material supply to manufacturing, and led the industry in adopting aluminum pouches for the packaging. FANCL was also the first to call these health foods that could be consumed with peace of mind on a daily basis “supplements.”

In order to protect the irreplaceable daily life that relies on being healthy, the challenge of the Supplement Business continues.

Birth of ATTENIR

The belief that the higher price, the better something is, which prevailed during Japan's bubble economy years, held true for cosmetics as well at the time.

Even so, many women were dissatisfied and anxious because expensive cosmetics could not be used regularly on a daily basis, while inexpensive cosmetics raised concerns about quality and were in general quite unattractive.

With a view toward eliminating these “negatives,” ATTENIR was developed as a refined cosmetic with the same quality as luxury brands, yet at a price that allows for regular, daily use.

At the same time, energies have been directed toward thoroughly eliminating waste from the existing distribution system in order to offer such products at an affordable price, full of the finest selected natural ingredients that lift the skin and spirits each time they are used.

By delivering its products directly to the customer, ATTENIR realizes “high-quality, affordable, high fashion sense” cosmetics. Based on the aforementioned, the passionate support among the continuously growing number of customers is the answer to ATTENIR's challenge.



ATTENIR cosmetics at the time of the Company's foundation



Attenir Dress lift aging care line

Future

The Challenge of Eliminating “Negatives” Will Continue into the Future

P16

Latest *Mutenka* Cosmetics-Related Initiatives

P18

Latest Supplement-Related Initiatives

P20

Latest ATTENIR-Related Initiatives

1980

Kenji Ikemori established FANCL as a sole-proprietor cosmetics sales company. Launched mail-order sales of cosmetics

1981

Japan Fine Chemical Sales Corporation (currently FANCL Corporation) established

1982

Launched sales of the world's first “*Mutenka* cosmetics” that do not contain any skin problem causing additives

1989

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

1992

Developed a postbox-sized delivery packaging that can be used to deliver ordered items to home postboxes as a first for Japan. Launched services

1994

Launched online and catalogue sales for health foods (supplements)

1995

Opened the first directly managed store in Shizuoka

1996

Opened the first overseas store in Hong Kong

1997

- Began accepting orders over the Internet
- Established FANCL INTERNATIONAL, INC. in Irvine, California, USA
- Launched Designated Delivery Place service as a first in Japan service that delivers products to a designated location, regardless of whether the recipient is home or not, without the need for a signature of receipt

1999

- Launched the *Hatsuga genmai* (germinated brown rice) business to support health in Japan right from the staple foods eaten every day
- Launched distribution (wholesale) services

2000

Launched the *Kale Juice* business to eliminate vegetable deficiencies among consumers in a delicious manner and at a price that allows for easy and regular purchases

2002

Launched sales of cosmetics for the U.S. under the boschia brand name

2004

- Opened a call center to help answer customers' questions about interactions between FANCL supplements and drug medication
- Opened the first store in mainland China in Shanghai

2015

Launched sales of products that comply with the system of Foods with Function Claims

2016

Launched sales of *Beauty BOUQUET* as a cosmetics brand for mature users aged 60 and above

2018

Launched sales of supplements and ATTENIR cosmetics in China through cross-border e-commerce

2019

Entered into a capital and business alliance with Kirin Holdings Company, Limited

2020

Launched sales of *Personal ONE* fully custom-made personal supplements

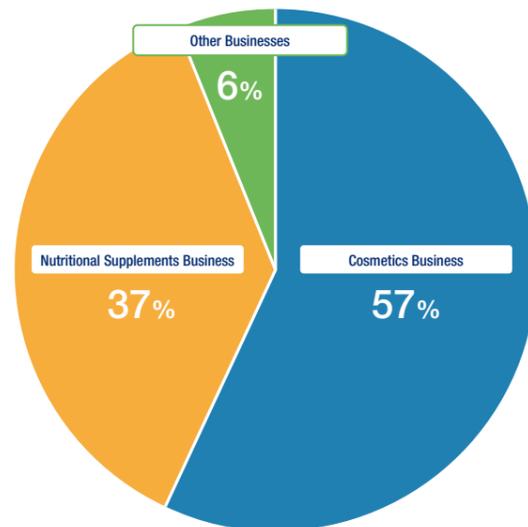
2021

Launched the BRANCHIC prestige brand

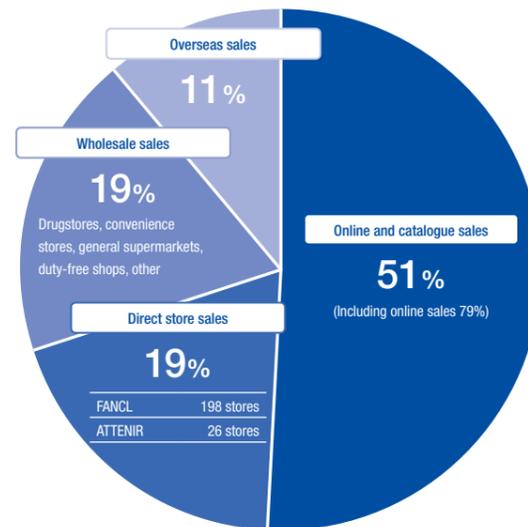
About the FANCL Group

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. We are developing sales channels that are in tune with the times, expanding through multi-channel sales, including online and catalogue, direct store, wholesale, and overseas.

Sales Ratio by Business



Sales Ratio by Sales Channels



Business

Cosmetics Business	<p>FANCL Cosmetics, which are supposed to make people beautiful, should not prevent people from becoming beautiful. Guided by this ideal, FANCL has continued to provide its one and only <i>Mutenka</i> cosmetics since its founding.</p> <p>Attenir We are developing ATTENIR as a brand specializing in aging care based on the concept of “offering luxury brand at one-third of the market price or lower.”</p> <p>boscia A brand born in the United States and available exclusively outside of Japan, centered around the theme of botanical science.</p>
Nutritional Supplements Business	FANCL entered this market offering high-quality, low-cost supplements. We provide high-quality supplements that focus on a “product efficacy in our body” design that delivers nutrients to where they are needed in the body based on solid evidence.
Other Businesses	FANCL provides <i>Kale Juice</i> made from 100% domestic kale, <i>Hatsuga genmai</i> (germinated brown rice) that is both nutritious and delicious, as well as highly original underwear and general merchandise that support more comfortable daily lives.

Sales Channels

Online and catalogue sales	Engages in sales through internal e-commerce and external e-commerce channels such as catalog sales, Rakuten, Amazon
Direct store sales	Engages in sales at the flagship store FANCL Ginza Square, department stores, specialty stores, shopping centers, other
Wholesale sales	Engages in sales at drugstores, convenience stores, general supermarkets, duty-free shops, other
Overseas sales	Sales expansion mainly to Asia and North America led by Hong Kong in 1996

FY Mar/2022 Results

Sales	¥103.9 billion 1.1% down YoY	Operating income	¥9.7 billion 15.6% down YoY
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Cosmetics Business

Sales	¥58.8 billion 0.7% down YoY
Operating income	¥7.5 billion 4.7% down YoY

Although results have been strong for ATTENIR in Japan and overseas, sales fell for FANCL Cosmetics and boscia mainly due to the impact of COVID-19, which led to a decline in overall business sales. Against this backdrop, sales have been brisk for FANCL's core cosmetics products such as the renewed *ENRICH+* and *MILD CLEANSING OIL*. For ATTENIR, sales have been strong for our new basic skincare product *Dress Snow* and *SKIN CLEAR CLEANSE OIL*, while cross-border e-commerce targeting China contributed to this strength. For boscia, wholesale sales to real stores were sluggish, whereas sales were brisk in U.S. Amazon and overseas markets such as China and Europe.

Operating income declined due to a variety of factors including the decrease in gross profit on the back of lower sales as well as aggressive advertising spending in the second half of the fiscal year despite efforts to utilize sales promotion expenses efficiently.



ENRICH+



SKIN CLEAR CLEANSE OIL

Nutritional Supplements Business

Sales	¥38.4 billion 1.6% up YoY
Operating income	¥3.9 billion 22.6% down YoY

In Japan, sales were weak for *Calolimit*® and *Naishi Support* due to changes in diet market conditions and fiercer competition. Overseas, however, cross-border e-commerce sales grew significantly to China centered on age bracket-based supplements, resulting in an increase in sales for the overall business.

Operating income declined due to a variety of factors. In addition to a deterioration in the cost of sales ratio as a result of the increase in depreciation expenses for the newly established Mishima Factory (supplements plant), these factors included an upswing in depreciation expenses following the launch of operations at the Kansai Logistics Center, and an increase in research and development expenses.



Naishi Support



Sleep & Fatigue Care



Personal ONE

Other Businesses

Sales	¥6.7 billion 16.9% down YoY
Operating loss	-¥0.02 billion Previous period ¥0.2 billion operating income

Overall business sales decreased due to lower sales of *Hatsuga genmai* and *Kale Juice*, as well as the absence of sales of non-woven masks that were sold in the previous fiscal year.

Operating income declined due to the decrease in gross profit on the back of lower sales.



Hatsuga genmai KIN-no-IBUKI



Kale Juice contains vegetables, lactic acid bacteria, and bifidobacteria



FANCL original cutting boards

Note: FANCL has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29) effective from FY Mar.2022. Comparison with the previous fiscal year is based on estimated values if the same standard had been applied from the previous fiscal year.

Global Expansion

Since 1996, when the FANCL Group launched sales in Hong Kong, we have been expanding our business overseas with a focus on Asia and North America. Our aim is to help our customers lead beautiful, healthy, and prosperous lives, not only in Japan, but across the world.

We are targeting an increase in the overseas sales ratio from the current 11% to 25% in FY Mar/2031.

Health Food Business



FANCL Health Science

Area of Operation

Asia

FANCL formed a sales agent agreement in 2017 with China Sinopharm International Corporation (a subsidiary of China's largest pharmacy, China National Pharmaceutical Group Co., Ltd.), for the distribution of FANCL brand health food products in China. Operations are currently focused on cross-border e-commerce sales. Highly differentiated products such as age bracket-based supplements are attracting the support of customers mainly in their 20s and 30s.

Having received approval for their sale as health food*1 products in China in 2020, FANCL's vitamin and mineral lineup is currently sold at, for example, e-commerce marketplaces, drugstores, and supermarkets. Going forward, we will continue to upgrade and expand our lineup of vitamins and minerals for health foods, while advancing preparations for the launch of functional supplements from FY Mar/2025.

Looking ahead, we are aiming to become the No. 1 international brand in China in the future by means of cross-border e-commerce and general trade sales.

*1 Health food
Health food products are health foods that have been approved by the State Administration for Market Regulation (SAMR) of China and can be sold in China. Permission from SAMR is required in order to sell health food products in China with labels indicating functions and nutrition.



Exhibit at 4th China International Import Expo

From November 5-10, 2021, FANCL participated jointly with China Sinopharm International at the 4th China International Import Expo (CIIE), a major event held in Shanghai, China, where the Chinese government promoted trade liberalization and globalization and spearheaded a proactive market opening. This was the fourth time in four consecutive years that FANCL has exhibited at CIIE.

This year, the venue was expanded to a digital space and promoted the expo's OMO. With a target of 10,000 or more visitors, all were urged to register on WeChat*2. Strengthening online delivery, through new initiatives such as live concerts at the expo, visit broadcasts by key opinion leaders (KOLs), and the setting up of live rooms, we received numerous interviews and a large amount of coverage on, for example, China Central TV, the Xinhua News Agency, and local media in Shanghai.



Visitors participating in a one-leg stand-up game



The crowded FANCL booth

*2 WeChat ... The Chinese version of the Messenger app

Cosmetics Business

The FANCL Group operates its overseas business development under four brands: FANCL, ATTENIR, boscia, and BRANCHIC.

FANCL cosmetics, ATTENIR, and the BRANCHIC brands are being expanded with a focus on Asia, while the development of boscia is centered within the North American and European markets.

Our aim is to continue the proactive expansion of these brands across overseas markets, with the shared goal of becoming brands that are loved the world over.

FANCL

FANCL Cosmetics

Areas of Operation

Asia, the U.S.

Having started with sales in Hong Kong in 1996, FANCL has expanded to mainland China, Taiwan, and Singapore, and currently has approximately 250 stores in the Asian region.

Popular as a high-quality premium skin care brand that delivers safety and reliability, FANCL's *Mutenka* cosmetics are sold at high-end department stores and shopping centers.



Attenir

ATTENIR

Area of Operation

Asia

In the case of ATTENIR, we have been developing cross-border e-commerce in China since 2018 based on the philosophy of "offering luxury brand at one-third of the market price or lower." Its high product appeal receives high marks mainly from women in their 20s, and cleansing products such as *SKIN CLEAR CLEANSE OIL* as well as eye cream are gaining in popularity.

In addition, the plan is to obtain a marketing license and start general trade sales in China by FY Mar/2024.



boscia

boscia

Areas of Operation

North America, Europe, Middle East, Asia/Oceania

boscia is a botanical science-themed brand that was launched in the U.S. for which we are developing unique products. Sold across, for example, North America, Europe, Middle East, and Asia/Oceania, we are expanding our areas of operation in collaboration with leading retailers, such as cosmetics stores and department stores, in each country.

Establishing e-commerce as a new sales channel, we are strengthening sales on boscia.com, our own e-commerce website, and via outlets such as Amazon.

At the same time, having opened a Tmall Global flagship store e-commerce site in China in 2021, we are also working to strengthen cross-border e-commerce.



BRANCHIC

BRANCHIC

Area of Operation

China

BRANCHIC was launched in Japan in October 2021 as FANCL's first prestige brand. An aging care brand that embraces the concept of "awaken and enhance your glowing skin," we are currently developing two items, a face wash and a beauty essence.

In June 2022, we opened a Chinese Tmall Global flagship store and started overseas business development. In China, we will develop business targeting women in Generation Z, who are particularly aware of beauty trends and have intensive beauty care needs.



To Our Shareholders and Other Stakeholders



FANCL

Now is the very time for us to return to our founding philosophy—to eliminate the “negatives” throughout the world—and to continue to boldly take on challenges as we aim to become a company that is loved around the world.

President & CEO
Representative Director

Kazuyuki Shimada

Profile

Born in Mihara City, Hiroshima Prefecture, in 1955. After graduating from Doshisha University's Faculty of Law, joined The Daiiei, Inc. in 1979. After having been in charge of sales floors and working as a headquarters staff member, served as secretary to Daiiei founder Isao Nakauchi for eight years. Joined FANCL Corporation in 2003. In 2007, he became Executive Director and was appointed General Manager of the Management Strategy Division, and in 2010 oversaw all Group staff departments as Executive Director and General Manager of the Administration Dept.

After FANCL founder Kenji Ikemori had returned to management in 2013, Shimada was assigned to the frontline to promote and execute strategies.

He was appointed President & CEO, Representative Director in 2017.

An ardent fan of the Hiroshima Toyo Carp baseball team, President Shimada's hobbies include mountain climbing and golf.

His favorite motto is “tough times bring opportunities.”

He makes every effort to ensure that information flows openly within the Company and places a premium on team play. In addition to holding a weekly morning assembly broadcast, he posts details of his activities with photos on a weekly basis and shares information on the intranet. The door to his office is always open and employees are encouraged to speak freely and seek advice.

Aim of Publishing the FANCL Report

This report is published to introduce to all stakeholders, including shareholders and investors, information about the process of creating new value for the realization of our Vision and to outline details of our business strategies and sustainability policy. In editing this report, the Promotion Office of SDGs and the Investor Relations Department within my office play a central role in its creation in cooperation with each department, while referring to the *Guidance for Integrated Corporate Disclosure and*

Company-Investor Dialogues for Collaborative Value Creation advocated by Japan's Ministry of Economy, Trade and Industry, GRI, ISO 26000, and other relevant materials.

I have confirmed that the content stated in these pages is accurate. In the years to come, I would like to continue to make good use of the FANCL Report as a tool to communicate with our stakeholders and to promote more constructive dialogue.

FANCL's Purpose and Long-Term Vision

FANCL's founding philosophy is eliminating the “negatives” throughout the world with a sense of justice.

At the time of the Company's founding, skin problems caused by additives such as preservatives were becoming a major social problem. To eliminate people's negative experiences, FANCL developed *Mutenka* cosmetics, the first in the world to be additive-free, and has continued to provide them to customers. However, we have now reached the point at which we are aware of the problem that we may not be able to adequately deal with the many other “negatives” that exist throughout the world. I think this is the very time when we should return to our founding philosophy and boldly take on new challenges. To that end, I believe that the three elements contained in FANCL's founding philosophy are extremely important.

The first element is “a sense of justice.” This is not a case of profit or loss, but a belief that we have to do something, that we want to please people, and that we want to derive pleasure from having done so ourselves. The second element is “throughout the

world.” Facing challenges throughout the ever-changing world, we will take a broader view and contribute to the world, not just Japan, through our business, and look well beyond existing customers and businesses. The final element is “eliminating the negatives.” Customers can actually eliminate the inconveniences and anxieties they have previously experienced by using FANCL's products and services.

FANCL's founding philosophy will never change, no matter what new developments may occur in the social environment. To contribute to people all over the world through the realization of our philosophy, I consider this to be FANCL's *raison d'être*.

Guided by this philosophy, we have adopted “Make the world healthier and more beautiful, and become a company that is loved around the world” as the slogan for our “VISION2030” long-term vision. To realize this vision, the Company will promote the provision of “true” value for the very reason that FANCL, which engages in the beauty and health business, can achieve this and take on the challenges of expanding its business domain.

Achievements in First Fiscal Year of the Medium-Term Management Plan

In FY Mar/2021, we continued to work frantically in response to the state of emergency brought about by the COVID-19 pandemic. In addition to taking thorough anti-infection measures for our employees, we executed a variety of plans in an earnest manner. This included informing store customers of the mail order option. The results of these endeavors became apparent relatively quickly.

Meanwhile, in FY Mar/2022, the first year of the current Medium-Term Management Plan, we worked diligently to return to a growth trajectory at a time when no way out could be seen due

to the prolonged COVID-19 pandemic. Despite our earnest efforts, it was a very difficult year and proved problematic when it came to achieving business results. We were able, however, to steadily sow seeds for the future, such as launching new businesses and new brands. I believe that these activities will certainly make contributions to the FANCL Group in the years to come. Resolutely determining the path we should take going forward, I will mobilize the entire Group as we face challenge after challenge without fear of failure.

Summary of the 3rd Medium-Term Management Plan



Review of the Seven Challenges

1 Create and promote products with unique value

In FY Mar/2022, we were able to proceed as planned with renewals of our core products, such as *MILD CLEANSING OIL*, *ENRICH+*, and *Naishi Support* (Weight and body fat care). We were also able to launch new products, such as *Sleep & Fatigue Care* and *SIGNS EFFECTOR*, which are next-generation star product candidates. Launched in February 2020, the personal supplement *Personal ONE* has increased the number of customers and achieved results that exceeded expectations. Furthermore, in October 2021, FANCL launched BRANCHIC, its first prestige brand, in Japan.

In the second half of FY Mar/2022, we focused on proactively marketing those products that had not been actively affected by COVID-19 in order to restore and expand our customer base. To continue to build on this momentum in FY Mar/2022, we will strategically invest in marketing costs, which we believe will lead to medium- to long-term growth.

2 Implement OMO that is unique to FANCL

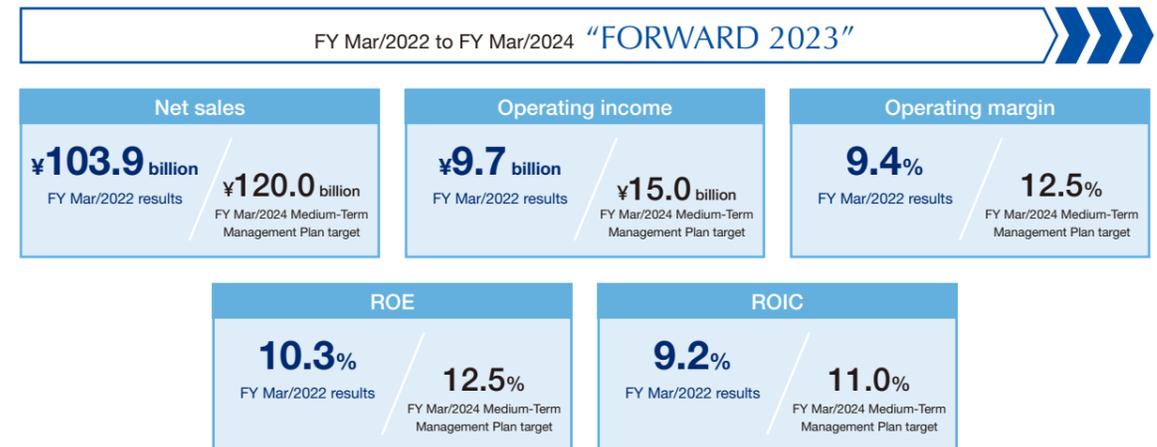
FANCL’s strength lies in its extensive network of both mail order and store channels. Having customers use both channels generates a lot of experience value and this leads to customers forming attachments to the Company. As an added bonus, this also helps ensure that our products become lasting favorites while

at the same time contributing to peripheral purchases. I am convinced that these efforts to maximize experience value for our customers represent the essence of Online Merges with Offline (OMO) that is unique to FANCL.

