

FANCL

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FANCL REPORT 2021



06

Long-Term Vision and New Medium-Term Management Plan

Under the 3rd Medium-Term Management Plan "FORWARD 2023," FANCL will build on the previous Medium-Term Management Plan and work to eliminate new "negatives" that have arisen as a result of the COVID-19 pandemic, as well as respond quickly to changes in the social environment to achieve sustainable growth in Japan and overseas.

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To Our Shareholders and Other Stakeholders

Under the slogan of "Conquer Adversity and Shape Our Future," in uncertain times, FANCL will make clear what to maintain and what to improve in working toward sustainable growth. During FY Mar/2024, the final year of the Medium-Term Management Plan, the Company aims to achieve sales of ¥120 billion and operating income of ¥15 billion.

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The Present and Future of the Business as Told by the Executive in Charge

FANCL Cosmetics will promote brand diversification and the Health Food Business will promote "personalization" and "BtoB" in addition to "strengthening our existing supplement business." Meanwhile, the Overseas Business will work to grow the supplement business in China into a pillar of the Company.

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FANCL's Business Model

Ever since its founding, FANCL has engaged in research and development on its own as a research and development company. With a diverse range of online and catalogue, direct store, wholesale, overseas, and other sales channels for the products planned and manufactured by the Company, one of FANCL's major strengths is its "integrated manufacturing and sales framework" that enables it to rapidly reflect the voices and needs of customers within the Company.

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Sustainability Policy

In accordance with the key activity themes of "Environment," "Healthy Living," and "Local Communities and Employees" of FANCL Group's "Sustainable Declaration" formulated in 2018, FANCL promotes specific initiatives in aims of achieving sustainable business continuity and contributing to the SDGs.

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Governance

In addition to striving to improve the effectiveness of the Board of Directors, the Officer Compensation System now includes a mechanism that links compensation to the achievement level of the non-financial targets of CO₂ emissions, employee engagement, and business partner evaluation.

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Corporate Information

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Corporate Website Homepage
<https://www.fancl.jp/en/index.html>



IR Information
<https://www.fancl.jp/en/ir/index.html>



Sustainability
<https://www.fancl.jp/en/csr/index.html>

FANCL Corporate Website Renewal

In May 2021, FANCL rebirthed its corporate website as an information sharing website designed to bring about a deeper understanding of and a greater sense of affection for the Company. The design of the entire website was renewed to ensure better access and easier viewing. The website also includes a new "Learning and Experience" page to help visitors easily learn about FANCL's initiatives and Stance Message

of "Upholding Quality," which is intended to convey the Company's beliefs, as a means of providing a greater range of information on the Company's sustainability activities and research and development. In short, the corporate website will serve as a bridge between society and FANCL. The Company will continue to enhance the information available here in order to evolve it into a more attractive website.

Founding Philosophy

Eliminate the “Negatives” with a Sense of Justice

Corporate Philosophy

“Can Achieve More”

The FANCL Group is a corporation that truly cares for people. FANCL has strived to eliminate customers’ negative experience and pursue gentleness, safety, and assurance of its products. We always put ourselves in customers’ shoes and the happiness of our customers forms the basis of everything we do.

□ FANCL’s “Sokomade-Yarimasu Channel” —A corporate brand website designed to let people know about the Company’s personality—

As part of its “Sokomade-Yarimasu Channel” corporate brand website launched in October 2020, each Friday FANCL presents features of the Company that are specifically realized through its integrated structure, from research to manufacturing and sales, by taking an interesting perspective unique to online content. The Company hopes you look forward to its challenge of “Going the Extra Mile” in aims of eliminating the “negatives” throughout the world.



<https://channel.fancl.jp/>
(in Japanese)

Publicly Available Content Examples



Educational Health Cafeteria



(in Japanese)



Foam Ping-pong Challenge



(in Japanese)

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 the “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.

1980

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

From the end of 1970 and into the 1980s, a major societal issue was skin problems caused by preservatives and other additives used in cosmetics.

1982

Finalized “*Mutenka*,” the world’s first skincare cosmetics to be completely free of additives

FANCL’s *Mutenka* cosmetics, born from a completely new concept that did not exist in the cosmetics industry at the time, sought to eliminate skin problems caused by additives. In order to ensure that customers would always use fresh products, FANCL conceived of the idea to label its products with the date of manufacture.

Because *Mutenka* cosmetics do not contain any preservatives, the Company also decided to sell these in small glass vials that could be completely used in one week. The mail-order sales channel was also chosen as another solution to maintaining product freshness.