Also, underpinning the IT system aspects of this OMO that is unique to FANCL is “FIT3,” which started full-scale operations in January 2022. This in-house-developed system is capable of centrally managing customer purchase information, customer opinions, and behavioral information up to the point of purchase in multiple sales channels. By utilizing this data, we will work toward the position where we will be able to gain a better understanding of our customers so that we can propose the most suitable products and services to an unprecedented level. The system will be very effective in future marketing activities and lead to a competitive advantage over other companies.

In addition, the fact that a large number of in-house IT employees were nurtured in the process leading up to the completion of this “FIT3” system now represents a major asset for the Company. Employees who possess an expert knowledge of IT and who understand FANCL’s business are also playing a major role in our DX strategy. Rather than relying on the sourcing of employees from outside the Company, in the years to come we will continue to focus in particular on the training of in-house IT employees who will be able to play active roles.

Numerical Data



3 Foster and develop new business

In FY Mar/2022, we worked earnestly to foster and develop new business. As one of the new businesses, we launched the Acne Care Z Task Team in September 2021. Comprising four young employees in their 20s as its main members, this team planned approach methods for customers in their 20s and 30s by free-minded ideas based on the lifestyle status of the younger generation, including their own product purchases, their experiences using them, and the spreading of information via social media. The Company has a “royal road method,” which is based on many years of business experience, but at times this leads to a fixation on outdated thoughts and ideas and a fear of failure. It was also the aim of this task team to revitalize the flow toward the fostering and development of new businesses by doubting conventional wisdom and through the market sensitivities and actions of the younger generation. I feel that it is a happy achievement for awareness to be gradually changing even within the Company as a result of moves of this kind.

Another case study is the new OKOME BAKERY brand that was established in February 2022. While seeking to expand the food domain of germinated brown rice, a female employee in her third year at the Company noticed how bagel topics were trending on Instagram. Having conducted trial-and-error testing herself, she had managed to reach the product launch stage. Having asked



“Acne Care Z Task Team” Activities



Bagels from the new OKOME BAKERY brand

the chef at FANCL BROWN RICE MEALS cafe & dining, a brown rice Italian restaurant run by FANCL, test batches were made one after another. She launched the official Instagram page and also set up the EC site by herself. Sold once a week on Tuesdays, the first batch sold out in five minutes and the second in three minutes. Currently, OKOME BAKERY bagels are a premium product that are difficult to purchase. This was indeed a success that was brought about by the market sensitivity of a young woman who was neither bound by conventional wisdom nor afraid of failure.

By the end of FY Mar/2023, we plan to launch a new business that was conceived by the students from the Next-Generation Management Training School. In January 2022, we also launched a New Business Unit. With an eye toward proactive organizational reforms, we will continue to focus on creating new businesses.

4 Promote full-scale globalization

The supplement business in China and ATTENIR cross-border EC have grown significantly in just three years. We will continue to give accelerated impetus to these in the years to come. For that reason, as new challenges BRANCHIC—launched in Japan in October 2021—will start cross-border EC in China in June 2022, and ATTENIR is planning to start general trade sales in FY Mar/2024.

Geared toward the further expansion of its operating regions, the Company is proactively dispatching employees from Japan to countries around the world, such as in Southeast Asia and the Middle East, and will explore the possibilities for commercialization by analyzing those countries’ markets and investigating local cultures. Naturally, eliminating the “negatives” of people around the world is at times beset with great difficulties, but this is an unavoidable road on the way to realizing our Vision. We will execute the strengthening of our overseas business with determined resolve for the future of FANCL.

5 Create synergies with the Kirin Group

In August 2019, we concluded a capital and business alliance agreement with Kirin Holdings Company, Limited. Especially on the frontlines of R&D, this is giving rise to spontaneous exchanges between employees, and mutual understanding is being deepened through a very good relationship.

Against that backdrop, we launched *Sleep & Fatigue Care*, which contains ornithine from the Kirin Group's KYOWA HAKKO BIO CO., LTD., in FY Mar/2022. We have also formulated "matured hop extract" which has been jointly researched with Kirin, to be used as a raw material for cosmetics. This material is used to improve the functionality of *MILD CLEANSING OIL*. Creating synergies in a variety of fields in this way has also been of considerable importance in showing our stakeholders the significance of the capital and business alliance agreement.

At the new supplements factory, which commenced operations in April 2021, a system for cooperation from a manufacturing perspective, such as the production of Kirin Group products, has also been created.

On the sales side, we received high praise for our D2C know-how and dispatched employees to Kirin. FANCL employees are very active within the Kirin Group, and it is hoped that this aggressive stance toward the dispatch of employees will be ongoing. These exchanges lead to employee development opportunities and self-confidence, which are of significant mutual benefit.



Synergy-derived products

6 Implement human resource development and utilization

For FANCL to continue to grow into the future, I previously believed that it was essential to resolve all the issues and structural problems that my generation created before passing the baton to the next generation. The changing times are turbulent, however, and it is the people of the future who will face the problems that arise in the years to come. With this in mind, I am now acutely aware that it is important that we now focus on nurturing people, especially in the second year of the COVID-19 pandemic.

Based on this understanding, we have significantly increased human resources investment for employee education from this year. In addition to fostering young digital-generation and global human resources, we will further support the active participation of women

from the Diversity & Inclusion perspective while providing opportunities to relearn for those in the seniors and veterans group.

Then, in January 2022, we implemented large-scale organizational and personnel changes with the aim of fostering the next generation of management. Previously, the tendency had been to have fewer job rotations, but as this was insufficient from the perspective of fostering the next management team personnel, who will need to gain experience in a variety of business areas and make decisions from multiple perspectives, in this instance, we conducted transfers centered mainly on officers and general managers. I am convinced that such a series of human resources strategies will be an absolute necessity for FANCL from now on, and we will continue to actively implement relevant initiatives going forward.

7 Promote sustainable business, make lasting SDGs contributions

In May 2021, we adopted three key activity themes, set quantitative targets, and mobilized the entire Group to take specific actions. Currently being prioritized are "sustainable container packaging" and "cosmetic container collection and recycling." At FANCL, we are fundamentally aware of the important needs to benefit the world and please people. When it comes to recovering containers, for example, we are merely acting in a manner that is normal for FANCL as a company and doing what comes naturally. We are currently instilling the importance of this concept in-house more firmly than ever before while actively promoting initiatives.

And, as a typically FANCL SDGs initiative, in the case of cosmetic container collection and recycling, we are building a system to handle everything except the recycling process on our own. In the years to come, we will achieve horizontal recycling, by which cosmetics are recycled from container to container through chemical recycling, in collaboration with Kirin Holdings, while also planning to take on the challenges of working toward a "society in which plastics remain in circulation."



Limited-edition *FACIAL WASHING POWDER*, the package design of which was jointly developed with Yokohama Municipal Higashi High School Sustainable Research Club



Container collection box

In Conclusion

In 2021, we initiated in-house "meetings to talk about the future together." These meetings are designed to serve as a forum through which we think about "the Earth, FANCL, and our own future" through dialogue with various employees. In FY Mar/2022 meetings were held 12 times on a variety of bases including age, job title, and factory. For the time being, these meetings will be held twice a month, with a total of 100 times as a target. I would like to have people talk about their futures, the future of the Earth, and anything else about the future, and use this as an opportunity to gain "awareness" with the future as a starting point.

We will also actively promote the strengthening of governance. Each of the current outside directors possesses a high level of specialized expertise, and they take FANCL's future seriously. Thanks to the input and contributions of outside directors, the Company receives a variety of suggestions from an external perspective. Since FY Mar/2021, we have held themed sessions several times a year, set important medium- to long-term topics, built up discussions with outside directors, and reflected them in our management policies and strategies.

Regarding the formulation of a succession plan, which is a pressing issue for the future, we have been discussing the human resources requirements for next management team personnel and plan to select and develop candidates going forward at Nominating and Compensation Committee meetings.

I regret that we were unable to achieve the Company's planned results in FY Mar/2022 and did not meet the expectations of our investors. Even under these circumstances, I received many words of encouragement from large numbers of people, saying, "Strengthen and steadily target advertising to lead to customer base reinforcement for the future." I am reassured and deeply grateful that I have been able to build relationships with all our investors that empathize and mutually inspire. Going forward, I would like to receive a range of opinions. I will take these opinions seriously and, by making use of them in management, bring about further improvements in our corporate value. In grateful anticipation of your continued support in the years to come.

We will continue to take on the challenges toward sustainable growth and meet the expectations of our stakeholders.



Wellspring of Value Creation

FANCL Cosmetics



With an eye to both customer and future needs, we will promote businesses that are attuned to the sentiments of customers in an effort to support a lifetime of smiles.

Executive Officer
Cosmetics Division General Manager **Makoto Doumoto**

Profile

After joining FANCL, Makoto Doumoto acquired experience in the customer service center and store operations at FANCL Ginza Square. Following his work in sales planning for directly managed stores and online and catalogue sales, he served as the General Manager of Marketing in the Cosmetics Business and as an ATTENIR director. He was appointed General Manager of the Cosmetics Division in January 2022.

Review and Results for FY Mar/2022

The FANCL Group is promoting “brand diversification” within its cosmetics operations. As times have changed, the needs, skin problems, and preferences of customers have also diversified. Conversely, brands that are acceptable to everyone necessarily lack a sense of individuality. Looking ahead to the future, unique brands that offer greater individuality and that remain on top in their respective fields will attract increased demand. In order to address these changes in the business environment, we intend to fine tune the individuality of our brands and expand their fan bases through “brand diversification.”

During FY Mar/2022, we successfully attracted new customers by renewing our core products of ENRICH+ and MILD CLEANSING OIL. Amid the need to regularly wear masks as a result of the COVID-19 pandemic, we focused on the increasing demand for skin

pore care and strengthened the function of MILD CLEANSING OIL to remove keratin plugs from skin pores. In working to strengthen this function, we blended in a matured hop extract

jointly developed with Kirin Holdings, succeeded in making a new value proposition to our customers, and demonstrated ideal synergy.

Moreover, in October 2021 we launched sales of BRANCHIC, FANCL's first prestige brand targeting those in their late 20s and 30s with a strong awareness of beauty, in Japan. We also began sales in the Chinese market in June 2022. Specifically, we began selling a face wash and essence as two products under this brand,



MILD CLEANSING OIL

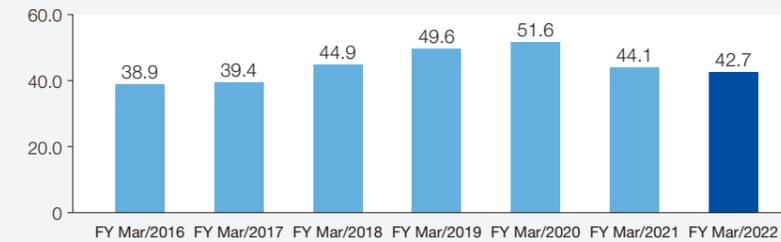
FANCL Group Cosmetics Brand Diversification

Price range	Appeal	-20s	30s	40s	50s	60s-
High price range	High functionality	BRANCHIC				
Mid-price range	Simple, focus on quality	FANCL boscia				
	Age-related concerns, lifestyle	ATTENIR & AND MIRAI BEAUTY BOUQUET				
Low-to-mid price range	Diverse needs	OEM, Private Brand, etc.				

FANCL Cosmetics

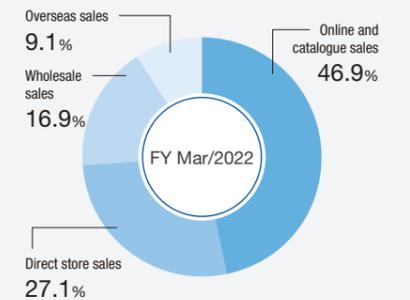
Sales

(¥ billion)



(Note) Applying “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29), etc., from FY Mar/2022. Sales for FY Mar/2016 to FY Mar/2021 are estimated values when the same standard is applied.

Sales by Sales Channel



both of which awaken the skin's senses and stimulate the skin's natural functions with the aim of enhancing the effectiveness of the skin care approaches regularly used by customers. Although still an effort in progress, we will develop this brand while thoroughly engaging with our customers.



BRANCHIC

this in mind, we must not think in terms of merely extending the present, but adopt a thought process that focuses on and is driven by future needs.

For example, more and more people are experiencing skin problems due to greater UV exposure and stress. Rough skin and other skin problems weaken the skin's barrier function, which makes it easier for skin to become damaged and leads to accelerated aging problems. FANCL's Mutenka cosmetics enhance the natural capabilities of skin and reconstitute its barrier function in order to foster healthy natural skin that is resistant to damage. We intend to exhibit an individuality unlike that of any other brand by proposing this value that is unique to FANCL as a combination of products and services through our D2C channels.

Medium-Term Strategies Based on the Importance of Addressing Customer and Future Needs

FANCL Cosmetics has identified the two “customer driven” and “future driven” slogans to emphasize the importance of addressing both needs. In order to remain a brand with an individuality that stands out as unique, we must deeply understand our customers and make propositions that only FANCL can provide. For this reason, we will employ the strengths of our D2C channels that allow us to communicate directly with our customers, including call centers, e-commerce, and directly managed stores. By more deeply understanding problems, needs, and insights through communication with our customers, we will enhance the customer-driven quality of our proposals.

The second slogan, future driven, is based on the idea that what has value now in this age of dramatic change, or that had value in the past, will not necessarily hold value in the future. With

In Conclusion

By FY Mar/2031, we aim to replace all of the containers and packaging we use with sustainable options based on the 4Rs* principles as an environmental measure. As expressed by our founding philosophy of eliminating the “negatives” throughout the world with a sense of justice, FANCL possesses a corporate culture that tackles the global environmental challenges that have come under scrutiny today as a matter of course.

This culture connects to our stance of earnestly facing our customers, builds trust, and has made us who we are today. We will continue to maintain this stance under which we will make propositions that truly satisfy our customers and that are not about short-term or superficial results.

We do not believe that cosmetics simply pursue “beauty,” however. Instead, we feel they are “emotional consumables” that engage the sentiments of those who use them, for example by making customers feel positive and at ease. Skin is something that is always with our customers. And specifically because these are times in which many people face various uncertainties, we hold the strong desire to engage with the skin and provide support, in whatever way we can, so that our customers can spend each day with a smile, all while promoting business that is driven by the needs of our customers and the future.

*4Rs: Reduce, Reuse, Recycle, Renewable



CLAY GEL FACIAL WASH



FDR Acne Care



Realize the routine use of health foods (supplements), helping to extend people's healthy lifespans and reduce medical costs

Senior Executive Officer
Health Food Division General Manager **Kazumasa Wakayama**

Profile

Kazumasa Wakayama joined FANCL from a major cosmetics manufacturer in 2005 given his interest in FANCL's innovative approach to product development. He subsequently developed cosmetics products in the Cosmetics Business and from 2013 focused on building FANCL's business foundation abroad in the Overseas Business. He became General Manager of the Health Food Division in 2015.

Review and Results for FY Mar/2022

Within the 3rd Medium-Term Management Plan, FANCL presented the three pillars of "strengthening our existing supplement business," "personalization," and "creating trial opportunities (a BtoB business) through the development of food formulations."

During FY Mar/2022, the first fiscal year of the Plan, under "strengthening our existing supplement business," we renewed *Naishi Support* (Weight and body fat care), expanded the lineup of *Meneki Support* (Immunity support), and launched sales of *Sleep & Fatigue Care* as a star product candidate for the coming year in an effort to reinforce the business from a product



Sleep & Fatigue Care

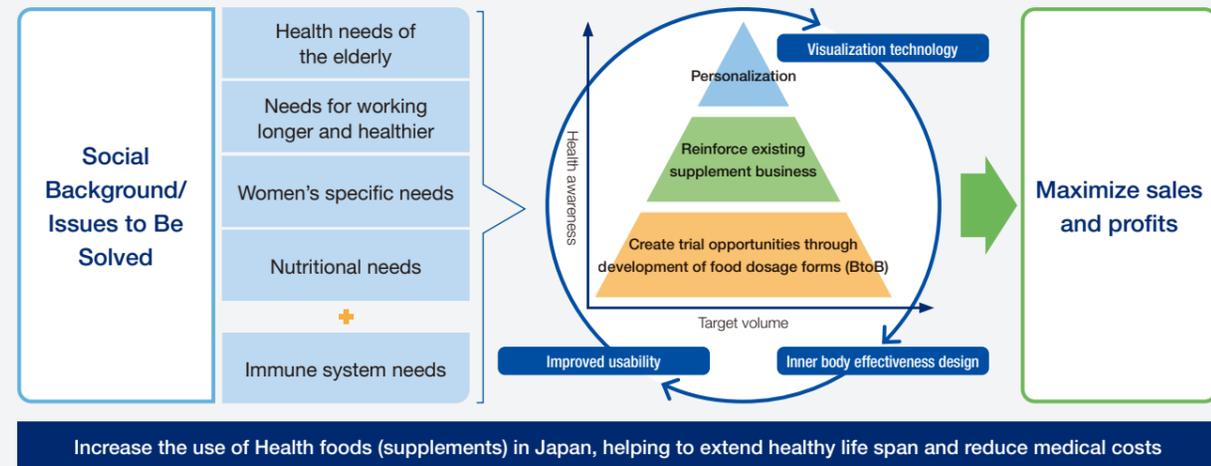
standpoint. In terms of "personalization," sales of *Personal ONE*, which launched in 2020, grew steadily. The "BtoB business" also attracted a greater number of partners, expanding from two companies in 2018 to 12 companies today.



Personal ONE

Although product and service deployment has progressed steadily in this way, going forward we believe we must take a more effective approach from the standpoint of sales, and focus in particular on finely subdividing the targets, sales channels, and information development for each product.

Business Strategies



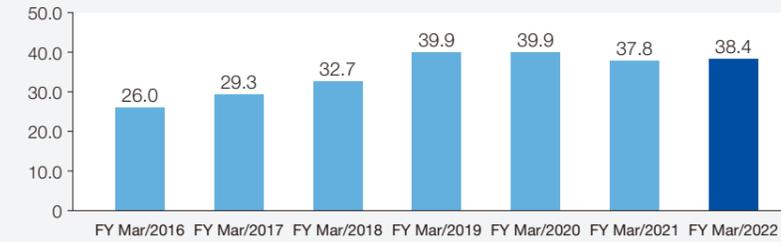
FY Mar/2018 **27%** → FY Mar/2022 **28%** → FY Mar/2031 **50%**

(Source: FANCL Health Needs Survey)

Nutritional Supplements Business

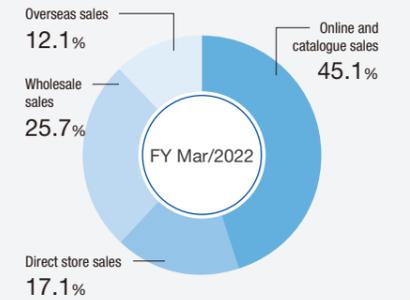
Sales

(¥ billion)



(Note) Applying "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29), etc., from FY Mar/2022. Sales for FY Mar/2016 to FY Mar/2021 are estimated values when the same standard is applied.

Sales by Sales Channel



Aiming to Increase the Use of Supplements in Japan to 50%

Under "VISION2030," FANCL raised the goal of increasing the ratio of routine health food (supplements) consumption in Japan from around 30% today to 50% by FY Mar/2031.

In order to achieve this target, we must foster an awareness toward the importance of maintaining and promoting health before illness sets in. For this purpose, we must take the steps of ensuring that individuals experience the results of their efforts by "visualizing" their health and tracking their condition on an ongoing basis. We intend to go beyond our existing sales channels to deliver products that are easier to use and at locations that are more familiar to our customers as a means of realizing the routine use of supplements.

In this respect, as a capital and business alliance partner, the Kirin Group possesses many functional components that meet the needs of society. And along with applying these components to our health foods, we also anticipate that merging the marketing know-how of both companies will give rise to new services in the future. Through collaborative ties with these kinds of companies, we will achieve a 50% usage rate for health foods (supplements), and realize extended healthy lifespans and reduced medical costs.

Overseas Business Developments

Against the backdrop of a declining birthrate and aging population, China faces many health problems that must be addressed. This in turn leads us to believe that the importance of the Chinese market will only increase into the future.

At present, "Age bracket-based supplements" account for the majority of sales. In light of market needs and our

competitiveness, however, going forward we will make strategic marketing investments to develop the Chinese market upon first clarifying the order of priority for the products on which we will focus our energy.

In order to address those needs as well as the communication approaches that are specific to China, we will also further reinforce collaborative ties with China Sinopharm International Corporation as our local distributor, increase the number of employees at our local subsidiaries, and work to establish a framework in which those in China will take the lead in promoting business. Based on this framework, the Japan-side will then provide its support.

In Conclusion

Health is not the ultimate goal. Instead, we believe that "being healthy" is an important foundation for achieving one's dreams, goals, purpose in life, and the needs that are possessed by all of us. Therefore, we feel that realizing a healthy life is the noble cause of our business. Pursuing this noble cause will help to solve social problems like extending the healthy lifespans of people and reducing medical costs. Given the grand scale of this vision, however, we feel it is also extremely important to work and collaborate with other companies. Doing so will give rise to new contact points with our customers, and allow us to deploy new services that go beyond the framework of supplements. This business still possesses significant potential, and we have many ideas for new initiatives. Although our efforts may require time, we will steadily convert our ideas into businesses and undertake the challenge of establishing a health foods business that is unique to FANCL.