1989

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

FANCL revolutionized the conventional wisdom that the higher the price of a cosmetic product, the more effective it is. Rather, it took the consumer’s perspective and brought to market “products that would undoubtedly facilitate beauty” at prices where they could continue to be used daily. This concept was what turned the world’s generally accepted thinking on its head, and was how we captured the allegiance of our customers.



1994

**Launched the Health Food Business
Stepping forth to eliminate the “Negatives” in the “beauty and health” domain**

In 1994, together with a “declaration to dramatically reduce prices,” the Company rolled out its nationwide health food business by launching mail-order sales of nutritional supplements. Health foods in Japan at the time were extremely expensive. FANCL was the first company in Japan to market products using the term “supplement,” which has now come into common usage.



The Company’s Nutritional Supplements business began under the key concept of slashing prices and desiring to provide health foods at a reasonable price so that they can be taken every day, which is the very reason they are so effective. Having matched the needs of its customers at the time, this business was flooded with orders. Later, the Company launched *Hatsuga genmai* (germinated brown rice) Business in 1999 and its *Kale Juice* Business in 2000.

1997

Launched Designated Delivery Place service that eliminates “inconvenience” when customers pick up products, and streamlines deliveries

1998

FANCL’s original “bump dot labeling” was borne of the idea that “usage should be easy for everyone” for those who found it difficult to differentiate between containers.

1999

Based on the concept of facilitating an individual’s ability to be “independent” as a member of society, established FANCL SMILE Co., Ltd. (A special subsidiary) to promote employment of those with disabilities.

Long-Term Vision

VISION2030

Make the world healthier and more beautiful
And become a company that is loved around the world

2002

The rise of “boscia,” a brand that cultivated the additive-free market in the U.S.

Taking a botanical science theme, FANCL created products without preservatives that relied upon the cutting-edge technology developed through its *Mutenka* cosmetics. boscia is expanding its sales channels with the aim of becoming a national brand in the U.S. and an international brand in Europe, Australia, and China.



2004

Development of “SDI System”

FANCL was the first in the industry to develop “SDI*” a system which works to detect the interactions between supplements and medications. SDI can quickly detect interactions between FANCL supplements and prescription drugs or over-the-counter medications. This is a service that eliminates anxieties in the consumption of supplements.

* Supplement and Drug Interaction

2015

In addition to “Enkin (Anti-aging eye care),” the first Foods with Function Claims successive launch of *Kenshi Support* (Total Fat Support) and *Keiatsu Support* (blood pressure support)



* Packaging at the time of launch in 2015

2018

Contributing to solutions for health issues in China

Working through China Sinopharm International Corporation, China's largest pharmaceutical group, FANCL commenced supplement sales based on cross-border e-commerce. From 2020, FANCL began offering information in China via its SDI (supplement and drug interaction) system.



2019

Capital and business alliance with Kirin Holdings

FANCL concluded a capital and business alliance agreement with Kirin Holdings Company, Limited.

Joy brings us together



Under the agreement, the two companies will leverage their respective strengths, and seizing upon complimentary synergies, will endeavor to find solutions to societal issues such as extending healthy life spans.

2021

The 3rd Medium-Term Management Plan

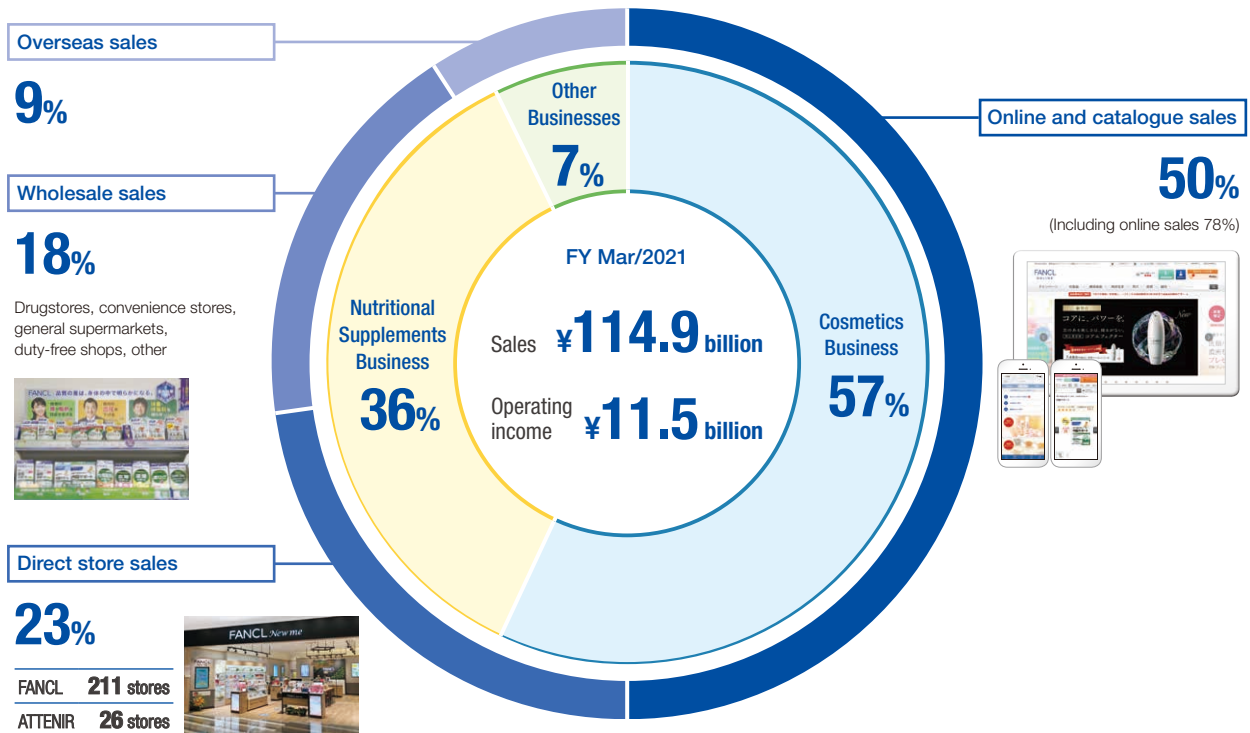
Under the banner “FORWARD 2023,” –Conquer adversity and shape our future–, the Company identified seven challenges to be met. Further building on “ACTION 2020,” the entire Company is working in unison to resolve the new negatives that have arisen due to COVID-19 while adapting to social changes and achieving sustainable growth in Japan and overseas.

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.

FY Mar/2021 Results



Global Business Development



Cosmetics Business

Sales

¥65.1 billion

(14.2% down YoY)

Operating income

¥7.9 billion

(32.4% down YoY)

With the spread of COVID-19, FANCL Cosmetics, ATTENIR, and boschia saw a decline in sales, while the business as a whole also experienced lower sales.

Sales of FANCL Cosmetics were firm due to robust sales of *DEEP CLEAR WASHING POWDER* and *CORE EFFECTOR*, a newly released high-function essence.

Sales of ATTENIR Cosmetics were also firm on strong sales from its *Dress lift* skincare line, where cross-border e-commerce targeting China contributed to this strength.

Sales of boschia, which is primarily sold in the U.S., grew significantly through its own e-commerce website, Amazon, and other e-commerce channels.

Operating income declined due to a decrease in the gross profit margin and lower sales.



Nutritional Supplements Business

Sales

¥41.1 billion

(6.4% down YoY)

Operating income

¥5.0 billion

(23.1% up YoY)

Following the drop in inbound demand due to COVID-19, as a whole the business experienced a decline in sales. Given the greater awareness of health in Japan, however, *Naishi Support* (Weight and body fat care) and other supplements addressing lifestyle-related disease posted robust sales. Moreover, newly released *Meneki Support* (Immunity Support) contributed to this strength. The Overseas Business saw major growth in cross-border e-commerce targeting China, leading to widespread growth in income.

Operating income grew due to an improvement in the gross profit margin as well as the efficient use of advertising expenditure.



Other Businesses

Sales

¥8.5 billion

(24.1% up YoY)

Operating income

¥0.2 billion

(146.9% up YoY)