Order of priority	1	2	3	4
	Age Bracket-Based Supplements	Calolimit® Series	Ukon Kakumei EX	Beauty Supplements
Product				
Target	Women (30s - 40s)	Women (20s)	(35 - 45s)	Gen Z

Wellspring of Value Creation

ATTENIR



Pass on the founder's DNA over the coming 100 years, and create value that exceeds the expectations of customers by delivering high quality products at a fair price

Executive Officer
President & Representative Director, ATTENIR CORPORATION **Tomoko Saito**

Profile

After joining FANCL, Tomoko Saito was assigned to the customer service center. She transferred to ATTENIR two years later, where she was assigned to the Product Planning Department. In 2010, she was involved in establishing the Shanghai subsidiary as part of the International Business Division. In 2015, she served as the head of the sales strategy office, and in 2018 as the Director and head of the sales strategy office, at which point she focused her efforts on management reforms. In 2019, she was appointed to the position of President & Representative Director.

ATTENIR's History and Fundamental Strengths

When I was appointed as the head of the sales strategy office in 2015, ATTENIR was struggling with a dire business situation, which led the founder, Kenji Ikemori, to instruct us to "return to the starting point." ATTENIR was founded on the sense of justice and "the desire to deliver truly good products to women throughout the world at a fair price." For this reason, we reevaluated and revitalized the concept of "delivering high quality at a fair price," which had served as our starting point since our founding, as a renewed concept that focuses on "offering luxury brand at one-third of the market price or lower." This renewed concept was the platform from which we engaged in management reforms.

Along with an uncompromising focus on product development, in order to establish the identify of our brands, we narrowed our target to women in those age groups that demand aging care, while at the same time starting new initiatives such as building a fan community on the Internet.

This fan community gave rise to empathy and resonance with our brands by allowing customers who use ATTENIR products to find each other. Likewise, this community became a location for



Examples of environmentally friendly specification packaging

our customers to convey the value of our brands of their own free will. This community also became a forum for us to listen to the opinions of our customers and eliminate any hidden negatives. Products such as *eco pack*, which consider the everyday concerns of environmental impacts, and *Dress Snow*, a foundation cosmetic that achieves both wrinkle improvement and brightening, pierce into the "negatives" hidden in the opinions of our customers, and were developed to solve these issues.

Through these and other means, the fan community is constantly



Dress Snow

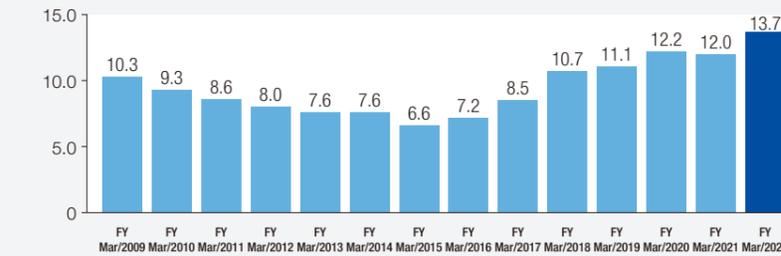


Fan Community

ATTENIR Cosmetics

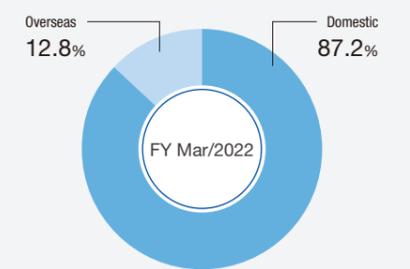
Sales

(¥ billion)



(Note) Applying "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29), etc., from FY Mar/2022. Sales for FY Mar/2009 to FY Mar/2021 are estimated values when the same standard is applied.

Ratio of Domestic to Overseas Net Sales



aware of what lies a half-step ahead and serves as a wellspring that gives rise to value that exceeds the expectations of our customers. At the same time, the community has become a base from which to foster trust in and affection for our brands among our customers.

As a result of cultivating an environment that allows us to demonstrate the fundamental strengths of our brands through these reforms, we achieved record high sales in FY Mar/2018 while also making considerable progress in FY Mar/2022 amid the struggles so many cosmetics companies faced during the COVID-19 pandemic.

Expansion in China

Although ATTENIR first attempted to enter China in 2010, we withdrew shortly thereafter. Against this backdrop, when inbound demand from China began to increase around 2015, we gained the opportunity to experience up close the fact that "Aitenran," the Chinese brand name we used locally prior to withdrawing from the country, had penetrated among our customers in China. This convinced us that there was an opportunity to expand business there. Earnings have grown steadily since 2019, when we embarked on the full-scale deployment of cross-border e-commerce. The Chinese staff who previously worked at our local Chinese subsidiary have been active as part of the China Business, while the nonhierarchical and compact nature of the ATTENIR organization has been instrumental in ensuring that decision-making is undertaken rapidly to address the dramatically

changing trends of China. Although our concept of a brand that excels in aging care is universal across all countries, the demand base differs in Japan and China. This is why we advance product development in a manner that customizes added-value for each country. As a result of these efforts, net sales for FY Mar/2022 expanded greatly. In addition, we are taking preparatory steps to launch general trade sales in FY Mar/2024.

In Conclusion

In order to achieve our long-term vision for 2030, we will expand our contact points with customers under the intention of having as many customers as possible learn about ATTENIR and use our products. Domestically, we will reinforce external mail order deployment in addition to in-house mail order, while overseas we will target growth by expanding sales channels.

Most importantly, ATTENIR must carry on the DNA of our founder over the coming 100 years in order for us to achieve sustainable growth into the future. I believe the proposition we now face is how to evolve in step with the changing times, while always returning to our starting point. I also feel that the mission of ATTENIR as a company is to engage with the honest opinions that are not openly stated by adult women as a means of delivering value that exceeds their expectations.

With this in mind, we will foster ATTENIR into a brand that all customers firmly believe "will tirelessly continue to create unprecedented value."

Cross-border e-commerce Sales

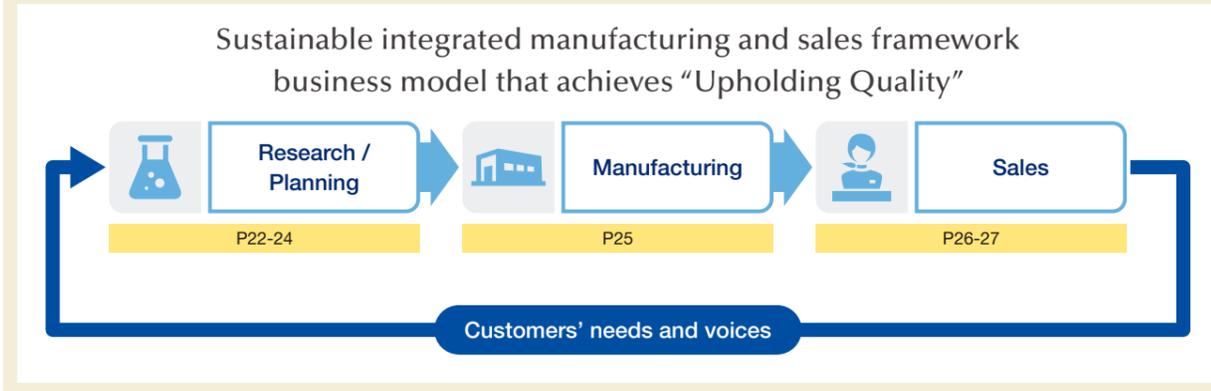
(¥ billion)



Tmall "Attenir Aitenran Global Flagship Store"

FANCL's Business Model

The FANCL Group handles every aspect of its business, from research and development to production and sales, on its own, and has grown as a company under an integrated manufacturing and sales framework business model. As a research and development manufacturer with a direct sales department, the Company creates products that reflect the needs and voices of its customers.



Research / Planning

Promote research on solutions to eliminate new "negatives"

FANCL engages in basic technological and product development research on cosmetics, nutritional supplements, *Hatsuga genmai* (germinated brown rice), and *Kale Juice* in an effort to promote safety and functionality research with a focus on peace of mind and safety as well as the development of products based on scientific evidence.

FANCL's wide range of research and development activities, including joint research with many domestic and international

research institutions and participation in industry-government-academia collaboration projects, is constantly evolving.

Furthermore, FANCL is promoting joint research projects in multiple research fields, including cosmetics materials development, brain function research, and intestinal environment research, with the R&D Division of Kirin Holdings Company, Limited (Kirin) in accordance with the capital and business alliance agreement concluded with that company in August 2019.

Major Achievements in FY Mar/2022

Number of products developed	Number of patent filings Domestic: 65, Foreign: 5	Number of Researchers and Professional Qualifications *As of April 2022
FANCL Cosmetics: 54	Number of academic presentations: 38	Researchers: 213
Nutritional Supplements: 15	Number of research publications: 12	Ph.Ds.: 22
ATTENIR Cosmetics: 30	Partners in joint research: 28	Pharmacists: 9
<i>Hatsuga genmai</i> , <i>Kale Juice</i> , and other food products: 7	Research and development expenses: ¥3,492 million	Registered dietitians and dieticians: 8

The FANCL Research Institute's Application Range

The Research Institute is responsible for the search for and development of new ingredients and product materials, foundational research conducted from a medical perspective, and the development of products needed by its customers. In short, The Research Institute forms the core of FANCL's research and development effort.

The Research Center's Application Range

	Research Fields
Cosmetics Research Institute	Product development based on cosmetics commercialization planning and applied research into new technology development accompanying product development, etc.
Beauty Science Research Center	Basic scientific research regarding beauty science, and exploratory research, evaluation, and development of functional materials based on the research results thereof
Functional Foods Research Institute	Product development based on health foods commercialization planning and applied research into new technology development accompanying product development, etc.
Health Science Research Center	Basic scientific research regarding health science, and exploratory research, evaluation, and development of functional materials based on the research results thereof
Quality & Safety Research Center	Evaluation of safety and quality for developmental cosmetics and health foods, and research relating to evaluation technology

Sit Down with Key Persons

The Strengths of *Mutenka* Cosmetics

Tetsuhito Sakurai Center Director, Beauty Science Research Center



Focusing on *Mutenka* Cosmetics that Do Not Damage the Skin

The preservatives used to prevent microbes from contaminating cosmetics can in some cases burden the skin because of how they are used. FANCL has also confirmed that these preservatives tend to easily accumulate in the skin and cause various types of damage.

Unlike the effects of UV-rays, however, skin damage caused by these preservatives does not have an immediate impact on the skin. Instead, it progresses unseen to produce a difference in skin age with the passage of time. The likelihood is also high that preservatives impede the skin's beautifying effects including brightening ingredients.

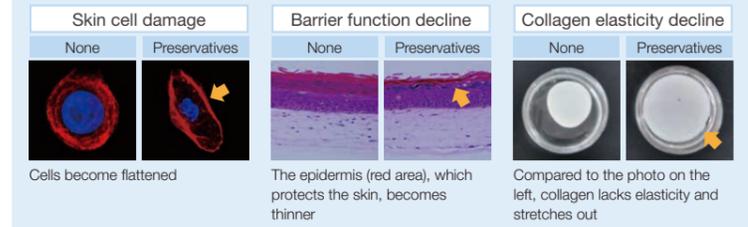
For this reason, the FANCL Research

Work History	
1996	Joined FANCL Corporation
2005	Cosmetics Evaluation Group Manager, Cosmetics Development Department, Central Research Institute
2017	Deputy Center Director, Beauty Science Research Center
2019	Center Director, Beauty Science Research Center

Institute collects a range of evidence. Drawing on this evidence, we focus on the development of *Mutenka* cosmetics that do not contain any preservatives or other components that cause stress on

the skin. At the same time, we continue to pursue R&D in a way that allows us to contribute to the beautiful skin of our customers today and into the future.

Skin Damage Caused by the Accumulation of Paraben



Research to Enhance the Skin's Natural Function

The survey we conducted in the winter of 2021 compared the wrinkle conditions of customers who have used *Mutenka* cosmetics over the long term and short term. The results revealed that the wrinkles of long-term users who are at least 40 years old are less likely to stand out.

These results clearly indicate that FANCL's *Mutenka* cosmetics, which do not contain any ingredients that cause skin stress, hold the potential to enhance the skin's natural function the longer they are used.

Unlike skin cells, however, sensory cells do not easily regenerate, so we are using the latest iPS cell technologies to

create these types of cells. Sensory nerves are unique in that they extend out nerve endings when they sense itchiness, and our research has confirmed that cosmetics containing preservatives produce this phenomenon where nerve endings extend out. This indicates that

preservatives increase the skin's sensitivity and deteriorate the barrier function. In this way, we conduct research focused on the range of negative impacts preservatives can have on the skin, and effectively utilize the resulting data in helping to create revolutionary products.

Comparison of Wrinkle Size in *Mutenka* Cosmetics Users Over the Age of 40





Manufacturing

Manufacturing and Logistics That Provide Safety and Reliability

FANCL produces both cosmetics and health food products under a management framework that complies with GMP standards. The Company's domestic network comprised of six production bases manufactures in pursuit of "Upholding Quality" under a strict standard unique to FANCL and under its stated mission of delivering products that provide customers with safety and reliability.

Standards for Production Bases

Bases and Major Products	Standards	GMP ^{*1} Standards	FSSC 22000 ^{*2}	Facility
				Clean Room
Chiba Factory Cosmetics, supplements		●	—	●
Shiga Factory Cosmetics		●	—	●
Yokohama Factory Supplements		●	—	●
Gunma Factory Cosmetics		●	—	●
Nagano Factory Germinated brown rice, supplements		—	●	●
Mishima Factory Supplements		●	Scheduled for acquisition in FY Mar/2023	●

*1 Good Manufacturing Practices (GMP) was drawn up by the U.S. Food and Drug Administration to maintain production management and quality control for such items as cosmetics, pharmaceuticals and foods.
 *2 Internationally recognized Food Safety System Certification (FSSC) 22000

FANCL B&H CORPORATION

Production System Strengthening

Having adopted the vision of "becoming a company that provides the world's best gentleness, safety, and assurance," FANCL B&H CORPORATION supplies safe, reliable, and high-quality products from a factory with a well-equipped, hygienic environment.

Since 2021, we have been transitioning from analog to digital data management, and forms previously handled using paper media are being gradually digitized. These moves are contributing to faster analyses and the saving of resources.

With regard to our business continuity plan (BCP), we have reconstructed an all-hazard-type BCP mechanism that covers risks such as infectious diseases within its range of risk. In addition to reports from each factory, we have created an environment in which on-the-spot damage status can be confirmed using a central monitoring system and camera images. Should the need arise, we will utilize multiple production bases inside and outside the Company to enable product supply continuity.

In addition, at the Mishima Factory (Shizuoka Prefecture), which commenced operation as a core supplement plant in April 2021, we started the contract production of supplements for the Kirin Group in August. We are making full use of this factory while creating synergies through collaboration.



FANCL B&H CORPORATION
Mishima Factory



Supplement counting machine
Accurately counts content volume before filling



FANCL's Kansai Logistics Center



Robot for picking products

Enhancing Distribution Shipment Capabilities

The Kansai Logistics Center (Osaka Prefecture), which commenced full-scale operations in June 2021, has realized manpower efficiencies, labor saving as well as the increased sophistication and streamlining of logistics by making full use of the latest technologies, such as automated warehouses and automated picking systems. We are contributing to the improvement of the FANCL Group's overall shipment capacity, so that we can deliver products quickly and efficiently while increasing the number of items we handle.

Covering the entire roof of the center, the largest solar panel in the Group has been installed and is providing about 35% of the electricity used.

The Kanto Logistics Center (Chiba Prefecture) renewed its dedicated shipments system in November 2021 to respond to the increase in orders for *Personal One*. Its previous shipment capacity has been increased by five times, thereby realizing further improvements in productivity.

By building the East-West dual base framework, we have pursued business continuity and at the same time unprecedented levels of safety, reliability, and quality. This has enabled us to quickly deliver fresh products to customers.

Sit Down with Key Persons

Developing Supplements as Food with Function Claims

Sachiyuki Teramoto Deputy Executive Officer Division manager, Functional Food Research Institute



Leveraging R&D Capabilities to Capture a Major Share of the Industry

Even before the launch of the system of Foods with Function Claims in 2015, we had developed products based on scientific evidence through clinical trials and other means. In regard to safety, we established safety screening procedures and standards, and had the ability to confirm the safety of every raw material that we used. For this reason, we were able to deploy businesses around multiple products that complied with Foods with Function Claims following the start of this system.

Once the system launched, we began to fully convey the functions of our products that we had not communicated to customers previously, thereby allowing them to select the right products. In order to enhance the functionality of our products, we also advanced research into technologies to increase their efficacy within

Work History

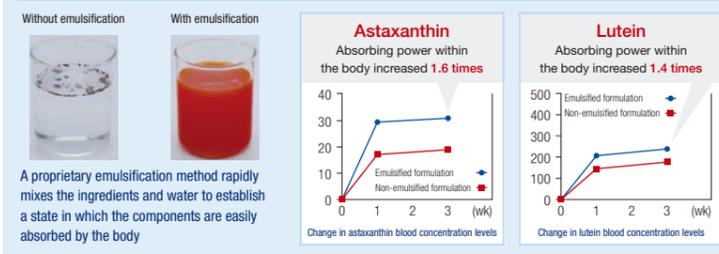
- 1995 Joined FANCL Corporation
- 2003 Group Manager, Kale Juice Group, Product Planning and Development Department, Product Planning and Development/Production Division
- 2010 Business Manager, Functional Foods Business Department, Business and Product Strategy Division
- 2011 Director, Functional Food Research Institute
- 2021 Deputy Executive Officer

the body, for example making it easier for the body to absorb ingredients, and developed unique products to capture a major share of the industry in the Foods with Function Claims market. Moreover, we have been preparing an environment in

which customers can consume supplements with peace of mind, for example, by providing information through a proprietary database containing information regarding the safety of taking supplements in combination with medications.

Technology to Improve Product Efficacy in our Body

A proprietary emulsification method greatly increases the absorbing power of active ingredients.



Initiatives for Ensuring Uncompromising Safety

When developing products, we confirm the quality and safety of all the component raw materials, including those that exhibit functionality and vehicles required to produce formulations. In order to confirm raw material safety, we organized an evaluation framework, including setting up a department dedicated to evaluating safety, established an eight-step standard to confirm the impact of materials on the human body, and screen materials through a pre-defined set of procedures. In this manner, we review raw materials in every respect, including confirming the raw materials before they are processed,

confirming their quality, such as residual agricultural chemicals and manufacturing methods, and confirming safety data at the time of consumption.

We also collect information on and built a database for each material used with regard to consumption in combination with medications, and provide this information so that customers can consume supplements safely.

Among the feedback we collect from our customers about our products after sale, we retain any comments regarding safety. We also organized a system to objectively evaluate safety through a Health Food Expert Council that includes doctors from outside the Company and academic experts to confirm the safety of

8-Step Safety Evaluation Used During Development

- STEP 1 Confirm details of raw materials
- STEP 2 Confirm food and drug classifications
- STEP 3 Investigate raw materials and manufacturing methods (raw material manufacturer factory inspections)
- STEP 4 Evaluate consumption experience
- STEP 5 Conduct literature surveys regarding safety
- STEP 6 Conduct literature surveys regarding components contained in raw materials
- STEP 7 Conduct raw material safety testing
- STEP 8 Confirm safety of final products

our products.

FANCL will continue to further strengthen this framework as a key issue for producing safe products.

Sales
Infrastructure That Supplies Products and Services through a Variety of Sales Channels

In addition to online and catalogue sales, FANCL provides products and services through direct store, wholesale, and multiple other sales channels. To evolve into multi-channel operations and implement OMO* that is unique to FANCL, the Company is applying IT to integrate its strengths in online/catalogue and store sales channels, and is evolving its connections with customers, to maximize the customer's value experience acquired through contact with the Company's products and services.

* Online Merges with Offline

Sales Channels FY Mar/2022



70% of sales come through online and catalogue, store, and other direct sales channels



Promotion of OMO That Is Unique to FANCL

At FANCL, we are taking on the challenges of creating new experiences to promote "OMO that is unique to FANCL." Combining the initiatives conducted in each of our sales channels—online and catalogue sales as well as store sales—we are providing new experience value, such as live commerce, seminars, and online counseling.

Further enhancing the convenience of our SDI* system, which gives advice—previously available only by telephone—about which supplements and medicines to avoid taking together, our initiatives are evolving on a daily basis. They include being able to perform self-checks (services for online and catalogue sales members) at any time using smartphones and other devices.

Maximizing customers' experience value by fusing the strengths

we possess in our sales channels with IT, we are further reinforcing our efforts to become an irreplaceable presence with our customers. These efforts include directing them to stores, promoting the use of online and catalogue sales, and giving guidance on the combined use of sales channels.

* SDI: Abbreviation for Supplement and Drug Interactions



FANCL LIVE SHOPPING



Online personal counseling

**Renewed FANCL Members App
 Counseling without touching the skin**

Having one by one integrated the previously independent apps for online and catalogue sales and directly managed store sales channels, we are now promoting our evolution into multi-channel operations.

Providing a variety of content and information, this is an app that enhances the functions to "experience" FANCL.

The AI Personal Skin Analysis service and the Health Counseling and Personal Color Diagnosis digital counseling services, which were previously available only via directly managed store apps, can also be used when shopping by online and catalogue sales.

From the viewpoint of preventing the spread of COVID-19 infections, such as refraining from counseling that involves

touching the customer's skin, the opportunities to interact with customers are decreasing. In addition to consolidating its functions to enhance customer convenience, we have renewed the members app to enable the provision of experience opportunities.