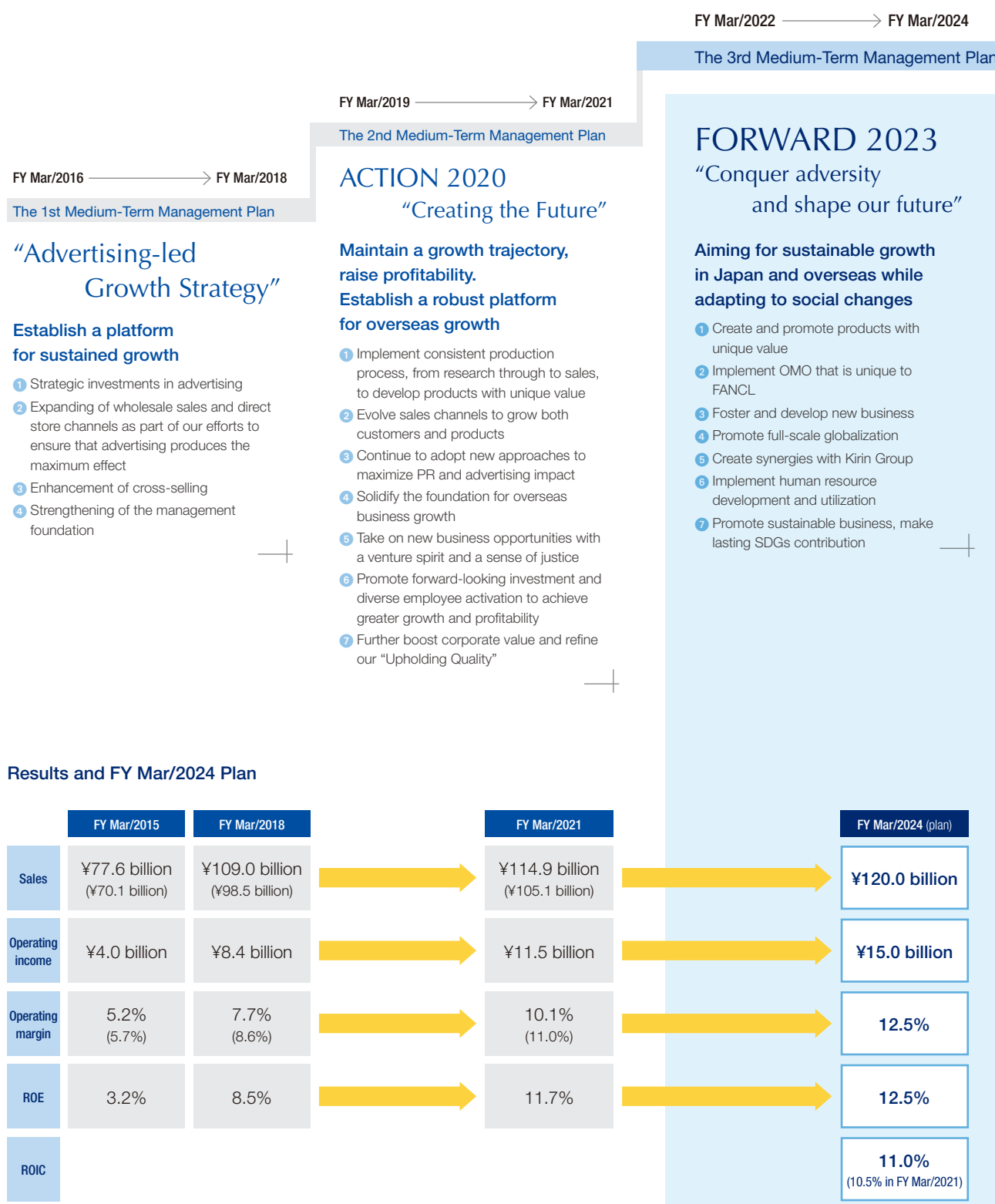
Given an increasing awareness of health, *Hatsuga genmai* (germinated brown rice) and *Kale Juice* saw higher sales, while the release of non-woven masks and the *CLEAN & BARRIER* series of disinfectants led to significantly higher sales.

Operating sales increased due to an increase in gross profit resulting from higher sales.



Long-Term Vision and New Medium-Term Management Plan

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



* Applying “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29), etc. from FY Mar/2022
Sales and operating income margins in parentheses for FY Mar/2015 to FY Mar/2021 are estimated values when the same standard is applied.

VISION2030

Make the world healthier and more beautiful
And become a company that is loved around the world

Overseas sales ratio **25%**



Specific Policies

1 Business Strategy

Cosmetics	FANCL Cosmetics	<p><Japan> Promote brand diversification by launching new products and disseminating information on the high efficacy and value of <i>Mutenka</i> cosmetics that enhance the skin's natural function.</p> <p><Overseas> Develop e-commerce in the Asian region through diversification of brands.</p>
	ATTENIR	Based on the philosophy of "luxury brand quality at one-third of the market price or lower," work to evolve ATTENIR from domestic to global brand.
	boscia	Enhance brand value and increase sales by launching Premium line and by promoting to "national brand" status in the U.S. and "international brand" status in Europe, Australia, China, and other markets.
Health Food Business		<p><Japan> Based on the three pillars of "strengthening our existing supplement business," "personalization," and "creating trial opportunities (BtoB) through the development of food formulations," the company aims to create a highly profitable business model that responds to new needs arising from the declining birthrate, aging society, and COVID-19.</p> <p><Overseas> Aim to become the top-selling foreign brand in China through cross-border e-commerce and general trade sales of approved health food products.</p>