Members app
(Japanese Only)

Sit Down with Key Persons

FANCL's Unique Digital Strategy That Will Drive Growth

Takaaki Hasegawa Department Manager, Sales Planning Department, Direct Sales Division Headquarters



Work History

- 2003 Joined FANCL Corporation
- 2011 Online Management Group Manager, Online Sales Department
- 2020 Department Manager, Sales Planning Department, Direct Sales Division Headquarters

In a world that is rapidly changing due to the COVID-19 pandemic, FANCL maintains strong connections with its customers and is engaged in creating and continuing those bonds. As a basis for giving added impetus to this initiative, FIT3 went into operation in January 2022.

In pursuit of endless customer satisfaction, a core system that has become a driving force for change

Rebuilding systems suitable for today's FANCL mainly in the IT Systems Department, FIT* is a general term for system projects that utilize systems to transform operations according to the times and environment.

* FANCL Information Technology

The project was launched in 2014. We released FIT1 in 2016 and replaced the core system for mail orders. Subsequently, in 2018, we released FIT2, which enabled real-time linkage of e-commerce site and store data with the core system. Data integration for all channels and a flexible system have been put in place and enabled faster than ever upgrade responses.

With the system in place, we conducted our long-planned membership service renewal in 2019. This has made it possible not only to naturally reduce costs but also to promptly provide the long-awaited service changes to our customers. At the same time, it has become easier to link the system with the platforms of external e-commerce

marketplace companies, and it is possible to flexibly respond to small specification changes.

In the midst of drastic changes in the world, I think this FIT initiative is proof positive of FANCL's courage and correctness in changing without being bound by the past. With the support of this system that is unique to FANCL, we are proactively taking on the challenges of increasing the experience value of our customers.

Changes in Consumer Behavior Due to the COVID-19 Pandemic

In 2020, the COVID-19 virus spread, and consumer behavior changed completely. Added impetus was given to the use of e-commerce by customers who had previously used only directly managed stores.

Under these circumstances, I thought that it was necessary to make vital use of the data accumulated over the years through our direct sales, and communicate with customers in order to create stronger bonds with them. FANCL's greatest strength lies in the multiple direct sales channels at our disposal, by which we have been communicating directly with customers, such as by telephone, online and via mail order and directly managed stores. We

are making full use of the characteristics and IT of each channel of online sales, call center sales, and retail stores while engaging in an OMO strategy to deepen those bonds with our customers.

Releasing FIT3 in 2022, Realizing Improvements in Customer Satisfaction

We have released FIT3 as a core system to make the best use of the data we have as a direct marketing channel. This system is built with the idea of "a database for the deep understanding of facts about our customers." In addition to information on a customer's purchase history, we have made it possible to utilize factual data, such as website access data, consultation data, and store visit data. We are building an estimation model that can make optimal proposals for each customer by multiplying the data of hundreds of all elements. Through our daily efforts, I think we will be continue to utilize FIT3 as a database for changing and improving as well as nurturing in the years to come.

Building up the images of our customers that will come into view by making those efforts and utilizing them in call center responses, store staff customer service, on our website and in emails, we will deepen our bonds with unprecedented numbers of customers.

Special Feature

Manifesting Synergies with the Kirin Group

— Product Development Using Matured Hop Extract —

FANCL formed a capital and business alliance with the Kirin Group in 2019, which has since served as the impetus for a range of joint developments.

Relaunched in November 2021, *MILD CLEANSING OIL* reemerged with the ability to remove keratin plugs from skin pores using a new approach achieved by blending in a cosmetic raw material developed from matured hop extract in collaboration with the Kirin Group.

KIRIN

FANCL



Using Matured Hop Extract as a Cosmetic Raw Material

Although it was previously known that the bitterness of hops possessed a range of health-promoting benefits, they were difficult to apply in health foods because of their strong bitter flavor. It was the maturing process, however, that overcame this barrier. The maturing process allowed us to reduce the bitterness of hops and successfully develop matured hop extract as an easy-to-use food ingredient. The number of products containing matured hop extract has increased each year, and by 2022, 15 such products had been released in Japan and around the world, including beverages, snacks, supplements, sausages, seasonings, and other Foods with Function Claims.

Against this backdrop, when we received a proposal from FANCL to apply matured hop extract in cosmetics, we were excited at this unique opportunity to convey the further potential of hops to customers. At the same time, however, we were uncertain about whether we could commercialize the concept of applying matured hop extract, which had been developed as a food ingredient, in cosmetics.

One of the areas we struggled with in particular during this joint project initiated upon FANCL's request, was setting the standards as a cosmetic raw material. Essentially, we had been developing matured hop extract under the assumption it would be produced in a brewery, so the standards and lot sizes did not meet the requirements as a cosmetic raw ingredient. As a result, improvements were required. Handling cosmetic raw materials was also a first for both myself and the production site. We therefore undertook the challenge of setting standards that would meet the requirements by collecting information from Ms. Kotaka and the team at FANCL, and by working in collaboration with other departments at Kirin. Likewise, I was overwhelmed with emotion when I finally saw off the first shipment as a cosmetic raw material from the production plant.

Pursuing the Potential of Hops and Continuing the Challenge

Although Kirin has conducted research into the health-promoting benefits of hops for more than 20 years, it had never considered

applying the bittering component of hops to the skin. So, I was elated when this joint development identified new value for hops, and was surprised at the potential of this discovery. We intend to continue using these results to advance new value propositions to customers, and to more broadly convey the allure of hops.

In addition, more than 100 people have been involved in the development of matured hop extract. And this raw material was conceived specifically because so many people believed in the potential of hops and sustained their research with enthusiasm and persistence. We have been strongly encouraged by the fact that this raw material, which is filled with the hearts of these researchers, has been used in many scenarios and has successfully contributed to society. Our current collaboration with FANCL to realize this has become a major strength for us. And we will continue to undertake challenges so that we can cooperate in product developments that leverage the strengths of both companies.

INHOP Co., Ltd.

Incorporated in 2019, INHOP is an in-house venture spun-off from the Kirin R&D Division. In light of hops meaning "hope" in the language of flowers, the company's mission is "HOP for HOPE, Transforming the Power of Hops into Hope for Everyone." Along with product development and raw materials sales focused on the health-promoting benefits of hops, primarily matured hop extract, INHOP engages in collaboration and communication aimed at expanding the potential of hops.



Yuji Kaneko

President and CEO
INHOP Co., Ltd.

Applying Matured Hop Extract to Cosmetics

The antioxidant effect is one of the benefits of hops that was previously known. So, based on this knowledge, we anticipated that matured hop extract would also be beneficial for skin pores, and ultimately discovered it functioned to soften old keratin plugs and prevent sebum oxidation when we began exploring its possibilities. At around the same time, FANCL had been planning to renew its *MILD CLEANSING OIL* as one of its core products, so we launched a plan to add in matured hop extract. We immediately formed a project team and urgently proceeded with development. As part of this effort, in particular, we repeatedly made trial-and-error efforts to make it into a raw material. Matured hop extract is a suspension*, however, so when it is in a state that leaves behind powder in the raw material, it produces surface roughness when blended into cosmetics. So, we really struggled with how to dissolve this material while maintaining its active ingredients.

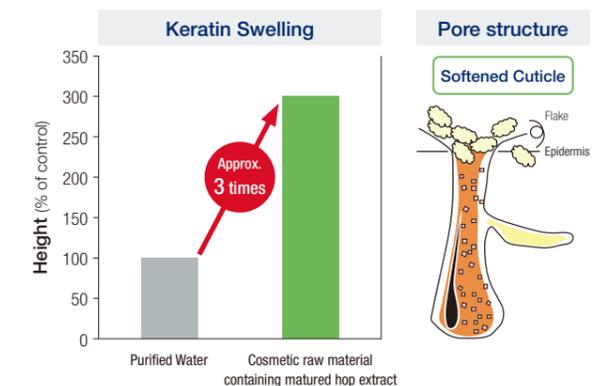
Ultimately, we were able to skillfully meld the technologies the Kirin Group possesses to create raw materials as food additives with our know-how in creating pharmaceutical raw materials, and successfully commercialized the results. That this result emerged from all of the project members participating in this collaboration



Aki Kotaka

Research Strategy Promotion Office
Research Planning Group Manager

Effect of Matured Hop Extract



with a deep emotional attachment, and this being a core product, led to great confidence.

* Suspension: A mixture of solid particles dispersed in a liquid

Toward Creating New Synergy

FANCL is already advancing research in order to utilize these results in the future. Following continuous-use tests in humans, we confirmed that adding matured hop extract to emulsions has the effect of tightening skin pores, for example. By developing this benefit, we expect to extend the use of matured hop extract to skin care products.

Although we have already produced several collaboration products in the health foods industry, we feel that our initial success in the cosmetics industry this time around will increasingly accelerate collaborations with the Kirin Group.

Mr. Kaneko of INHOP, with whom we advanced development as part of this project, was instrumental in smoothly bridging FANCL with the Kirin Group, and in making proposals from new viewpoints. We hope to generate significant value by continuing to skillfully incorporate these kinds of outside strengths into our R&D.

Sustainability Policy

FANCL Group's "Sustainable Declaration"

Building a Bright Future Together

Guided by our founding philosophy of "Eliminating the 'Negatives' with a Sense of Justice," FANCL is confronting key issues of concern that will impact people's future lives, including the global environment and society, as well as working together with our stakeholders to engender hope. We aim to contribute to the creation of a sustainable society that brings happiness to people now and in the future.



Key Themes Aimed at Achieving Sustainability

The FANCL Group has established the following three items as key themes in line with its efforts to contribute to the realization of a sustainable society and the achievement of sustainable growth for the Group as a whole. For each of these themes, we are setting goals and taking specific actions.

Reinforcing the Sustainability Promotion System

In October 2021, we established the Sustainability Committee with the aim of placing sustainability at the core of our management and improving our corporate value over the medium to long term by achieving the goals we have set for our key themes.

→ P44

Environment

To achieve business activities in harmony with nature

Contribute to the conservation of the natural environment by appreciating the blessings of nature in all aspects of our corporate activities, and address the increasingly important issue of climate change.

Contributions toward the achievement of SDGs

Key issues

- Addressing climate change
- Reducing CO₂ emissions and energy consumption
- Reducing plastic usage
- Ensuring sustainable procurement

Targets

- Zero CO₂ emissions by FY Mar/2051
- Employ the 4Rs*1 to achieve 100% sustainable packaging by FY Mar/2031
- 100% environmentally friendly paper*2 in paper-based container packaging by FY Mar/2026
- 100% certified palm oil*3 by FY Mar/2024

*1 Reduce, Reuse, Recycle, Renewable
 *2 Certified paper, non-wood paper, recycled paper, etc.
 *3 Covering FANCL Corporation, ATTENIR CORPORATION cosmetics, and health foods

Healthy Living

For a healthy lifestyle that is unique to you

Contribute to the extension of healthy life expectancy and improvement of quality of life (QOL) for people around the world through our unique products and services.

Contributions toward the achievement of SDGs

Key issues

- Initiatives to extend healthy life expectancy
- Addressing basic nutritional needs
- Initiatives to improve QOL

Targets

- By FY Mar/2031, about half of the people in Japan using supplements and health foods to address health-related issues

Local Communities and Employees

To create a society where everyone can shine

Support people's happiness and contribute to the creation of a society where everyone can shine, based on our corporate culture of "truly cares for people."

Contributions toward the achievement of SDGs

Key issues

- Promotion of diversity and inclusion
- Contributing to the local community
- Evolve educational seminars on beauty and health

Targets

- Ratio of female employees in management positions: 50% in FY Mar/2024
- Ratio of female employees in senior management positions*4: 30% in FY Mar/2024
- Ratio of employees with disabilities: 5% in FY Mar/2031

*4 Managerial positions of departmental deputy manager and above

Three Key Themes 1

Environment

To achieve business activities in harmony with nature

Contributions toward the achievement of SDGs



TCFD-based Information Disclosure on Climate Change

We believe that solving climate change-related issues is a top priority for realizing a sustainable society. The FANCL Group will tackle climate change from both mitigation and adaptation perspectives, taking into account the opportunities and risks that we can see from a long-term perspective looking to 2050. We are grateful for the blessings of nature and contribute to the preservation of the natural environment in all aspects of our corporate activities. To link these policies to specific actions, the Company expressed its support for the TCFD* recommendations on October 2020.



* TCFD: The Task Force on Climate-related Financial Disclosures, which was established by the Financial Stability Board (FSB) at the request of the G20 to review how to deal with the disclosure of climate-related information and the response of financial institutions. The TCFD is chaired by Michael Bloomberg.

Governance

We established a Sustainability Committee to achieve the goals of the key themes, including climate change, and to improve corporate value. Chaired by President and CEO, the Committee is composed of directors serving as managing directors and executive officers. In addition to prior deliberation on the policies and strategies to be resolved at Board of Directors' meetings to enable the Board of Directors to fulfill its supervisory and monitoring functions, the Committee manages and evaluates the progress made toward goals and conducts deliberations on measures.

Strategy

Having formulated VISION2030, its long-term vision looking toward 2030, the FANCL Group has been developing its business in pursuit of that vision. We adopted the FANCL Group "Sustainable Declaration" in 2018 and, in 2020, extracted and qualitatively analyzed the business continuity risks due to climate change and the business opportunities that could be seen to arise from the effects of those risks.

In our 3rd Medium-Term Management Plan, which we launched in FY Mar/2022, we further clarified the environmental issues to be addressed by the FANCL Group and set specific quantitative targets, including "net zero CO₂ emissions by FY Mar/2051."

Risk Management

At the FANCL Group, the department responsible for promoting the SDGs identifies the importance of climate change-related risks and opportunities that are related to the overall business, based on the level of impact on management and the possibility of their occurrence, and submits to the Sustainability Committee the details that need to be managed by the FANCL Group. We report matters of particular importance to the Board of Directors and take prompt action.

Going forward, we will commence the quantitative analysis of the financial impacts over the medium to long term and proceed with disclosure in line with the information disclosure methods recommended by the TCFD.

Indicators and Targets

In the 3rd Medium-Term Management Plan announced in FY Mar/2022, we significantly expanded our goals related to climate change in response to global trends and national policies. We set net zero CO₂ emissions by FY Mar/2051 as a new quantitative target, higher than the existing Paris Agreement target of a 26% reduction in 2030 compared with 2013. As a specific measure, we are responding to climate change issues centered on the procurement of power with virtually zero CO₂ emissions, including renewable energy.

More information about FANCL Group and the TCFD can be found here <https://www.fancl.jp/en/sustainable/environment/tcfd>

Risks and Opportunities

The FANCL Group undertook the identification of Group-wide risks and opportunities. The table below summarizes the scenarios caused by climate change in the operations of each of our departments, aggregates these assumed events and assesses the degree of impact and the possibility of occurrence.

Transition risks	Policies and regulations	Decarbonization	<p>(Risk) The introduction of a carbon tax will increase operating costs at our production centers and overall expenditures.</p> <p>(Opportunity) Utilization of low-carbon energy will enable a reduction in costs.</p>
		Containers	<p>(Risks) Tighter regulations on the materials used in plastic containers will lead to high countermeasure costs and an increase in expenditures.</p> <p>(Opportunity) Utilizing non-plastic materials in containers may lead to an increase in corporate value.</p>
Physical risks	Raw materials procurement	Price escalation	<p>(Risks) The introduction of a carbon tax will increase operating costs at our production centers and overall expenditure will increase.</p> <p>(Opportunity) The use of certified palm oil and certified paper may lead to increased corporate value.</p>
		Changing consumer needs	<p>(Risks) Falling demand for products that are not sustainable, and a decline in corporate value due to increased awareness of ethical consumption</p> <p>(Opportunities) Increased awareness of ethical consumption will lead to an increase in demand for sustainable products and increased corporate value.</p>
	Raw materials procurement	Pests	<p>(Risks) Disease-carrying pests may cause a decrease in the total production volume of plant-derived products and an increase in raw materials costs.</p> <p>(Opportunities) Depending on the region, if the occurrence of disease-carrying pests falls, this may lead to increased production and lower raw materials costs.</p>
		Increase in CO ₂ concentration	<p>(Risks) Increasingly persistent weed growth, increased use of herbicides, leading to increased costs.</p> <p>Decline in earnings due to decline in quality of plant-derived raw materials and increase in raw material costs.</p> <p>(Opportunity) In part, this might increase the growth potential of crops and lead to lower raw material costs.</p>
Physical risks	Rising average temperatures	<p>(Risks) Increase in energy costs and higher operating costs/Increased procurement costs due to deterioration in the quality of agricultural products</p> <p>(Opportunity) Expansion of products to meet new needs, such as heat stroke, cooling, and beverages.</p>	
		Water stress (drought)	<p>(Risks) Shortages in water supply due to drought, deterioration of water quality, and increase in operating costs.</p> <p>(Opportunities) Demand for water-saving products and waterless products may increase.</p>
	Extreme weather events	Rising sea levels	<p>(Risks) Damage to facilities, disruptions to logistics, and impacts on infrastructure and business continuity due to torrential rains, typhoons, and rising sea levels.</p> <p>(Opportunity) Demand for disaster prevention-related goods may increase in the event of a natural disaster.</p>
		Spread of infectious diseases	<p>(Risks) Inbound sales and store sales will slump due to travel bans and quarantining.</p> <p>(Opportunities) Demand for products that meet new needs, such as hygiene, immunity, and health, will increase.</p>

Three Key Themes ①

Environment To achieve business activities in harmony with nature

Reducing CO₂ Emissions and Energy Consumption

By making our climate change response and the reduction of CO₂ emissions a top environmental priority, we aim to contribute to the realization of a carbon-free society.

Quantitative targets

Key issues	Targets	Progress to Date
Reductions of CO ₂ emissions	By FY Mar/2051 → Virtually zero	FY Mar/2022 CO ₂ emissions: 10,740 (t) (Scope 1+2)

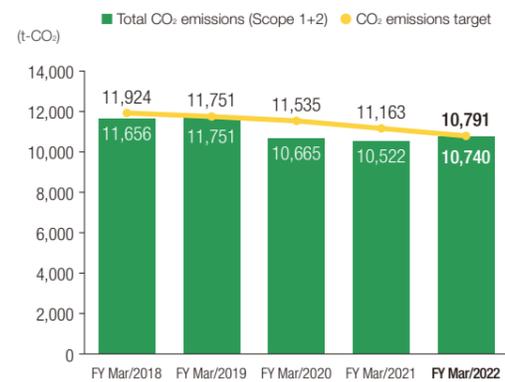
Reductions of CO₂ Emissions

Renewable energy power introduction, significant reductions of CO₂ emissions from FY Mar/2023 onward

In addition to conventional efforts such as the installation of solar panels and energy-saving equipment, under the 3rd Medium-Term Management Plan we will newly purchase renewable energy electric power in a strategic manner as we aim for virtually zero CO₂ emissions by FY Mar/2051.

CO₂ emissions (Scope 1+2) in FY Mar/2022 were 10,740 tons. Going forward, we will also start reducing CO₂ emissions (Scope 3) in the entire supply chain, from the procurement of raw materials to the disposal of used products.

FANCL Group CO₂ Emissions Target Results



Note: For more details, please see the FANCL ESG Data Library for FY Mar/2022.



Utilization of Renewable Energy

Additional installation of solar panels in turning to electric power from renewable energy sources

Previously, solar panels were installed at two domestic bases. In FY Mar/2022, however, we newly installed solar panels at two bases and are now utilizing solar power generation to provide part of our operating energy at our three domestic factories and the Kansai Logistics Center.

Furthermore, in April 2022, we converted 100% of the electricity used at 12 domestic sites (six factories, one logistics center, and five bases, including our head office) to virtually zero CO₂ emissions.

We also supporting a wind power generation business in Yokohama, where our head office is located, and are working on partnerships with local governments.

Installation of Solar Panels

- Mishima Factory (commenced operations in 2021)
- Kansai Logistics Center (commenced operations in 2021)
- Gunma Factory (commenced operations in 2018)
- Shiga Factory (commenced operations in 2011)

Ensuring Sustainable Procurement

While building relationships of mutual prosperity and coexistence with its business partners and providing customers with reliable, safe, high-quality products and services, the FANCL Group is aiming for sustainable procurement that takes into consideration aspects that include the environment, human rights and labor issues.

Quantitative targets

Key issues	Targets	Progress to Date
Adoption of certified palm oil*	By FY Mar/2024 → 100%	FY Mar/2022: 100% RSPO (including book and claim method)

* Covering FANCL Corporation, ATTENIR CORPORATION cosmetics, and health foods

Adoption of Certified Palm Oil Based on the Sustainable Procurement Basic Policy

Palm oil is a vegetable oil derived from oil palms cultivated in the tropics. In Malaysia and Indonesia, the two largest producers of palm oil, there are serious issues related to the large-scale deforestation of tropical forests brought about by agricultural development and issues surrounding the human rights of agricultural workers. Having made the adoption of certified palm oil its target, the FANCL Group joined the RSPO*¹ and JaSPON*² and is addressing these issues by means of its membership.



In September 2021, RSPO supply chain certification*³ was obtained for the FANCL and ATTENIR head offices and the Company's factories (Chiba, Gunma, and Shiga factories).

In January 2022, the RSPO book and claim method was used to handle the equivalent of palm oil-derived ingredients used in cosmetics and health foods.

From now on, we will gradually switch to the mass balance method, which is physically certified oil.

*¹ Roundtable on Sustainable Palm Oil, the FANCL Group joined in 2018

*² Japan Sustainable Palm Oil Network, joined in 2019

*³ RSPO Supply Chain Certification is a system to verify that a reliable delivery system has been established in the supply chain of RSPO-certified raw materials

Procurement with Business Partners That Takes into Consideration the Environment and Human Rights in the Supply Chain

The basic concept of FANCL Group procurement activities is summarized in the FANCL Group Sustainable Procurement Policy, and we have published the Supplier Guidelines as the action guidelines that we would like our business partners to follow. Their content was notified to all our business partners, approximately 2,200 companies in all, in January 2021.

In the years to come, we will conduct questionnaire surveys on the status of compliance with the policy and guidelines, and while communicating with our business partners will strive to identify risks in the supply chain and consider countermeasures.

The FANCL Group Sustainable Procurement Policy (in Japanese)
<https://www.fancl.jp/procurement/guideline/index.html>

Business Partner Questionnaire Surveys by Internal Audits

The Internal Audit Office conducts a questionnaire survey of business partners every year to monitor the stance of their employees toward purchasing and the status of legal compliance such as with the Subcontract Act. The results of the questionnaire are linked to the building of sound business relationships with our business partners through specific improvements. We have also adopted the results of business partner evaluations as an indicator for medium-term incentives in officer compensation.

➔ P45

Participation in Climate Change Initiative (JCI)

Partnerships in which national governments, local governments, businesses, NGOs and other bodies around the world work together are indispensable in confronting the challenges presented by climate change. In Japan, the Japan Climate Initiative* has been

established, and more than 700 companies and organizations are participating (as of June 2022). One of them, FANCL is promoting efforts toward the realization of a carbon-free society.

* Japan Climate Initiative (JCI) <https://japanclimate.org/english/>

Three Key Themes ❶

Environment To achieve business activities in harmony with nature

Reducing Plastic Usage

From the perspective of the 4Rs*, we will work to reduce plastic used in our products and services.

* Reduce (reduce the amount of plastic used in containers), Reuse (reuse containers), Recycle (container recovery and recycling), Renewable (switch to recycled materials or plant-based materials)

Quantitative targets

Key issues	Targets	Progress to Date
4R compatibility in container packaging materials in which plastic is used	By FY Mar/2031 → 100%	FY Mar/2022: 43.0%
Adoption of paper with low environmental footprint* for container packaging materials in which paper is used	By FY Mar/2026 → 100%	FY Mar/2022: 79.9%

* Certified paper, non-wood paper, recycled paper, etc.

Sustainable Container Packaging

From the perspective of the 4Rs, reducing the plastic in product container packaging

Reduce (Reduction in amount of plastic used in containers)

Reducing amount of plastic in containers

In the case of *MILD CLEANSING OIL* cosmetic product, we have gradually promoted reductions in the weight of the bottles and reduced the amount of resin used in them by about 40% (compared with 2004). In the case of supplements, the thickness of the aluminum pouch bags has been cut by 11% since 2013, and we are striving to make further reductions.



Reuse (Trend toward refill containers)

Reduce plastic usage by means of refill products

The *MILD CLEANSING OIL* refill container, which was newly released in 2020, contributes to an annual plastic reduction of 26.9 tons and an 82% reduction compared with the standard container. We are also developing a large number of refill containers in the ATTENIR product range.



Renewable (Switching to recycled or plant-derived materials)

A Japanese cosmetics industry first: Reuse of PET bottle caps

The caps generated during the manufacture of Kirin Beverage Co., Ltd. products have been made into recycled plastic and adopted for use in some ATTENIR products. The adoption of recycled plastic derived from PET bottle caps for cosmetic containers represents the first initiative of its kind in the domestic cosmetics industry.



Adoption of recycled, oil-derived plastic

In the case of the *MILD CLEANSING OIL*, we adopted recycled, oil-derived PET made by chemical recycling for the container body. In FY Mar/2023, we will also adopt recycled PET for *ENRICH+* bottles and gradually make the switch for our other PET cosmetics containers.



Adoption of low environmental footprint paper

The FANCL Group as a whole is aiming to use 100% low environmental footprint paper for its paper container packaging by FY Mar/2026. The FANCL Cosmetics brand is already switching to 100% low environmental footprint paper.



FOCUS

FANCL Recycling Program: Creating the future together with our customers

To Make the Plastics in Cosmetics Packaging a Resource Again

As a new initiative aimed at recycling plastic resources, we started the "FANCL Recycling Program—Spreading Flowers and Greenery" in July 2021. This program is an initiative that involves recovering and recycling used cosmetic containers*1 at some directly managed stores.



In response to customer requests, we will expand our recovery bases to 61 stores*2 in Tokyo, Kanagawa and other prefectures in April 2022, with the aim of expanding to all stores nationwide during FY Mar/2023. FANCL Group employees are also participating in this container collection.

*1 21 items targeted for recovery (as of July 2022)
*2 Including Daimaru Kyoto store

Active Participation of Employees with Disabilities

Sorted, washed, and dried by FANCL SMILE Co., Ltd., our special subsidiary that promotes the employment of people with disabilities, the recovered containers are then recycled into flowerpots by a specialized partner company.

Flowerpots to Local Communities

Donated to Yokohama City, where the FANCL head office is located, the recycled flowerpots are contributing to the creation of a city full of flowers and greenery, such as by using them at Garden Necklace Yokohama events, where people can enjoy the changing displays of beautiful flowers.



Unique to FANCL, aiming for container recovery and recycling

Since our establishment, there has been a culture of earnestly confronting social issues and deepening our business understanding by "doing what we can do by ourselves." It is for that reason that we have devised and put in place our own schemes, such as using directly managed stores as the location for recovering the containers, and using special subsidiary FANCL SMILE to separate, wash, and dry them. By working on their own, employees can also foster awareness of the importance of doing the work and of their social contribution, and this can also lead to the ascertaining and understanding of essential social issues.

In addition, the 17 goals set forth in the SDGs are interrelated, and it is said that the comprehensive resolution of these goals will lead to their achievement. A major feature of the FANCL Recycling Program is that the environmental efforts involved in container recovery and recycling have led to the promotion of the active participation of people with disabilities, the creation of employment, and contributions to the local community.

In the recycling of plastic resources, there exists a host of issues that cannot be solved by a single company alone. To resolve these issues, we believe that it is essential to transcend the boundaries of a company and work in partnership with like-minded people. As a new challenge, in the years ahead we

will be collaborating with the Kirin Group, with which we have a capital and business alliance. We would like to develop our efforts with the aim of horizontal recycling, by which used containers are recycled into the same containers using chemical recycling technology.

From the start of the FANCL Recycling Program onward, many customers have already kindly joined in with us. As time goes by, we will transform ourselves into an even greater force and contribute to the realization of a sustainable society by evoking emotion among more customers and promoting activities together with them.

Maho Yamamoto

Executive Officer
General Manager
The promotion office
of SDGs



Three Key Themes ②

Healthy Living

For a healthy lifestyle that is unique to you

Contributions toward the achievement of SDGs



Under the FANCL Group VISION2030, we are aiming to make the world healthier and more beautiful while becoming a company that is loved around the world, and contributing to the extension of healthy life expectancy and improvement of quality of life (QOL) for people around the world through our unique products and services. As a pioneer in supplements with a years-long track record intertwined with the health of people, FANCL utilizes a wealth of R&D and technological capabilities in our ongoing efforts to introduce products that offer new added value.

Quantitative targets

Key issues	Targets	Progress to Date
Initiatives to extend a healthy life	Ratio of people in Japan using supplements and health foods to address health-related issues By FY Mar/2031 → 50% (one in two people)	FY Mar/2022: 28%
Addressing basic nutritional needs		
Initiatives to improve QOL		

Resolving Social Issues through Business

FANCL's Health Food Business Policy

In addition to the four health needs associated with a society undergoing a decline in birthrates and an aging population, namely the health needs of the elderly, needs for working healthier and longer, women's specific needs, and nutritional needs, there is the fifth need revealed by the recent COVID-19 pandemic, that being

the "immune system." FANCL's health food business is concentrating its efforts on addressing these five needs. Likewise, we support the era of 100-year lifespans by proposing products that bring new added value as a result of seeking to maximize the strengths that only the FANCL Group can offer.

Social Background	Increasing elderly population	Declining working population	Women's advancement in society	Dietary habits/ Nutritional changes	Viral threats
Health needs stemming from the current social background	Health needs of the elderly	Health and longevity working needs	Women-specific needs	Nutritional measures and needs	Immunity needs
Products to Address These Needs					

Proposing Products and Services That Are Exceptionally Competitive

To fulfill the above listed needs, FANCL will focus on three points as a means of introducing exceptionally competitive products and services.

- Being an easy way to enable an understanding of one's own health condition, this technology proposes optimal and tailor-made ways to deal with health issues, together with providing confirmation of the effectiveness of your own measures. This motivates customers to continue their efforts.
- Having cultivated "product efficacy in our body" technology, FANCL develops highly functional and exceptional products that meet customer needs.
- FANCL focuses its efforts on developing dosage forms that customers find easier to incorporate into their lifestyles, and works to enhance usability and continuity.

Examples of Putting Solutions for Social Issues into Practice

Leveraging the technologies and research outcomes we have accumulated over the years, FANCL engages in initiatives to develop and foster products that bring new value for health.

Health and Longevity Working Needs

FANCL develops products that help improve consumer QOL in order to ensure they can continue working with both physical and mental health. *Sleep & Fatigue Care*, a Food with Function Claims that approaches health from the perspectives of both sleep and fatigue, improves the quality of sleep and lessens the feeling of fatigue upon awakening.



Sleep & Fatigue Care Launched in October 2021

Health Needs of the Elderly

In an era of 100-year lifespans, FANCL supports the elderly in achieving active lifestyles that are always energetic, and develops products that contribute to longer healthy life spans. *BRAINS*, a Food with Function Claims, takes a two-pronged approach to health by tending to those cognitive functions (memory and



BRAINS Launched in January 2022

attentiveness) and mental capabilities that decline with age.

Nutritional Measures and Needs

Improving the nutritional balance of everyday dietary habits is an important part of the solution for mental and physical function disorders caused by nutritional deficiencies and other health issues stemming from diets.

FANCL offers products that address issues with nutritional deficiencies, including *Essential Nutrient Pack*, a supplement containing 27 essential nutrients that tend to be lacking among those that modern humans require, *Personal ONE*, a customized supplement designed with the essential nutrients following an analysis of the consumer's health condition based on urine test results, dietary habits, and lifestyle habits, and *Kale Juice*, a health food made entirely of kale and containing many different nutrients, including vitamins, minerals, and plant fiber.



Essential Nutrient Pack



Personal ONE



Kale Juice - Premium

Health and Nutrition Seminars

"Health support program" initiative with Kanagawa Prefecture

Through "Diet, Exercise, and Social Participation," Kanagawa Prefecture is promoting "pre-illness improvement" initiatives in aims of ensuring the prefecture becomes healthier. As part of this effort, FANCL also holds seminars during the "Health Support Program" provided at local pre-illness centers.

FANCL Kanagawa SDGs Seminar (Healthy living)



Seminar at a Nursing and Welfare Senior High School

We hold seminars for high school students in Kanagawa Prefecture to convey the importance of nutrition for nurturing healthy minds and bodies.

Other SDGs Seminars → P42

Responsible Advertising and Marketing

FANCL has established a social media policy and practices responsible advertising and marketing.

In March 2018, we launched the Advertising Expression Review Working Group for health foods. In regard to understanding and mastering related laws and regulations, as well as expressions used in advertising in general, the Working Group conducts reviews to ensure that advertising can be

practiced appropriately from the perspective of "Are the expressions easy for customers to understand?" for example.

During the review process, the Working Group meets with external experts as needed.

We also hold advertising study groups led by the departments responsible for advertising duties once per month in order to educate employees.



Advertising Expression Study Group for Employees

Structure of the Advertising Expression Review Working Group



Three Key Themes ③

Local Communities and Employees

To create a society where everyone can shine

Contributions toward the achievement of SDGs



Promotion of Diversity and Inclusion

As a “corporation that truly cares for people,” the FANCL Group has adopted the key phrase “Embrace differences” to express its aim to continue creating new value by benefiting from a diverse human resources team whose wide variety of values and ways of thinking give space to individual qualities and strengths. We respect and recognize each other’s diversity in values, ways of thinking, and workstyles, irrespective of, for example, age, gender, disabilities, sexual orientation/gender identity, nationality, race, and religion. Striving so that we can demonstrate teamwork in environments where individuals can shine and thrive, we will promote change and encourage value creation.

Quantitative targets

Key issues	Targets	Progress to Date
Ratio of female employees in management positions	By FY Mar/2024 → 50%	FY Mar/2022: 47.1%
Ratio of female employees in senior management positions*	By FY Mar/2024 → 30%	FY Mar/2022: 25.3%
Ratio of employees with disabilities	By FY Mar/2031 → 5%	FY Mar/2022: 4.29% (legally required ratio 2.3%)

* Managerial positions of departmental deputy manager and above

Promotion of Female Empowerment

To provide beauty and health to our customers, a corporate culture in which female employees play a central role has been deeply rooted at FANCL since its establishment. The ratio of female employees is 62.2%, and the ratio of female employees in management positions stands at 47.1% (FY Mar/2022). Never resigning from the company to give birth or raise children, women and men support each other, and we are promoting the creation of comfortable workplaces where they can demonstrate their abilities together.



Meeting of those in charge of online sales

In support of

WOMEN'S EMPOWERMENT PRINCIPLES

Established by UN Women and the UN Global Compact Office

In February 2022, FANCL was a signatory to the Women's Empowerment Principles (WEPs).

Promoting Understanding of LGBTQ

We hold regular training sessions every year to promote understanding of the issues surrounding LGBTQ and other sexual minorities with the aim of realizing a society where everyone can work enthusiastically and in their own way, regardless of their sexual orientation or gender identity. In the PRIDE index, an index that evaluates initiatives related to sexual minorities and was established by the non-profit organization work with Pride, FANCL

received a Silver rating in November 2021. From FY Mar/2022, employees have also commenced LGBTQ Ally activities.



LGBTQ Ally activities



Participation to Fullest Extent of Employees with Disabilities

In February 1999, FANCL SMILE Co., Ltd. was established as a special subsidiary with the aim of supporting people with disabilities to lead more independent lives. In addition to the company's previous operations, in FY Mar/2022 new fields of activity were expanded by starting the Kansai Logistics Center work location and cleaning operations in the recovery and recycling of cosmetics containers. Promoting the employment of people with disabilities not only in FANCL SMILE but also throughout the entire FANCL Group, we are aiming for a groupwide ratio of employees with disabilities of 5% by FY Mar/2031.



Cleaning of cosmetics containers

Active Seniors

On April 1, 2020, the FANCL Group raised the mandatory retirement age for regular employees from 60 to 65. In 2017, we had established a new employment category called “Active Senior Employees” who can work even if they are 65 years old or older.

Moreover, many people in their 50s and older experience major changes both at work and at home. Due to the importance of learning knowledge management skills and of imparting their own experience and knowledge, career training for people in their 50s is also held on a regular basis.

Mental and Physical Health of Employees

As a pioneer of supplements, the beauty and health FANCL Group encourages the creation of a health-first culture, underpinned by the Company recognizing that employee health forms the basis of everything.

Mental and Physical Health Initiatives

Five public health nurses are in regular employment assigned to the Health Support Office, a specialized organization that supports the health of employees. In partnership with an industrial physician, we have put in place a system that enables collaboration between the workplace and medical care, while we respond to requests for consultations from employees with regard to lifestyle-related diseases and mental health.

Since FY Mar/2019, we have been utilizing a dedicated health management system. Enabling two-way communication, the system has led to prevention of the onset of mental and physical illnesses.



Public health nurses are resident in-house.

occurs, utilizing telecommuting, installing non-contact medical thermometers and alcohol disinfectants, and thoroughly wearing masks, we have created an environment where employees can work with peace of mind. In addition, vaccinations in the workplace were speedily implemented for employees working in the Tokyo metropolitan area and the family members with whom they were living from June 2021, and the third vaccination was completed as of March 31, 2022.

Response to Flexible Workstyles

To accommodate flexible workstyles, we introduced a system that allows employees to work from home and work flexibly at the same time, so that even employees with a variety of family circumstances could expand their fields of activity.

We introduced telecommuting from FY Mar/2016. At the present time, we are expanding the scope of telecommuting and reducing the number of employees in our offices to prevent the spread of COVID-19 infections.

Having also enhanced the special paid leave system of refresh leave, life event leave, and discovery leave*, the average annual paid leave take-up rate is 81.4% (FY Mar/2022).

* Discovery leave: Five days of special paid leave, granted in the milestone years of five, 15, 25, and 35 years of service, to provide opportunities for employees to reflect on their careers and think about the future.

Countermeasures against COVID-19 Infections

We have a system by which employees can have a consultation with a public health nurse at any time. By taking measures such as preparing manuals for when a case of a person in poor physical condition



Vaccination in the workplace

Employee Satisfaction Rate Survey Results

With the aim of verifying employee engagement, such as management stance and job satisfaction, we have been conducting a questionnaire for management once a year since FY Mar/2015.

In FY Mar/2022, the rate was slightly lower than the previous year due to the effects of the prolonged COVID-19 pandemic, but at 80.3% a high satisfaction level is being maintained.

In addition, we have adopted the Employee Engagement result as an indicator for medium-term incentives in officer compensation.

➔ P45

Results from Employee Satisfaction Rate Survey



Question content	
1 Salary	4 Working at FANCL
2 Work, position	5 Workplace relationships
3 Future of FANCL	6 Management's stance on management

Three Key Themes ③

Local Communities and Employees To create a society where everyone can shine

FOCUS

Social Activities / Connections with Local Communities

“Can Achieve More” even for local communities. The FANCL Group is engaged in a variety of activities designed to assist the process of regional revitalization. Through our activities, we will contribute to the creation of a society in which everyone can shine and thrive.

FANCL Kanagawa SDGs Seminar

As a company based in Kanagawa Prefecture, we started the FANCL Kanagawa SDGs Seminar in April 2021 from the desire to promote SDGs together with the local younger generation in Kanagawa, who will bear responsibility for the future, and to contribute to local communities. Together with companies and organizations that support FANCL's ideas, the seminar tells high school students and elementary school pupils in Kanagawa Prefecture of the importance of the SDGs.

In FY Mar/2022, we held 12 one-off courses and nine long seminars with the Sustainable Research Club of Yokohama Municipal Higashi High School. We held an elementary school seminar during the summer vacation.



Long-term seminar (High school students)



"<Bringing SDGs Closer to Home> FACIAL WASHING POWDER" launched in limited quantities



Summer vacation seminar (Elementary school pupils)



Parents and children making posters for summer vacation seminars

The theme of the long seminars was "Jointly developing a cosmetic package design for which plastic containers made from 100% plant-derived, environmentally friendly materials are adopted." Seminar attendees not only learned about environmental issues through the development of package designs, but also thought about and implemented information dissemination to raise awareness of the environment among consumers through the products.

	Number of seminars	Number of participating pupils	Content covered
One-off seminar (High school students)	12 times in total / eight times by FANCL instructors / four times by other companies' instructors	2,212	FANCL's SDGs / Environment / Healthy Living
Long (High school students)	Nine times	Eight Sustainable Research Club members	Limited-edition Facial Washing Powder Design development
Summer vacation course (Elementary school pupils)	Once	25	An SDGs Declaration that you yourself can make

I want as many people as possible to be interested in the SDGs

The FANCL Kanagawa SDGs Seminar started out as an SDGs activity that involves local communities, which is unique to FANCL. When you hear the term SDGs, it tends to sound like a major worldwide topic, but it is important for both companies and individuals to be as active as they can be to achieve them.

We hope that as many people as possible will be interested in the SDGs, and that this initiative will become a role model and expand the circle of activities as a community-based activity that can be undertaken by companies both large and small, regardless of their size.



Hiroaki Iwamoto
Group Manager
Corporate Advertising Group
Advertisement Department

FANCL Seminars

Based on its desire of "wanting everyone to stay healthy and beautiful," FANCL launched its makeup seminars in 1988 and is conducting a variety of seminars and educational activities.

At the present time, we are holding free FANCL seminars online, for example, for the visually impaired, special-needs education, and cancer patients.

The Personal Grooming Seminar for students at special-needs education received the highest award, the Minister of Education,

Culture, Sports, Science and Technology Award, in the large company category of the Youth Experience Activity Promotion Company Awards sponsored by the Ministry of Education, Culture, Sports, Science and Technology.

This award was given in recognition of all FANCL Group employees supporting the personal grooming seminars, online initiatives that could be conducted even during the COVID-19 pandemic, and of the three instructors belonging to our FANCL SMILE subsidiary, where employees with disabilities work.



FANCL SMILE employees who work as lecturers on the online seminar



Online "Personal Grooming Seminar"

Donation Activities

We want to make use of FANCL's "Can Achieve More" ideas not only in business but also in social activities. With that in mind, we are making donations in partnership with our customers,

shareholders, and employees. In the years ahead, the FANCL Group will continue to actively engage in social activities to address the various issues that society is facing.