2 Sales Channel Strategy

Direct store Channel	<p>Leverage IT to combine the strengths of online and catalogue and direct store channels to achieve OMO that is unique to FANCL, for the purpose of maximizing the value of the customer experience.</p> <p>Online and catalogue sales</p> <ul style="list-style-type: none"> ● Distribute information over the web to achieve faster and more personalized customer service. ● Strengthen presence on external online and catalogue platforms as a new customer contact point and "experience" vector. <p>Direct store sales</p> <ul style="list-style-type: none"> ● Strengthen communication and counseling capabilities of store staff to realize high-quality customer service.
Wholesale sales	Conduct sales promotion activities that integrate mass advertising of core products with retail store media to maximize sales per store.

3 Management Foundation, SDGs

Research	<ul style="list-style-type: none"> ● Accelerate business strategies, promote research on solutions to eliminate negatives ● Develop new products utilizing Kirin Group technologies, materials
Manufacturing	<ul style="list-style-type: none"> ● Strengthen supply system and increase flexibility <ul style="list-style-type: none"> ◇ Launch new, dedicated supplements factory (April 2021) ◇ Shorten manufacturing lead times, promote stable supply through BCP measures
IT systems	<ul style="list-style-type: none"> ● Bring "FIT3," a core IT system for realizing the optimal approach for each individual customer online (spring 2022)
Logistics	<ul style="list-style-type: none"> ● Ensure thorough automation and manpower efficiencies, shorten delivery times and reduced delivery costs <ul style="list-style-type: none"> ◇ Bring Kansai Logistics Center online (June 2021)
Human resources	<ul style="list-style-type: none"> ● Strengthen stratified HR development, including future candidates for management roles, and global education ● Establish a human resources management system to ensure optimal deployment of human resources and promote employee engagement in line with management strategies
SDGs	<ul style="list-style-type: none"> ● Under the FANCL Group "Sustainable Declaration" that was formulated in 2018, we will set clear quantitative targets and work on them with the key themes of Environment, Healthy Living and Local Communities and Employees.

4 Shareholder Returns

The Company will maintain its performance-linked distribution of profit to shareholders with stable dividend payouts.

Dividends	Determine the dividend amount based on a target consolidated payout ratio of approximately 40% and DOE (dividend on equity) ratio of approximately 5%
Acquisition of treasury stock	Flexibly consider the acquisition of treasury stock with the aim of improving the capital efficiency ratio, while taking into account trends in the share price and future capital funding requirements
Cancellation of treasury stock	Treasury stock in excess of 10% of the total number of outstanding shares will be cancelled.

We will face the challenges
in a range of areas and aim to
support customer lifestyles full of
beauty and health, not only
in Japan but on a global scale.

President & CEO,
Representative Director

Kazuyuki Shimada

Profile

Born in Hiroshima Prefecture in 1955. After graduating from Doshisha University's Faculty of Law, joined The Daiei, Inc. in 1979. After having been in charge of sales floors and worked as a headquarters staff member, served as secretary to the founder Isao Nakauchi for eight years. Joined FANCL Corporation in 2003. Responsible for the Corporate Planning Dept., developed the foundation for business expansion and growth, and executed strategy promotions. In 2007, he became Executive Director and was appointed General Manager of the Management Strategy Division, and in 2010 he oversaw all Group staff departments as Executive Director and General Manager of the Administration Dept.

After 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.

In uncertain times, make clear what to maintain and what to improve

Environmental Changes amid COVID-19 Pandemic

Due to the spread of COVID-19 infections, we are facing very anxious times. As a result, consumer values have changed dramatically, and there is an ever-increasing awareness of wanting to purchase products that provide safety and peace of mind and are more reliable, and that people are saying that they wish to continue purchasing these kinds of products. In addition, in a situation where going out is restricted and it is difficult to go to real stores, the demand for e-commerce is rapidly increasing, and the purchasing behaviors of customers is changing drastically.