Type	Numbers of people/donations	Donations made in FY Mar/2022	Use
Customer donations of loyalty points	2,423	¥4,530,000*	<ul style="list-style-type: none"> • Support associated with spread of COVID-19 infections (Japanese Red Cross Society) • Support for Ukraine (Japanese Red Cross Society) • Facilities for people with severe physical or mental disabilities nationwide and facilities providing support for the visually impaired (Japan Philanthropic Association)
Shareholder donations	884	¥2,830,000	<ul style="list-style-type: none"> • Support associated with spread of COVID-19 infections (Japanese Red Cross Society) • Support for those affected by Great East Japan Earthquake (Great East Japan Earthquake Reconstruction Assistance Foundation)
Employee donations to the "Can Achieve More Fund"	20 donations	¥6,850,000*	<ul style="list-style-type: none"> • Moridukuri Forum NPO • Musubie NPO • Florence NPO • Support for Ukraine (Japanese Red Cross Society), etc.

* Amount including matching donation from FANCL

Donations of Products Associated with Effects of COVID-19 Infections

The economic predicament is becoming more serious due to the spread of COVID-19 infections. We donate products such as *Meneki Support* (Food with Functional Claims) supplements, skin

care, and makeup to single-parent support groups, women's support groups, food banks, and medical professionals working at the forefront of the fight against the pandemic.

In the years ahead, we will continue to support people in need.

Governance

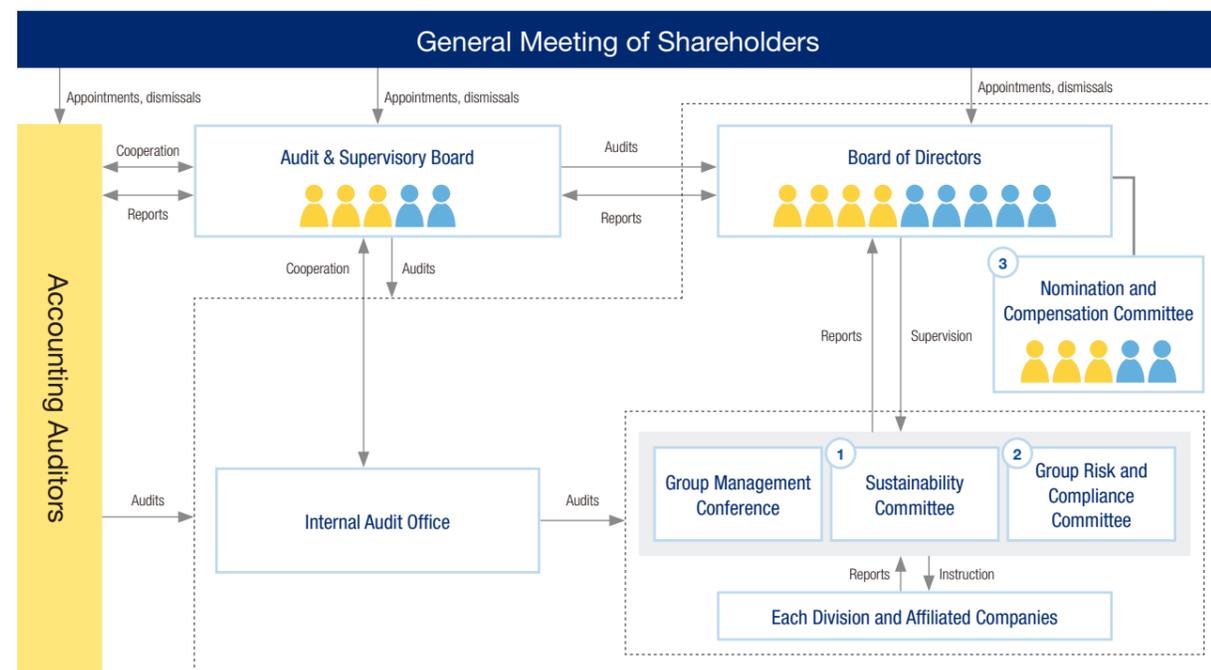
Corporate Governance Structure

Characteristics

- Adopted an Audit & Supervisory Board System
- Over one-third are Outside Directors
- Nomination and Compensation Committee established on a voluntary basis (chaired by an outside director)

(As of June 25, 2022)

Outside Inside



1 Sustainability Committee

FY Mar/2022 held two times

In October 2021, we established the Sustainability Committee with the aim of placing sustainability at the core of our management and improving our corporate value over the medium to long term by achieving the goals we have set for our priority themes. Chaired by the President & CEO, Representative Director, the committee is composed of executive directors and executive officers. In order for the Board of Directors to fully fulfill its supervisory and monitoring functions, the committee deliberates in advance on policies and strategies to be resolved by the Board of Directors, manages and evaluates progress against targets, and discusses individual measures.

In FY Mar/2022, we managed and evaluated our progress in reducing CO₂ emissions, including the adoption of renewable energy, recycling of containers recovered to reduce the consumption of plastic, shifting to the use of sustainable containers and packaging, and adoption of certified palm oil. The progress of these efforts was reported to the Board of Directors.

2 Group Risk and Compliance Committee

Newly established in FY Mar/2023

In May 2022, we established the Group Risk and Compliance Committee, which is chaired by the President & CEO, Representative Director with the intention of strengthening the FANCL Group's risk and compliance management.

The Quality Control Working Group, Corporate Ethics Working Group, Internal Control Working Group (financial and IT control), and Information Security Working Group have been established under the Group Risk and Compliance Committee and report to the Board of Directors on the status of risk analysis and countermeasures as well as legal compliance related to quality, advertising, legal violations (including infringements regarding the environment) and responses to legal amendments, personal information and trade secrets protection, whistleblowing, fair trade, proper accounting procedures, maintenance, improvement and evaluation support related to IT controls, and information security.

3 Nomination and Compensation Committee

FY Mar/2022 held eight times

The Company has in place a Nomination and Compensation Committee as an advisory body to the President & CEO, Representative Director to actively involve the independent outside directors in the nomination of director candidates and in deciding officer compensation as well as to ensure the fairness, transparency and objectivity of procedures. The chairperson of the committee as well as the majority of its members are independent outside directors. In addition to matters relating to the nomination of directors and executive officers of the Company, the committee drafts the compensation system, examines the amounts of compensation for each individual and submits a full report stating its opinions to the President & CEO, Representative Director.

Officer Compensation System

Officer compensation consists of monthly compensation, which pays a fixed amount each month, stock-based compensation as a long-term incentive, and performance-linked, stock-based compensation as a medium-term incentive. The monthly compensation is further divided into basic compensation, which is determined based on the weight of the officer's roles and responsibilities, and variable compensation that is determined

each year on the basis of factors that include the degree to which the annual plan (operating income) in the previous fiscal year was achieved and an individual performance evaluation. In the case of outside directors, however, only basic compensation is paid.

The performance-linked, stock-based compensation plan grants to eligible directors the Company's shares and other financial instruments in accordance with factors that include the position held by the eligible director and the level of achievement of performance targets. The plan comprises two portions: a performance-linked portion, in which shares in the Company are delivered in accordance with the level of achievement of the Medium-Term Management Plan; and a fixed portion that is in accordance with the position held by the eligible director.

The performance-linked portion is positioned as a medium-term incentive for the realization of the Group's Medium-Term Management Plan. Compensation is determined from multiple perspectives by incorporating the achievement rate of financial indicators and non-financial indicators, such as CO₂ emissions, employee engagement, and business partner evaluations.

The fixed portion is positioned as a long-term incentive to improve corporate value throughout the director's term in office.

Composition of compensation paid to the President & CEO, Representative Director

Form of payment	Monthly compensation		Medium-term incentive	Long-term incentive
	Monetary	Stocks + monetary ²		
Compensation composition ratio ¹	Basic compensation 34%	Variable compensation 30%	Performance-linked portion ³ 15%	Fixed portion 21%
	Variable 45%		Fixed 55%	

¹ The compensation composition ratio is an image calculated based on a certain level of the Company's earnings and share price, and will fluctuate according to the Company's earnings and share price.

² 50% of medium- and long-term incentives consist of the monetary portion and is paid as fund tax payments.

³ The performance-linked portion of the medium-term incentive is paid after the final fiscal year of the medium-term management plan.

Medium-term incentive performance-linked compensation index

Evaluation items	Evaluation index	Evaluation weight
Financial indicators	Net sales	30%
	Operating income	50%
	ROE	10%
Non-financial indicators	CO ₂ emissions	10%
	Employee engagement Business partner evaluations	

* Financial indicators: Evaluated based on actual results in the final year of the medium-term plan (FY Mar/2024)

* Non-financial indicators: CO₂ emissions are evaluated based on the results of the final year of the medium-term management plan (FY Mar/2024), and other indicators are evaluated based on the average values of the three years of the medium-term management plan.

Officer Compensation, etc., in FY Mar/2022

Officer classifications	Total Compensation, etc. (¥ million)	Monthly compensation	Total compensation, etc., by type (¥ million)		Number of eligible officers
			Performance-linked stock compensation		
			Performance-linked grants Performance-linked compensation Non-monetary compensation	Fixed grant Non-monetary compensation	
Directors (Of whom Outside Directors)	241 (35)	203 (35)	5 (-)	31 (-)	8 (3)
Audit & Supervisory Board members (Of whom outside Audit & Supervisory Board members)	57 (21)	57 (21)	- (-)	- (-)	6 (4)
Total (Of whom outside officers)	298 (56)	261 (56)	5 (-)	31 (-)	14 (7)

(Note) The above figures include remuneration granted to one Supervisory Board member who retired at the conclusion of the 41st Ordinary General Meeting of Shareholders held on June 26, 2021. The number of directors paid does not include one unpaid director (outside director).

Effectiveness of the Board of Directors

Evaluations of the Board of Directors' Effectiveness

Every year since FY Mar/2016, directors and Audit & Supervisory Board members have been conducting self-evaluations of the Board of Directors' meeting in order to gain a better understanding of the state of the Board and enable it to operate more effectively.

Result of FY Mar/2022 Board evaluations

Management of the Board of Directors	FANCL's strength lies in the fact that its founding philosophy and management philosophy are firmly entrenched within the Company, and the Board of Directors operates in a manner that ensures discussions are held on the basis of these principles. Board of Directors' meetings are held openly under the stewardship of the chairperson in an environment in which members can speak both freely and candidly. Meetings of the Board of Directors are distinguished by their open atmosphere where outside directors are actively encouraged to speak out. As such, there is a sense of positive tension. From an executive perspective, issues raised by outside directors are accepted in a positive manner and reflected in management.
Structure of the Board of Directors	The Board of Directors is well-balanced, and comprised of four non-executive directors working with five executive directors. In addition, outside directors possess different business experience and areas of expertise, ensuring diversity. There is a certain argument to be made that there should be a majority of outside directors in the future, but the current composition is functioning, so we see no real benefit in moving in this direction. In the medium- to long-term, there are issues related to appointing female directors internally and foreign directors as the Company expands overseas.
Board of Director Discussions	Detailed explanations of "matters to be discussed and reported" and "theme sessions" are provided in advance, enhancing the Board of Directors' discussions. However, some areas are discussed in extraordinary detail so streamlining them should be considered in the future. Regularly discussing and monitoring other important themes such as overseas business should be considered.
Communications with stakeholders	The information shared by the IR Department at Board of Directors meetings on a regular basis is accurate and substantial. Negative comments from dialogue with shareholders and investors are proactively reported, which is very good. These comments are reflected in the execution of business operations.

Board of Director Discussions

Starting in FY Mar/2021, themed sessions were set up as a forum for free discussion of Companywide themes, and after sufficient information and explanations were provided to outside directors, active discussions were held, which was evaluated as leading to

the invigoration of the Board of Directors' meetings.

In this report, we showcase the content of our discussions and subsequent measures regarding efforts to "Implement human resource development and utilization," one of the growth strategies in our medium-term management plan "FORWARD 2023."

Discussion content: "Implement human resource development and utilization" (implementation: August and November 2021)

Executive officers shared the current problems and related factors as the first step in planning future human resources strategies. Explanations were given that included: "the number of female executives in managerial positions has increased to a limited extent;" "job rotation is difficult because operations are segmented by function;" and "the Company has grown in a top-down manner, so the ability to convert individual ideas into company strengths is weak."

In response to these explanations, outside directors commented, "there needs to be an awareness that the characteristics for promotions differ between men and women," and "functions are not so segmented that job rotations are impossible." Some conveyed the opinion that in an age when decisions must be made quickly, it is important to gain a variety of experiences and have a multifaceted viewpoint. Based on the results of the discussions, the executive officers decided to formulate a new human resources strategy that "allows each individual to have autonomy and areas of expertise and to

demonstrate their diverse personalities and abilities," and to "train candidates for the next generation of management that includes women," "make regular job rotation a rule," and "promote human resources development programs to enhance implementation abilities."

In January 2022, we implemented large-scale organizational and personnel changes centered on executive officers and general managers in an effort to develop the next generation of management. In addition, we started the FANCL Management School in June and plan to implement the "Women's Leadership Program" in the future.



Board of Directors meeting

Expertise and Experience of Directors and Auditors

At FANCL, the Nomination and Compensation Committee deliberated on the skills that the Board of Directors should have and the skills of each Director in light of the corporate strategy and reported its findings to the Board of Directors.

We identified 10 skills and positioned the following skills as those that are especially unique to FANCL: "1. Understanding of Management Philosophy," "4. Manufacturing, Technology, R&D," and "8. IR (dialogue with shareholders and investors)."

Definition of Skills

Item	Skill Item	Description
1	Understanding of Management Philosophy	Understands the FANCL Group's founding philosophy and management philosophy.
2	Corporate Management (Representative Director experience)	Possesses the experience and skills of a representative director.
3	ESG, Sustainability	Possesses knowledge, experience, and skills in non-financial factors that support corporate sustainability, such as ESG issues.
4	Manufacturing, Technology, R&D	Possesses knowledge, experience, and skills in research and development, technology, and the pursuit of safety and security.
5	Corporate Finance	Possesses knowledge, experience, and skills in corporate finance.
6	Quality & Safety, Compliance, Risk Management	Possesses knowledge, experience, and skills in quality & safety, compliance, and risk management.
7	Brand Strategy, Marketing, Sales	Possesses knowledge, experience, and skills in brand strategy, marketing, and sales.
8	IR (dialogue with shareholders and investors)	Possesses knowledge, experience, and skills in IR activities for shareholders and investors.
9	ICT, Digital Technology, Digital Transformation	Possesses knowledge, experience, and skills in ICT, Digital Technology and Digital Transformation.
10	Global Experience, Overseas Business Management	Possesses knowledge, experience, and skills in overseas assignments or overseas business support and management.

Skill Matrix

Name	Position within the Company	1	2	3	4	5	6	7	8	9	10
		Understanding of Management Philosophy	Corporate Management (Representative Director experience)	ESG, Sustainability	Manufacturing, Technology, R&D	Corporate Finance	Quality & Safety, Compliance, Risk Management	Brand Strategy, Marketing, Sales	IR (dialogue with shareholders and investors)	ICT, Digital Technology, Digital Transformation	Global Experience, Overseas Business Management
Kazuyuki Shimada	President & CEO, Representative Director	●	●	●		●	●	●	●	●	●
Tomochika Yamaguchi	Representative Director, Senior Managing Director	●	●					●		●	●
Akihiro Yanagisawa	Executive Managing Director	●	●	●	●		●				
Yasushi Sumida	Executive Managing Director	●		●	●		●				
Shinro Fujita	Executive Managing Director	●	●			●		●			●
Mitsuaki Nakakubo	Outside Director (Independent Officer)	●					●		●		●
Keiichiro Hashimoto	Outside Director (Independent Officer)	●	●	●		●	●		●	●	●
Akira Matsumoto	Outside Director (Independent Officer)	●	●			●					●
Junko Tsuboi	Outside Director	●	●	●				●	●		
Seiichiro Takahashi	Audit & Supervisory Board Member	●		●			●				
Naoya Maruo	Audit & Supervisory Board Member	●	●			●	●	●			
Tsuneyoshi Seki	Outside Audit & Supervisory Board Member (Independent Officer)	●	●			●	●		●		
Hideki Minamikawa	Outside Audit & Supervisory Board Member (Independent Officer)	●	●	●			●		●		●
Miyuki Nakagawa	Outside Audit & Supervisory Board Member (Independent Officer)	●					●				

Management of Conflicts of Interest

When the Company is to conduct related party transactions and/or transactions involving conflict of interest, the Board of Directors first deliberates on important matters such as the transaction conditions and makes its decisions based on our board meeting criteria.

Kirin Holdings Company, Limited currently holds 32.71% (39,540,000 shares) of FANCL's voting rights, and the Company is

an equity method affiliate of Kirin Holdings Company, Limited. In its transactions with Kirin Holdings Company, Limited, the Board of Directors deliberates and resolves that the terms and conditions of each transaction are not unfair compared to those with other third parties from the perspective of protecting minority shareholders.

Message from an Outside Director



Keiichiro Hashimoto

Building an advanced governance system to lead to improvements in corporate value

Work History

In 1974, entered The Mitsubishi Bank, Ltd. (currently MUFG Bank, Ltd.). Involved in international business and securities business, was based overseas for 12 and a half years. When based in Germany was involved in the development of payment systems. Drawing on his extensive knowledge and experience of areas that include finance, management, and IT, both in Japan and overseas, was subsequently involved in the management of such companies as MITSUBISHI MOTORS CORPORATION and Metropolitan Expressway Co., Ltd.

Evaluation of the Board of Directors' Effectiveness

FANCL's outside directors and outside Audit & Supervisory Board members comprise lawyers, certified accountants, marketing experts and, like myself, people experienced in management as well as people with diverse skill sets. What is expected of outside officers at Board of Directors' meetings is to comment on the ways of thinking of the management ranks who conduct the execution of business. At the same time as being in a position akin to a watchdog, I consider it important to constantly be aware of the feedback from shareholders and to speak for them.

For us to fulfill those roles, it is important for executive function information to be shared with outside directors, and in that respect the environment at FANCL is very well developed. We are provided with ample opportunities to understand the business, such as on-site visits, product tours, and briefings, and prior explanations of the materials relating to agenda items are carefully carried out in detail. In the case of themes that take time to review from various perspectives, we also hold theme sessions separately from the directors to deepen discussion.

Moreover, at Board of Directors' meetings, the chairman, President and CEO Shimada urges many people to speak and proceeds in a way that enables free and easy discussions, and

thus the effectiveness of Board of Directors' meetings can be said to be extremely high.

FANCL's Features Seen from Outside the Company

At FANCL, the Founding Philosophy—Eliminate the "Negatives" with a Sense of Justice—has been firmly instilled in all Company staff, and everyone is constantly being called upon to put that philosophy into practice. Therefore, FANCL is developing products not to simply pursue profit but also to demonstrate its strong awareness of how the Company can contribute to society. This philosophy serves as the source of FANCL's product development capabilities, and as these represent the most fundamental elements for a manufacturer, I consider that possessing strengths in this area to be a major feature.

Incidentally, in addition to the achievement rate of financial indicators as a performance-linked portion, indicators that include CO₂ emissions, employee engagement, and business partner evaluations have been incorporated into executive compensation. The management ranks are thus also required to remain aware of the non-financial aspects of management.

In addition to that, I think that FANCL also possesses major strengths in terms of digital technology. FANCL's IT Systems Division is overwhelmingly rich in both quality and quantity when

compared with companies of a similar size and scale.

In the spring of 2022, FANCL's unique FIT3 core system commenced operation, and the Company has reached the point of being able to estimate and analyze each problem from customer behavior. This will give rise to opportunities to bring about evolution in conventional styles of sales and marketing in a ground-breaking manner. In this way, as an outside director I have great expectations for the DX strategy that FANCL is currently pushing ahead.

Expectations from and Challenges for Global Strategy

I believe that expanding business overseas is indispensable for FANCL's future growth. The important thing is to firmly recognize that what is considered common sense in Japan will not always be relevant overseas. Moreover, the flexibility to be humble and to flexibly change policies, strategies or tactics should a mistake be made is of paramount importance in a global strategy.

I also think that building up overseas employees is a pressing issue. At the same time as hiring human resources outside Japan as assets who contribute immediately to ascertain local information, FANCL must send overseas ever greater numbers of home-grown employees who possess a thorough understanding of our corporate philosophy and business. To have them experience life locally will be very important in developing professionals for overseas business. There is a large amount of inspiration and skill that can only be gained by coming into close contact with a country's culture and customs. This is because it is from those experiences that the new ideas and developments for business will arise.

I also think that, eventually, overseas expansion will be best accelerated by adding non-Japanese directors and executive officers and forming a management tier that demonstrates diversity.

In Conclusion

FANCL's Board of Directors is very well established and evaluates the effectiveness of its meetings. Moreover, to build a more advanced governance system that matches the business environment and that will lead to improvements in corporate value, it is essential that the environment be one in which harsh opinions from the standpoints of outside directors can be expressed frankly. To that end, I think it important to further deepen communications between those outside the Company and executive departments and build strong relationships of trust.

The promotion of DX is also expected to improve work efficiency and give employees more time to think for themselves. I want employees to spend this time looking not only at other sections of the Company but also at other companies and at broader society. When they feel the changes in Japan and the world and think about what they can do as FANCL, the ideas for new products and new businesses should expand infinitely. As a result, in 10 to 20 years' time, FANCL will not be limited to the current framework of cosmetics and health foods. I believe that FANCL can surely grow into a company that is said to create new value and remains essential for the next generation.

FANCL can surely grow into a company that is said to create new value and remains essential for the next generation.



Directors and Audit & Supervisory Board Members (As of June 25, 2022)

Directors



President & CEO, Representative Director **Kazuyuki Shimada**
 Representative Director, Senior Managing Director **Tomochika Yamaguchi**
 Executive Managing Director **Akihiro Yanagisawa**
 Executive Managing Director **Yasushi Sumida**

Directors



Executive Managing Director **Shinro Fujita**

Audit & Supervisory Board Members



Audit & Supervisory Board Member **Seiichiro Takahashi**
 Audit & Supervisory Board Member **Naoya Maruo**

Outside Directors



Outside Director (Independent Officer) **Mitsuaki Nakakubo**
 April 1995 Registered as an attorney (under Daini Tokyo Bar Association) (Current registration)
 April 2001 Partner of Asahi Law Offices (Current position)
 April 2008 Member, Regular Meeting, Daini Tokyo Bar Association
 June 2017 Outside Company Auditor of Nippon Kodo Holdings Corporation (Current position)
 June 2019 Outside Director of the Company (Current position)
 March 2021 Outside Director of Nikkiso Co., Ltd. (Current position)

Outside Director (Independent Officer) **Keiichiro Hashimoto**
 April 1974 Entered The Mitsubishi Bank, Ltd. (currently MUFG Bank, Ltd.)
 June 2001 General Manager of Global Business Division of The Bank of Tokyo-Mitsubishi, Ltd. (currently MUFG Bank, Ltd.)
 June 2003 Representative Member of the Board, Vice President and CFO of MITSUBISHI MOTORS CORPORATION
 June 2005 Senior Executive Vice President of SEGA SAMMY HOLDINGS INC.
 June 2010 Chairman and President of Metropolitan Expressway CO., Ltd.
 May 2014 Vice President and COO of Shioya Tochi Co., Ltd.
 June 2015 Audit & Supervisory Board Member of HIGASHI-NIPPON BANK, Ltd.
 April 2016 Outside Audit & Supervisory Board Member of Concordia Financial Group, Ltd. (Current position)
 April 2019 Vice Chairman & President of Japan Association of Corporate Executives
 June 2020 Outside Director of the Company (Current position)
 April 2021 Representative Director of General Incorporated Association T Art Life Village (Current position)
 June 2021 Outside Director of Maeda Road Construction Co., Ltd. (Current position)
 October 2021 Outside Director of INFRONEER Holdings Inc. (Current position)

Outside Director (Independent Officer) **Akira Matsumoto**
 April 1994 Entered Sumitomo Bank (currently Sumitomo Mitsui Banking Corporation)
 October 1999 Entered KPMG Century Audit Corporation (currently KPMG AZSA LLC.)
 April 2003 President and Representative Director of MIT Corporate Advisory Services CO., LTD. (Current position)
 May 2003 Registered as a certified public accountant
 June 2020 Outside Auditor of DESCENTE LTD. (Current position)
 June 2020 Outside Director of the Company (Current position)

Outside Director **Junko Tsuboi**
 April 1985 Entered Kirin Brewery Company, Limited (currently Kirin Holdings Company, Limited)
 March 2005 General Manager of Corporate Communications Dept. of Kirin Beverage Company, Limited
 March 2010 President and Representative Director of YOKOHAMA RED BRICK WAREHOUSE Co., Ltd.
 March 2012 General Manager of CSR Management Dept. and General Manager of Corporate Communications Dept. of Kirin Holdings Company, Limited
 January 2013 General Manager of Corporate Brand Management Dept. of CSV Div. of Kirin Company, Limited
 March 2014 Executive Officer, General Manager of Corporate Brand Management Dept. of CSV Div. of Kirin Company, Limited
 April 2016 Executive Officer, General Manager of Corporate Brand Management Dept. of Kirin Company, Limited
 March 2019 Senior Executive Officer and General Manager of Corporate Brand Management Dept. of Kirin Holdings Company, Limited
 June 2020 Outside Director of the Company (Current position)
 March 2022 Senior Executive Officer of Kirin Holdings Company, Limited (Current position)

Outside Audit & Supervisory Board Members



Outside Audit & Supervisory Board Member (Independent Officer) **Tsuneyoshi Seki**
 March 1991 Registered as a certified public accountant
 August 1995 Joined Deloitte Touche Tohmatsu (now Deloitte Touche Tohmatsu LLC)
 June 2003 Partner in Deloitte Touche Tohmatsu (now Deloitte Touche Tohmatsu LLC)
 July 2014 Head of Tsuneyoshi Seki Certified Public Accountant Office (Current position)
 August 2014 Representative Director and President of Knowledge and Solution Consulting (Current position)
 June 2016 Outside Audit & Supervisory Board Member of the Company (Current position)
 March 2021 Partner in Accounting Corporation TENYU (Current position)

Outside Audit & Supervisory Board Member (Independent Officer) **Hideki Minamikawa**
 April 1974 Joined Japan's Environment Agency (currently Ministry of the Environment)
 January 2011 Administrative Vice-Minister of the Environment
 July 2013 Advisor, Japan's Ministry of the Environment
 June 2014 President of the Japan Environmental Sanitation Center (Current position)
 June 2017 Outside Audit & Supervisory Board Member of the Company (Current position)
 August 2018 Chief External Director of RENOVA, Inc. (Current position)

Outside Audit & Supervisory Board Member (Independent Officer) **Miyuki Nakagawa**
 April 1990 Public Prosecutor, Tokyo District Public Prosecutors Office
 April 2008 Counsellor, Judicial System Department of Minister's Secretariat, Ministry of Justice
 January 2011 Counsellor, Cabinet Secretariat, Assistant Chief Cabinet Secretary Office
 April 2013 Public Prosecutor, Tokyo High Public Prosecutors Office
 April 2019 Professor at Chuo Law School, Chuo University (Current position)
 April 2019 Registered as an attorney
 May 2019 Representative of Kosui Law Office (Current position)
 June 2019 Outside Director of NITTO KOGYO CORPORATION (Current position)
 June 2021 Outside Director of Nissan Chemical Corporation (Current position)
 June 2021 Outside Audit & Supervisory Board Member of the Company (Current position)
 June 2022 Outside Audit & Supervisory Board Member of Shinsei Bank, Ltd. (Current position)

Executive Officers

Senior Executive Officer **Kazumasa Wakayama**
 Senior Executive Officer **Yuna Akashi**
 Senior Executive Officer **Yoshihisa Hosaka**
 Senior Executive Officer **Gen Inomata**
 Senior Executive Officer **Junji Nagasaka**
 Senior Executive Officer **Nobuyuki Uematsu**
 Senior Executive Officer **Akiko Matsugaya**
 Executive Officer **Koichi Matsumoto**
 Executive Officer **Hiroaki Hori**
 Executive Officer **Tomoko Saito**
 Executive Officer **Jun Saito**
 Executive Officer **Kengo Muraoka**
 Executive Officer **Makoto Doumoto**
 Executive Officer **Yuhei Komine**
 Executive Officer **Maho Yamamoto**

Developing the Next Generation of Managers

The Company is taking steps to put in place a systematic program aimed at developing the next generation of managers. The Professional Manager Development (PMD) training program is designed to selectively provide middle and senior managers with the knowledge and leadership skills they need to succeed at each level of the organization, as well as the motivation to engage in self-improvement.

In addition, we have invited a lecturer from Hitotsubashi University and are working steadily toward the launch of FANCL Management School in a bid to cultivate the knowledge and

perspective necessary for management from FY Mar/2023. Through this initiative, participants will acquire management literacy across a wide range of fields including management strategy development, organizational change, corporate accounting, marketing, and consumer behavior theory. Looking ahead, we will also implement the Women's Leadership Program as a conduit for establishing various positive steps forward including the establishment of a networking forum among female managers and lectures by current female executives to further encourage women to take an active role in the Company.

Next Generation Manager Development Curriculum



11-Year Financial / Non-financial Summary

Structural Reform Period

- Elimination of unprofitable businesses
- Reinforcement of wholesale channels, etc.

The 1st Medium-Term Management Plan
“Advertising-led Growth Strategy”

- Strategic investments in Advertising
- Expanding wholesale sales and direct store channels as part of our efforts to ensure that advertising produces the maximum effect

The 2nd Medium-Term Management Plan
ACTION 2020

- Maintain a growth trajectory, raise profitability
- Establish a robust platform for overseas growth

The 3rd Medium-Term Management Plan
FORWARD 2023

- Aiming for sustainable growth in Japan and overseas while adapting to social changes.

(¥ million)	FY Mar/2012	FY Mar/2013	FY Mar/2014	FY Mar/2015	FY Mar/2016	FY Mar/2017	FY Mar/2018	FY Mar/2019	FY Mar/2020	FY Mar/2021	FY Mar/2021 ^{*1}	FY Mar/2022	(¥ million)
Financial data													Financial data
Fiscal year													Fiscal year
Net sales	88,165	82,807	81,118	77,632	90,850	96,305	109,019	122,496	126,810	114,909	105,146	103,992	Net sales
Cosmetics	45,824	46,721	47,525	47,471	55,016	56,926	66,048	71,599	75,891	65,140	59,221	58,809	Cosmetics
Nutritional Supplements	27,036	26,601	25,386	23,285	28,612	32,085	35,933	43,919	44,006	41,191	37,854	38,471	Nutritional Supplements
Other Businesses	15,303	9,484	8,207	6,876	7,221	7,294	7,037	6,977	6,911	8,578	8,071	6,710	Other Businesses
Results by sales channels													Results by sales channels
Online and catalogue sales	46,342	40,133	39,696	36,545	40,078	43,037	46,206	46,806	49,896	56,813	54,071	52,902	Online and catalogue sales
Direct store sales	22,252	22,310	23,286	23,310	28,016	28,637	34,780	43,605	42,687	26,650	20,404	20,179	Direct store sales
Wholesale sales	11,852	11,873	10,216	11,356	14,573	16,388	17,813	21,676	23,549	20,970	20,361	19,444	Wholesale sales
Overseas sales	7,718	8,490	7,919	6,419	8,182	8,242	10,219	10,408	10,675	10,475	10,309	11,465	Overseas sales
Gross profit	58,997	55,528	55,393	54,295	63,878	67,810	77,431	87,378	90,543	81,110	69,948	69,116	Gross profit
Gross profit margin (%)	66.9	67.1	68.3	69.9	70.3	70.4	71.0	71.3	71.4	70.6	66.5	66.5	Gross profit margin (%)
Selling, general and administrative (SGA) expenses	54,980	51,670	51,450	50,294	62,673	65,565	68,983	74,990	76,417	69,534	58,371	59,345	Selling, general and administrative (SGA) expenses
SGA expenses to sales ratio (%)	62.4	62.4	63.4	64.8	69.0	68.1	63.3	61.2	60.3	60.5	55.5	57.1	SGA expenses to sales ratio (%)
Operating income	4,016	3,858	3,943	4,001	1,204	2,244	8,448	12,387	14,125	11,576	11,576	9,771	Operating income
Cosmetics	4,685	3,888	4,661	5,557	6,275	5,253	9,150	11,101	11,768	7,954	7,954	7,581	Cosmetics
Nutritional Supplements	1,583	1,962	1,125	(4)	(1,779)	(865)	864	3,519	4,095	5,042	5,042	3,902	Nutritional Supplements
Other Businesses	(587)	(290)	(4)	152	(1,774)	(599)	149	(299)	90	224	224	(25)	Other Businesses
Operating margin (%)	4.6	4.7	4.9	5.2	1.3	2.3	7.7	10.1	11.1	10.1	11.0	9.4	Operating margin (%)
Cosmetics (%)	10.2	8.3	9.8	11.7	11.4	9.2	13.9	15.5	15.5	12.2	13.4	12.9	Cosmetics (%)
Nutritional Supplements (%)	5.9	7.4	4.4	(0.0)	(6.2)	(2.7)	2.4	8.0	9.3	12.2	13.3	10.1	Nutritional Supplements (%)
Other Businesses (%)	(3.8)	(3.1)	(0.1)	2.2	(24.6)	(8.2)	2.1	(4.3)	1.3	2.6	2.8	(0.4)	Other Businesses (%)
Ordinary income	4,003	4,427	4,262	4,283	1,421	2,385	8,650	12,348	14,313	11,784	11,784	10,401	Ordinary income
Net income	2,454	(2,193)	1,343	2,301	522	5,146	6,191	8,649	9,985	8,016	8,016	7,421	Net income
Net income margin (%)	2.8	(2.6)	1.7	3.0	0.6	5.3	5.7	7.1	7.9	7.0	7.6	7.1	Net income margin (%)
ROE (%)	3.1	(2.9)	1.8	3.2	0.7	7.3	8.5	12.8	15.8	11.7	11.7	10.3	ROE (%)
Advertising expenses	8,540	8,631	8,265	7,907	15,035	14,816	15,164	15,919	15,402	11,850	11,848	12,577	Advertising expenses
Sales promotion expenses	10,860	9,189	9,426	9,451	11,888	12,833	12,839	13,430	14,542	15,668	8,649	7,645	Sales promotion expenses
Research and development expenses	2,646	2,498	2,428	2,353	2,852	3,277	3,112	3,464	3,440	3,145	3,145	3,492	Research and development expenses
Capital investment (cash flow basis)	3,948	3,375	2,439	7,612	3,726	4,074	2,476	3,683	11,233	8,207	8,207	5,089	Capital investment (cash flow basis)
Depreciation	3,437	3,443	2,972	2,973	3,207	3,185	2,826	3,057	3,307	3,665	3,665	4,563	Depreciation
Cash flows from operating activities	6,321	6,145	6,595	5,946	3,170	2,192	10,531	8,731	14,380	10,011	10,011	13,097	Cash flows from operating activities
Cash flows from investing activities	(7,008)	(822)	1,402	(5,972)	(3,389)	5,976	(2,392)	(3,160)	(11,309)	(8,135)	(8,135)	(4,673)	Cash flows from investing activities
Cash flows from financing activities	(2,315)	(2,251)	(3,956)	(1,820)	(4,647)	(2,552)	(3,126)	(23,559)	6,292	(4,170)	(4,170)	(4,155)	Cash flows from financing activities
Increase (Decrease) in cash and cash equivalents	(3,048)	3,171	4,149	(1,717)	(4,920)	5,568	5,031	(18,006)	9,355	(2,503)	(2,503)	4,620	Increase (Decrease) in cash and cash equivalents
Fiscal year-end													Fiscal year-end
Total assets	91,739	86,849	85,800	85,311	83,767	85,677	92,380	80,307	94,478	97,533	97,533	100,121	Total assets
Net assets	78,796	74,542	72,154	73,214	69,639	72,402	75,597	60,916	67,138	71,215	71,215	74,073	Net assets
Shareholders' equity ratio (%)	85.5	85.3	83.5	85.1	82.3	83.6	81.0	74.8	70.4	72.3	72.3	73.3	Shareholders' equity ratio (%)
Shareholder Return													Shareholder Return
Dividends per share (yen) ^{*2}	17.0	17.0	17.0	17.0	17.0	29.0 ^{*3}	29.0 ^{*3}	30.0	34.0	34.0	34.0	34.0	Dividends per share (yen) ^{*2}
Dividend payout ratio (%)	89.9	—	161.7	94.2	409.1	70.8	59.4	43.6	40.9	51.2	51.2	55.3	Dividend payout ratio (%)
DOE (dividend on equity) (%)	2.8	2.9	3.0	3.0	3.0	5.2	5.0	5.5	6.5	6.0	6.0	5.7	DOE (dividend on equity) (%)
Number of FANCL stores in Japan	177	175	167	164	176	201	197	204	212	211	211	198	Number of FANCL stores in Japan
Non-financial data													Non-financial data
CO ₂ emissions (t-CO ₂)	11,316	12,502	12,764	11,997	11,988	11,956	11,656	11,751	10,665	10,522	10,522	10,740	CO ₂ emissions (t-CO ₂)
Renewable energy (MHW)	647	647	677	660	614	574	641	805	783	777	777	3,821 ^{*4}	Renewable energy (MHW)
Number of employees	1,227	1,224	1,106	1,128	1,223	1,278	1,288	1,381	1,432	1,277	1,277	1,270	Number of employees
Percentage of female employees in management (%) ^{*5}	40.8	42.7	40.6	41.4	42.0	43.4	45.5	46.2	43.6	46.5	46.5	47.1	Percentage of female employees in management (%) ^{*5}

(Previous Standard)

(Standard for Revenue Recognition)

*1 Effective from FY Mar/2022, the "Accounting Standard for Revenue Recognition", etc., has been applied. For reference, results for FY Mar/2021 have been restated to conform to this accounting standard.

*2 As a 1:2 stock split was conducted, with December 1, 2018 as the effective date, the dividends per share after the split are stated.

*3 FY Mar/2017 and FY Mar/2018 include the special dividend of ¥12.0.

*4 Increased the number of bases with solar panels from two to four, and introduced virtually zero CO₂ emission electricity to 10 bases in FY Mar/2022.

*5 The number of employees is on a Group consolidated basis, and the ratio of female employees in management positions is for FANCL on a non-consolidated basis.

Management Discussion and Analysis

Sales

The Company has adopted the “Accounting Standard for Revenue Recognition,” etc., from FY Mar/2022, and to provide a more realistic analysis of the operating results, the results of the previous fiscal year have been reclassified to reflect the adoption of this new accounting standard.

During FY Mar/2022, although sales in the Nutritional Supplements Business increased, overall sales declined 1.1% compared with FY Mar/2021, to ¥103,992 million, due to a decline in sales in the Cosmetics Business, as well as in other businesses due to factors including the absence of sales of non-woven masks that were sold in the previous fiscal year.

Cosmetics Business

Sales from the Cosmetics Business decreased 0.7%, to ¥58,809 million.

Sales of FANCL Cosmetics decreased 3.2%, to ¥42,758 million, due to a slowdown in sales of makeup and special care products, which outweighed a strong trend in sales of *MILD CLEANSING OIL* and *ENRICH+*, which were subject to renewal.

Sales of ATTENIR Cosmetics increased 14.3%, to ¥13,797 million, as a result of strong trending sales of *Dress Snow* basic skin care which launched in April, and *SKIN CLEAR CLEANSE OIL*, as well as contributions from cross-border e-commerce sales to China.

Sales of boscia decreased 48.5% to ¥1,161 million due to sluggish wholesale sales to real stores.

Nutritional Supplements Business

Nutritional supplement sales increased 1.6%, to ¥38,471 million.

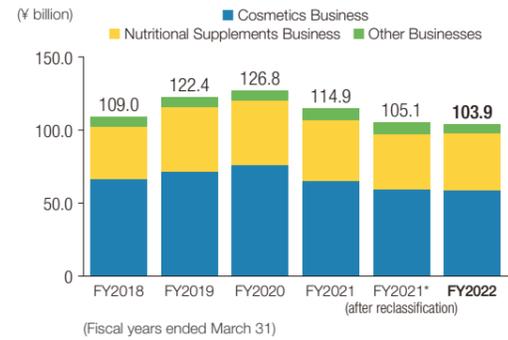
Although sales of *Naishi Support* (Weight and body fat care) and *Calolimit* were lower year on year, sales of *Age Bracket-Based Supplements* grew significantly, particularly in the overseas channel, resulting in an increase in overall sales.

Other Businesses

Other businesses sales decreased 16.9% year on year to ¥6,710 million.

In addition to a decrease in sales of *Hatsuga genmai* (germinated brown rice) and *Kale Juice*, Other sales also decreased as a result of an absence of sales of non-woven masks, which were sold in the previous period.

Sales



Profit

Operating income declined 15.6%, to ¥9,771 million due to a decrease in gross profit from lower sales, an increase in advertising expenditure associated with the renewal of core products, an increase in depreciation expenses following the launch of operations at the Kansai Logistics Center, and the effect of the recording of personnel expenses associated with store closures as an extraordinary loss in the previous fiscal year. Ordinary income decreased 11.7%, to ¥10,401 million, and net income attributable to owners of the parent company decreased 7.4%, to ¥7,421 million.

Operating income/Operating margin

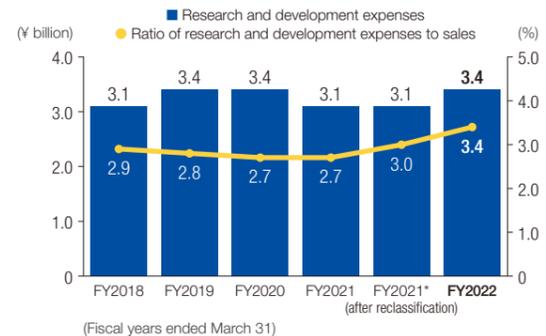


Research and Development Expenses

Total research and development expenses in the fiscal year under review came to ¥3,492 million.

At its Research Institute, FANCL engages in basic technological and product development research on cosmetics, nutritional supplements, *Hatsuga genmai* (germinated brown rice), and *Kale Juice* in an effort to promote safety and functionality research with a focus on peace of mind and safety as well as the development of products based on scientific evidence. In addition to leveraging its Yahho System, which collates and analyzes customer feedback received directly through the customer service center, in the development of products, FANCL also undertakes a wide range of research and development activities, including joint research with many domestic and international research institutions and participation on industry-government-academia collaboration projects. The Company maintains a total complement of 210 researchers, many of whom have acquired Ph.Ds. in such fields as

Research and development expenses/ Ratio of research and development expenses to sales



* Results are reclassified under “Accounting Standard for Revenue Recognition,” etc.

agriculture, pharmacy, and science. Furthermore, FANCL began promoting joint research projects with the R&D Division of Kirin Holdings Company, Limited in accordance with the capital and business alliance agreement concluded with that company in August 2019. Synergies have begun to emerge, including the launch of a

Capital Investment

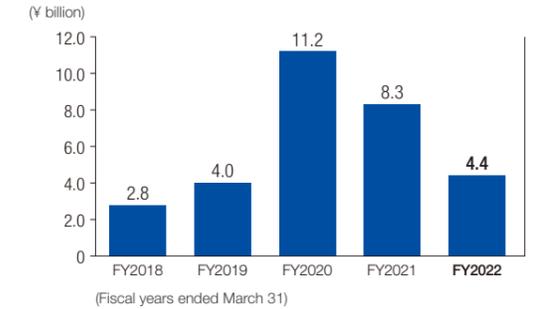
FANCL newly launched the Kansai Logistics Center while opening new and renovating existing stores as a common activity across all businesses. In the Nutritional Supplements Business, the Company made investments in connection with the opening of Mishima Factory, a supplement production base.