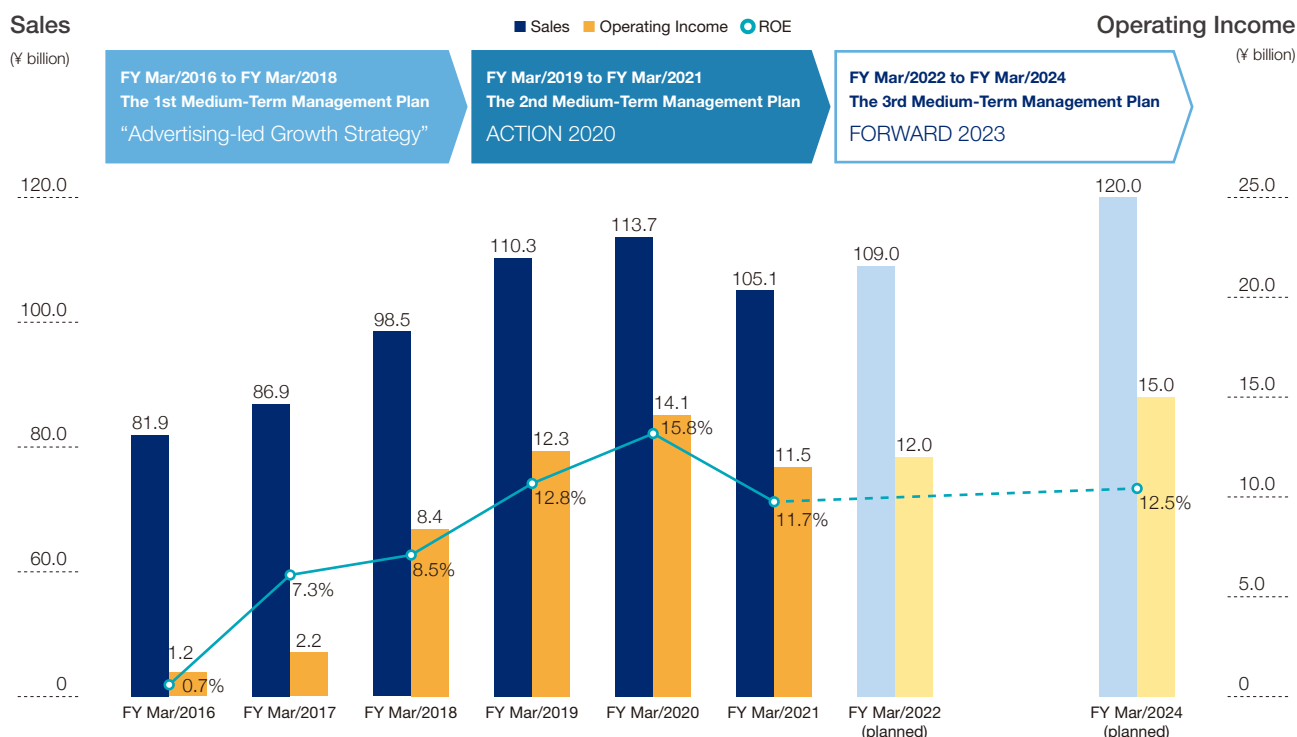
Amid the many companies that will have to respond to this change in the years to come, FANCL has been engaged since its establishment in the D2C business, which sells products researched and developed as well as manufactured in-house to customers through online and catalogue sales channels and direct stores. We believe that we are able to respond quickly to this change in the environment by maintaining our customers' safety and peace of mind in that they can purchase products that they can trust directly from us and by possessing strong online and catalogue sales channels.

However, with the uncertain situation seeming set to continue, we cannot feel at ease. In any situation, I will make clear what to maintain and what to improve and strongly promote them so that FANCL can become a company that is loved more than ever.

Respond Rapidly to Customer Changes with Flexible Thinking

We sell products that embody our Founding Philosophy—Eliminate the “Negatives” with a Sense of Justice—and our Corporate Philosophy of “Can Achieve More” and “Upholding Quality,” and I am telling employees that we will not change the basis of our own R&D, manufacturing, and sales, but we can change everything else. Amid the changes due to the COVID-19 pandemic that are rapidly affecting all aspects of our customers' lives, I realized that if we were slavishly tied to doing business using conventional methods, they would no longer be relevant. Based on this idea, what we will particularly reinforce in the Cosmetics Business going forward will be to launch new products with a high degree of effectiveness and to firmly convey to our customers the value of *Mutenka* products that enhance the skin's natural functions. In the Health Food Business, we will develop products that meet the needs newly created in a society with a low birthrate and an aging population as well as the COVID-19 pandemic. In Overseas Sales, we will start full-scale general trade sales of health foods in the Chinese supplement business. We aim to build Online Merge Offline (OMO) services that are unique to FANCL by integrating online and catalogue sales channels and direct stores.

The foregoing is also the policy that forms the basis of our recently announced new Medium-Term Management Plan, and I am confident that the realization of these moves will further enhance FANCL's corporate value.



(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.



Review of the 2nd Medium-Term Management Plan “ACTION 2020”

Result Highlights

Initially, the 2nd Medium-Term Management Plan aimed for sales of ¥126 billion and operating income of ¥12.6 billion, but in the Plan's first year, FY Mar/2019, earnings grew significantly due to the rapid expansion of inbound demand. We therefore revised our targets upward to sales of ¥140 billion and operating income of ¥18 billion. After that, record-high operating profit was recorded for two consecutive terms in FY Mar/2019 and FY Mar/2020, and this pandemic occurred at a time when the achievement of the targets was within range in the final year. As a result of the pandemic, inbound sales, which had been about ¥14 billion in FY Mar/2020 fell to almost zero in FY Mar/2021, and the state of emergency forced the closure of direct stores. By maximizing our multi-channel strengths and actively guiding store customers to online and catalogue sales channels, we were able to cover part of the decline. As a result, the plan was not achieved in the final year, when sales totaled ¥114.9 billion (when the accounting standard for revenue recognition is applied: ¥105.1 billion) and operating income ¥11.5 billion.

Achievements and Future Issues

In this way, on the quantitative side, the unexpected external environment resulted in disappointing results, but on the qualitative side, in the last three years we were able to build a foundation for growth for our core business and have achieved great results that will lead to the next growth stage.

FANCL Cosmetics launched new “hero items”, such as *DEEP CLEAR WASHING POWDER* and *CORE EFFECTOR*, which were highly evaluated by domestic customers.

ATTENIR significantly increased the number of its basic skincare customers in Japan. The Company also commenced

cross-border e-commerce with China and achieved sales of ¥1 billion in FY Mar/2021. In the years to come, we will gradually expand cross-border e-commerce in Asian countries other than China, and the plan is to start general trade sales in China by FY Mar/2024.

In the case of boschia, in the years to come we will target further growth centered on a “national brand” strategy, which aims to establish a firm position in the United States, and an “international brand” strategy, which expands sales channels outside the United States, such as in Europe and Asia.

Positioned as a growth business, the supplement business in Japan will be able to develop *Naishi Support* (Weight and body fat care) to follow on from *Calolimit* as its products, and the Chinese supplement business is also growing faster than expected, centered on the cross-border e-commerce.

With an eye toward the future, we started operations at a dedicated factory for *Mild Cleansing Oil* in March 2020, our new supplement factory (Mishima Factory) in April 2021, and at our Kansai Logistics Center in June 2021.

Despite these achievements, challenges that will need to be overcome are looming. One of them is full-scale globalization. Fortunately or unfortunately, our domestic business has been solid and there is still room for growth, so our full-scale globalization is lagging behind in comparison with other companies. When I consider the future of FANCL 10 or 20 years from now, I feel a strong sense of crisis when our proposition is to make great advances overseas. We aim to accelerate overseas expansion by recruiting employees who are motivated to conduct overseas business and providing solid support, while promoting the development of overseas human resources.



With the desire to have overcome the pandemic, overcome our weaknesses, and become stronger in three years' time, our slogan is “Conquer adversity and shape our future.”

Toward achieving the 3rd Medium-Term Management Plan “FORWARD 2023”

Conquer Adversity and Shape Our Future

For the previous Medium-Term Management Plan, “ACTION 2020,” we decided on the name “ACTION 2020” to solve the problem that FANCL at that time lacked the ability to get things done. Since the ability to get things done has been steadily achieved over the past three years, the new Medium-Term Management Plan has been named “FORWARD 2023” with the meaning of moving step by step toward the realization of our long-term vision, VISION2030. It is expected that the COVID-19 pandemic’s effects will remain in management for a while longer, but with the desire to have overcome this pandemic, overcome our weaknesses, and become stronger in three years’ time, we adopted “Conquer Adversity and Shape Our Future” as our slogan.

Seven Challenges in Making Sustainable Growth Possible

Under this new Medium-Term Management Plan, we set out seven challenges as major policies. One of them is to “create and promote products with unique value.” This involves continuously creating new products with unique value, as exemplified by *Mild Cleansing Oil*, *CORE EFFECTOR*, *Calolimit®* and *Naishi Support* (Weight and body fat care), while nurturing them into stronger products by communicating the inherent goodness of those products to our customers in easy-to-understand words.