FANCL undertook capital investment including intangible fixed asset investment totaling ¥4,401 million. Looking at the amount of capital investment by segment, FANCL allocated funds of ¥1,353 million, ¥2,320 million, ¥209 million, and ¥518 million to the Cosmetics, Nutritional Supplements, Other Businesses, and Other, respectively.

Meanwhile, the Company did not dispose of or sell any major facilities.

product in 2021 that applies the technology created through this joint research project. Looking ahead, we will pursue joint projects in a number of wide-ranging fields including cosmetic development as well as brain function and intestinal environment research in a bid to secure additional research results.

Capital investment



Financial Position and Cash Flows

Assets increased ¥2,587 million from the end of the previous fiscal year, to ¥100,121 million, primarily due to an increase of ¥3,582 million in current assets and a decrease of ¥994 million in fixed assets. The primary factors contributing to the increase in current assets were a ¥4,620 million increase in cash and cash equivalents, a ¥1,046 million increase in other current assets due to an increase in accounts receivable — other, and a ¥1,677 million decrease in accounts receivable. The primary factors contributing to the decrease in fixed assets were a ¥1,700 million decrease in tangible fixed assets due to depreciation, a ¥334 million increase in intangible fixed assets — other due to an increase in software, and a ¥749 million increase in deferred tax assets.

Liabilities decreased ¥269 million from the end of the previous fiscal year, to ¥26,048 million. The primary contributing factors were a decrease of ¥425 million in current liabilities and an increase of ¥155 million in long-term liabilities. Factors contributing to the decrease in current liabilities included a ¥803 million decrease in accounts payable—other, a ¥2,014 million decrease in provision for points, and a ¥2,461 million increase in contract liability. The primary factor contributing to the increase in long-term liabilities was a ¥108 million increase in provision for share awards for directors. The decrease in provision for points and increase in contract liability were the result of the adoption of the Accounting Standard for Revenue Recognition.

Net assets increased ¥2,857 million, to ¥74,073 million. Contributing factors included a ¥7,421 million increase in retained earnings due to the recording of net income attributable to owners of the parent company, and a ¥4,102 million decrease in retained earnings due to dividend payments, and a ¥602 million decrease in retained earnings at the beginning of the period due to the adoption of the Accounting Standard for Revenue Recognition.

As a result, the shareholders’ equity ratio increased 1.0 percentage points compared with the end of the previous fiscal year, to 73.3%.

Cash and cash equivalents (“funds”) as of March 31, 2022 were ¥30,108 million, ¥4,620 million higher than at the end of the previous consolidated fiscal year.

The main contributing factors to cash flows during the consolidated fiscal year ended March 31, 2022 are as follows:

Cash Flows from Operating Activities

Cash flow gained from operating activities during the period under review was ¥13,097 million, compared with an inflow of ¥10,011 million in the previous fiscal year. Factors increasing operating cash flow included income before income taxes of ¥9,575 million, depreciation of ¥4,563 million, and a decrease in accounts receivable of ¥1,779 million. The main factors decreasing operating cash flow included income taxes paid of ¥3,304 million.

Cash Flows from Investing Activities

Cash flow used in investing activities during the period under review was ¥4,673 million, compared with an outflow of ¥8,135 million in the previous fiscal year. This was primarily due to outlays of ¥4,007 million for acquisitions of tangible fixed assets, and outlays of ¥1,081 million for acquisitions of intangible fixed assets.

Cash Flows from Financing Activities

Cash flow used in financing activities during the period under review was ¥4,155 million, compared with an outflow of ¥4,170 million in the previous fiscal year. The main factor reducing cash flow from financing activities was ¥4,097 million for dividend payments.

Free cash flow, which is the sum of cash flow from operating activities and cash flow from investing activities came to ¥8,424 million in FY Mar/2022.

The Company’s cash requirements are primarily due to the purchase of raw materials for the manufacture of its products, and to cover its ongoing operations including manufacturing, selling, general and administrative expenses. Operating expenses comprise mainly advertising and other marketing expenses, with the majority of research and development costs for quality improvement being recorded as expenses.

In addition, FANCL issued Euro Yen convertible bonds due in 2024 in April 2019. The main uses of these funds are for the Kansai Logistics Center and Mishima Factory (supplements factory).

Consolidated Financial Statements

Consolidated Balance Sheet

(¥ million)	As of March 31, 2022	As of March 31, 2021	(¥ million)	As of March 31, 2022	As of March 31, 2021
ASSETS			LIABILITIES		
I. Current assets:			I. Current liabilities:		
Cash and cash equivalents	30,108	25,487	Accounts payable	3,431	2,770
Notes and accounts receivable	—	13,590	Lease obligations	50	53
Notes receivable	6	—	Accrued liabilities	4,589	5,392
Accounts receivable	11,910	—	Accrued income taxes	1,271	1,943
Merchandise and products	5,518	5,805	Contract liabilities	2,461	—
Raw materials and supplies	5,610	5,848	Provision for bonuses	1,234	1,293
Others	2,553	1,506	Provision for points	—	2,014
Allowance for doubtful accounts	(101)	(216)	Asset retirement obligations	2	7
Total current assets	55,605	52,022	Others	1,332	1,322
II. Fixed assets:			Total current liabilities	14,373	14,798
Tangible fixed assets			II. Long-term liabilities:		
Buildings and structures	34,715	31,670	Convertible bonds with stock acquisition rights	10,100	10,150
Accumulated depreciation and accumulated impairment loss	(19,103)	(17,768)	Lease obligations	35	63
Buildings and structures (net)	15,611	13,901	Provision for share awards for directors	108	—
Machinery and transport equipment	16,783	11,699	Retirement benefit liabilities	880	783
Accumulated depreciation and accumulated impairment loss	(10,326)	(8,730)	Asset retirement obligations	496	427
Machinery and transport equipment (net)	6,456	2,969	Others	54	94
Furniture, tools and fixtures	9,981	9,299	Total long-term liabilities	11,675	11,519
Accumulated depreciation and accumulated impairment loss	(8,435)	(8,032)	Total liabilities	26,048	26,318
Furniture, tools and fixtures (net)	1,546	1,267	NET ASSETS		
Land	14,214	14,214	Shareholders' equity:		
Lease assets	205	258	Common stock	10,795	10,795
Accumulated depreciation and accumulated impairment loss	(127)	(150)	Capital reserve	12,003	11,706
Lease assets (net)	78	108	Retained earnings	70,766	68,050
Construction in progress	34	7,180	Treasury stock	(20,003)	(19,726)
Total tangible fixed assets	37,941	39,642	Total shareholders' equity	73,561	70,825
Intangible fixed assets			Other comprehensive income		
Other intangible fixed assets	2,587	2,253	Foreign currency translation adjustment	100	(19)
Total intangible fixed assets	2,587	2,253	Total adjustments related to retirement benefits	(228)	(251)
Investments and other assets			Total other comprehensive income	(128)	(270)
Investment securities	125	199	Warrants	640	660
Long-term loans	50	100	Total net assets	74,073	71,215
Deferred tax assets	2,634	1,885	Total Liabilities and Net Assets	100,121	97,533
Others	1,201	1,456			
Allowance for doubtful accounts	(24)	(25)			
Total investments and other assets	3,986	3,615			
Total fixed assets	44,516	45,511			
Total assets	100,121	97,533			

Consolidated Statement of Income

(¥ million)	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2021
Net sales	103,992	114,909
Cost of sales	34,876	33,798
Gross profit	69,116	81,110
Selling, general and administrative expenses		
Sales promotion expenses	7,645	15,668
Packing and transport expenses	5,448	5,881
Advertising expenses	12,577	11,850
Sales commission fee	2,933	6,819
Communications expenses	1,688	1,895
Directors' remuneration	426	522
Salaries and bonuses	11,075	10,813
Provision for accrued bonuses	1,006	958
Provision for share-based remuneration	108	—
Retirement benefit expenses	505	469
Compulsory welfare expenses	1,763	1,792
Welfare expenses	286	300
Depreciation	2,611	2,160
Research and development expenses	1,257	1,003
Rent expenses	1,216	1,148
Provisions for allowance for bad debt	43	38
Other	8,749	8,210
Total selling, general and administrative expenses	59,345	69,534
Operating income	9,771	11,576
Non-operating income		
Interest income	51	51
Dividend income	0	0
Foreign exchange gain	283	—
Rent income	130	152
Compensation payments received	17	14
Commissions earned	27	34
Subsidy income	109	42
Other non-operating income	59	71
Total non-operating income	680	366
Non-operating expenses		
Interest expenses	0	—
Rent expenses on fixed assets	11	13
Loss on foreign exchange	—	118
Miscellaneous losses	37	27
Total non-operating expenses	49	158
Ordinary income	10,401	11,784
Extraordinary income		
Income from sale of fixed assets	0	1
Gain on sale of investment securities	31	—
Subsidy income	—	482
Total extraordinary income	31	483
Extraordinary loss		
Loss on sale of fixed assets	0	—
Loss on disposal of fixed assets	25	54
Impairment loss	680	246
Loss on closures of stores	43	66
COVID-19 related loss	—	617
Other	108	47
Total extraordinary loss	858	1,033
Income before income taxes	9,575	11,235
Income and other taxes	2,643	3,175
Adjustments to income and other taxes	(489)	42
Total income before income taxes	2,153	3,218
Income before minority interests	7,421	8,016
Net income	7,421	8,016

Consolidated Statement of Comprehensive Income

(¥ million)	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2021
Income before minority interests	7,421	8,016
Other comprehensive income		
Foreign currency translation adjustment	119	(71)
Adjustments related to retirement benefits	22	77
Total other comprehensive income	142	6
Comprehensive income	7,563	8,023
(Breakdown)		
Comprehensive income attributable to owners of the parent company	7,563	8,023
Comprehensive income attributable to minor interests	—	—

Consolidated Financial Statements

Changes in Shareholders' Equity during the Period

(¥ million)	April 1, 2021 to March 31, 2022				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	10,795	11,706	68,050	(19,726)	70,825
Cumulative effects of changes in accounting policies	—	—	(602)	—	(602)
Restated balance	10,795	11,706	67,448	(19,726)	70,223
Changes of items during period					
Dividends of surplus	—	—	(4,102)	—	(4,102)
Net income attributable to owners of the parent company	—	—	7,421	—	7,421
Purchase of treasury shares	—	—	—	(734)	(734)
Disposal of treasury shares	—	296	—	457	754
Net changes of items other than shareholders' equity	—	—	—	—	—
Total changes of items during period	—	296	3,318	(277)	3,337
Balance at end of current period	10,795	12,003	70,766	(20,003)	73,561
	Other comprehensive income				
	Foreign currency translation adjustment	Cumulative adjustments related to retirement benefits	Total other comprehensive income	New share warrants	Total net assets
Balance at beginning of current period	(19)	(251)	(270)	660	71,215
Cumulative effects of changes in accounting policies	—	—	—	—	(602)
Restated balance	(19)	(251)	(270)	660	70,613
Changes of items during period					
Dividends of surplus	—	—	—	—	(4,102)
Net income attributable to owners of the parent company	—	—	—	—	7,421
Purchase of treasury shares	—	—	—	—	(734)
Disposal of treasury shares	—	—	—	—	754
Net changes of items other than shareholders' equity	119	22	142	(20)	121
Total changes of items during period	119	22	142	(20)	3,459
Balance at end of current period	100	(228)	(128)	640	74,073

(¥ million)	April 1, 2020 to March 31, 2021				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	10,795	11,706	64,260	(19,938)	66,823
Changes of items during period					
Dividends of surplus	—	—	(4,100)	—	(4,100)
Net income attributable to owners of the parent company	—	—	8,016	—	8,016
Purchase of treasury shares	—	—	—	(1)	(1)
Disposal of treasury shares	—	—	(126)	213	87
Net changes of items other than shareholders' equity	—	—	—	—	—
Total changes of items during period	—	—	3,789	212	4,001
Balance at end of current period	10,795	11,706	68,050	(19,726)	70,825
	Other comprehensive income				
	Foreign currency translation adjustment	Cumulative adjustments related to retirement benefits	Total other comprehensive income	New share warrants	Total net assets
Balance at beginning of current period	52	(329)	(277)	592	67,138
Changes of items during period					
Dividends of surplus	—	—	—	—	(4,100)
Net income attributable to owners of the parent company	—	—	—	—	8,016
Purchase of treasury shares	—	—	—	—	(1)
Disposal of treasury shares	—	—	—	—	87
Net changes of items other than shareholders' equity	(71)	77	6	68	75
Total changes of items during period	(71)	77	6	68	4,076
Balance at end of current period	(19)	(251)	(270)	660	71,215

Consolidated Statement of Cash Flows

(¥ million)	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2021
I. Cash flows from operating activities		
Income before income taxes	9,575	11,235
Depreciation	4,563	3,665
Impairment loss	680	246
Stock compensation expense	—	156
Increase (decrease) in allowance for doubtful accounts	(114)	(43)
Increase (decrease) in provision for bonuses	(59)	(12)
Increase (decrease) in provision for directors' bonuses	—	(116)
Increase (decrease) in provision for share awards for directors	108	—
Increase (decrease) in provision for points	—	96
Increase (decrease) in retirement benefit related obligation	129	118
Interest and dividend income	(51)	(51)
Interest expenses and interest on bonds	0	—
Loss (gain) from foreign exchange	(319)	191
Loss (gain) from sale of investment securities	(31)	—
Loss (gain) from sale of fixed assets	(0)	(1)
Loss on disposal of fixed assets	25	54
Loss on closures of stores	43	66
Subsidy income	(109)	(524)
COVID-19 related loss	—	617
Decrease (increase) in accounts receivable	1,779	(1,526)
Decrease (increase) in inventories	560	500
Decrease (increase) in other current assets	(964)	(335)
Decrease (increase) in other fixed assets	(4)	50
Increase (decrease) in accounts payable	639	(135)
Increase (decrease) in contract liability	27	—
Increase (decrease) in other current liabilities	3	(347)
Increase (decrease) in other fixed liabilities	(40)	(10)
Others	(150)	(241)
Sub-total	16,291	13,652
Interest and dividends received	1	1
Interest paid	(0)	—
Income taxes paid	(3,304)	(3,564)
Subsidies received	109	524
COVID-19 related loss	—	(617)
Others	—	14
Net cash provided by (used in) operating activities	13,097	10,011
II. Cash flows from investing activities		
Payment for acquisition of tangible fixed assets	(4,007)	(7,395)
Income from sale of tangible fixed assets	1	2
Payment for acquisition of intangible fixed assets	(1,081)	(812)
Payment for acquisition of investment securities	103	—
Other payments	(86)	(210)
Other proceeds	398	279
Net cash used in investing activities	(4,673)	(8,135)
III. Cash flows from financing activities		
Proceeds from disposal of treasury stock	733	0
Payment for purchase of treasury stock	(734)	(1)
Cash dividends paid	(4,097)	(4,096)
Others	(56)	(72)
Net cash used in financing activities	(4,155)	(4,170)
IV. Effect of exchange rate changes on cash and cash equivalents	351	(208)
V. Net increase (decrease) in cash and cash equivalents	4,620	(2,503)
VI. Cash and cash equivalents at the beginning of the period	25,487	27,991
VII. Cash and cash equivalents at end of period	30,108	25,487

Stock Information / Corporate Information

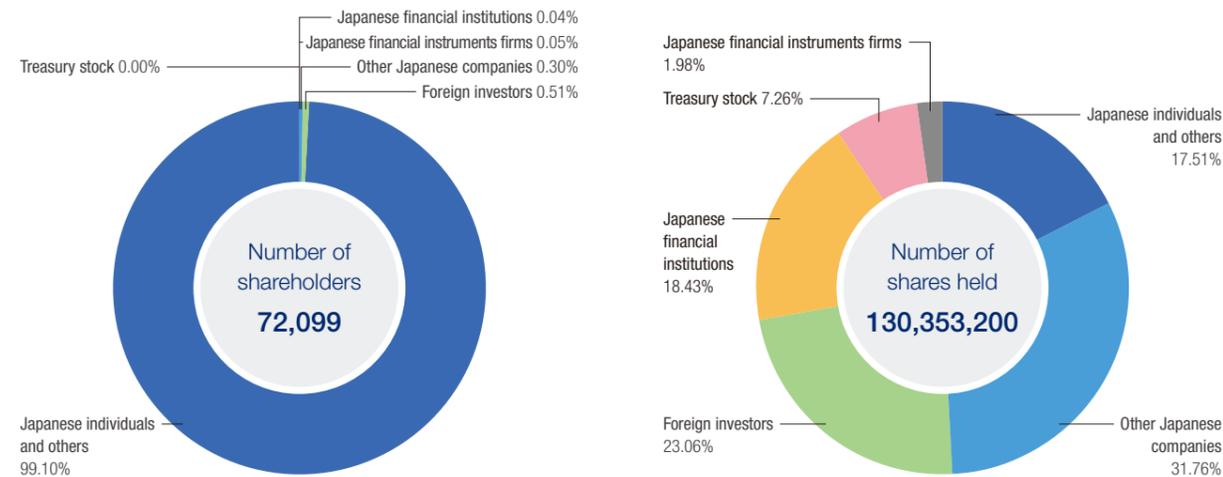
Share Data (As of March 31, 2022)

Number of shares authorized 467,676,000 Number of shares issued 130,353,200
 Number of shareholders 72,099

Name of shareholder	Number of shares held (thousands)	Shareholding ratio
Kirin Holdings Company, Limited	39,540	32.71%
The Master Trust Bank of Japan, Ltd. (Trust account)	14,844	12.28%
Custody Bank of Japan, Ltd. (Trust account)	5,403	4.47%
J.P. MORGAN BANK LUXEMBOURG S.A. 381572	2,443	2.02%
BNY GCM CLIENT ACCOUNT JPRD AC ISG (FE-AC)	2,248	1.86%
The Nomura Trust and Banking Co., Ltd. (Investment trust account)	1,703	1.41%
JP MORGAN CHASE BANK 385632	1,464	1.21%
MSCO CUSTOMER SECURITIES	1,111	0.92%
FANCL Employees Shareholding Association	1,009	0.84%
Dear Heart Inc.	1,000	0.83%

(Notes) 1. FANCL's holdings of treasury stock (9,466 thousand shares) are excluded from the above list of principle shareholders.
 2. Shareholding ratios are calculated after deduction of treasury stock (9,466 thousand shares).
 Although the Company has adopted an Officer Compensation BIP Trust, the Company's shares held by the Trust are not included in treasury stock.

Breakdown of shares by type of shareholders (As of March 31, 2022)



Trends in Share Price

Trends in Share Price and Trading Volume



TSR (Total Shareholder Return) * Indexed as 100 as of the end of March 2017.

	FY Mar/2018	FY Mar/2019	FY Mar/2020	FY Mar/2021	FY Mar/2022
FANCL	247.1%	364.9%	315.0%	482.8%	361.9%
TOPIX including dividends	115.9%	110.0%	99.6%	141.5%	144.3%

Indicates the return on investment (taking into account the share price and dividends) for investments made as of the end of March 2017.

Awards & Recognition

Recognition of the Investor Relations Website



Status of Inclusion in ESG Indexes



IR Information



fanc1.jp/en/ir/

Corporate Overview (As of March 31, 2022)

Company Name	FANCL CORPORATION	Paid-in capital	¥10,795 million
Address	89-1 Yamashita-cho, Naka-ku, Yokohama, Kanagawa-ken	Number of employees	897 *The number of employees does not include the area employees (1,111) and the average annual number of temporary workers (448).
Telephone	+81(45)226-1200 (switchboard)	Research Institute	FANCL Research Institute (Totsuka-ku, Yokohama, Kanagawa-ken)
Representative	Kazuyuki Shimada President & CEO, Representative Director	Principal banks	MUFG Bank, Ltd. Sumitomo Mitsui Banking Corporation Mizuho Bank, Ltd.
Established	August 18, 1981		

Group of Companies (As of June 25, 2022)

Name of Company	Principal Business Activities
ATTENIR CORPORATION	Planning and sale of cosmetics, nutritional supplements, apparel, etc.
NEOF CORPORATION	Sale of cosmetics, health foods, general merchandise, etc.
FANCL ASIA (PTE) LTD	Overall sales management of the Asia & Pacific region
FANCL B&H CORPORATION	Production of cosmetics, quasi-drugs, nutritional supplements, and FANCL <i>Hatsuga genmai</i> (germinated brown rice)
NICOSTAR BEAUTECH Co., Ltd.	Sale and contract manufacturing of cosmetics and quasi-drugs
FANCL LAB Co., Ltd.	Sale and contract manufacturing of cosmetics and quasi-drugs
FANCL INTERNATIONAL, INC.	Sale of cosmetics and nutritional supplements
boscia, LLC	Sale of cosmetics and nutritional supplements



For inquiries about this report:

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