Next is the “implement OMO that is unique to FANCL.” It has been the bond with our customers that has supported the Company in the harsh environment of the COVID-19 pandemic. Once again, I strongly feel that this bond is one of FANCL’s greatest management assets. To continue to strengthen this bond in the years ahead, it will be necessary to further improve the “experience value” that we provide to our customers. The

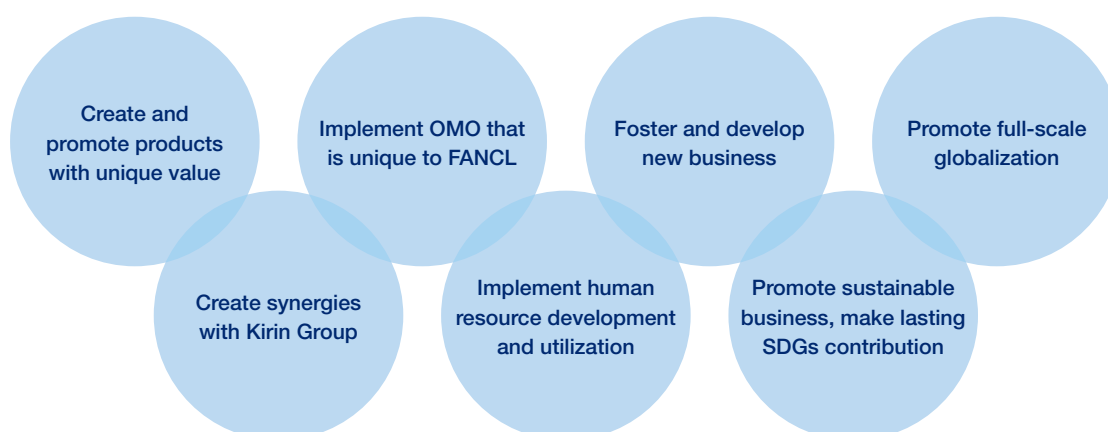
challenge in that is to utilize IT technology to build OMO that is unique to FANCL, which combines the strengths of both online and catalogue as well as store channels. We are building “FIT,” a unique IT core system that is capable of centrally managing online and catalogue data and direct store data.

Utilizing this FIT system will enable us to propose the most suitable products for our customers at the most suitable timing by sharing the opinions obtained from online and catalogue, real store customers as well as the behavioral information up to the point of purchase. By utilizing IT in this way and seamlessly connecting both channels, we will maximize the “experience value” of our customers.

We will also take on the challenges of creating synergies with the Kirin Group, with which we concluded a capital and business alliance in 2019. We are building a very good relationship with Kirin because of its good corporate culture and person-to-person compatibility, and we are launching multiple jointly developed products such as *Meneki Support* (Immunity Support), for which *Lactococcus lactics* strain plasma is used. In addition to launching supplements for fatigue, in FY Mar/2022 we plan to launch products that make use of the anti-aging raw materials created through joint research in the cosmetics business area. Also, the new supplement factory (Mishima Factory) will undertake the production of BtoC products from KYOWA HAKKO BIO CO., LTD. and plans to demonstrate synergies in terms of production.

The entire Group will be mobilized to aggressively and boldly pursue the remaining four challenges: aiming for sustainable growth in Japan and overseas, while achieving the targets of sales of ¥120 billion and operating income of ¥15 billion. At the same time, we will introduce ROIC as a new KPI from this term and promote management that places greater awareness on profitability and investment efficiency.

Major Policy: Seven challenges



Toward Realization of a Sustainable Society

Sustainable Declaration

“Building a Bright Future Together”

In June 2018, we formulated the FANCL Group “Sustainable Declaration” and expressed our intention to contribute to the realization of a sustainable society in line with the Sustainable Development Goals (SDGs). Since then, we have been working to share the values throughout the Company and reflect them in our business activities. However, two years have passed since the announcement of the declaration, social issues and global environmental problems have become more and more serious, and the responsibility on corporations to contribute to global sustainability is weighing even heavier. Based on this situation, The Promotion Office of SDGs was established in March 2020 as an organization under the direct control of the president, and over the course of about a year the FANCL Group’s priority issues were organized and reviewed.

Looking ahead to the achievement of “VISION2030” while aiming to contribute to the sustainable growth of the FANCL Group and the realization of a sustainable society, we set three new key themes: Environment, Healthy Living and Local Communities and Employees. We will set specific goals for each theme and link them to actions.

Formulation of New Key Themes and Content of Initiatives

With regard to the Environment theme, this is a particularly urgent state of affairs in the case of issues such as global climate change and marine plastics. The Group having also set specific quantitative targets—such as 100% certification of palm oil by FY Mar/2024, 100% sustainable packages based on the 4Rs by FY Mar/2031, and zero CO₂ emissions by FY Mar/2051—The Promotion Office of SDGs and each business department are working closely together while aiming to achieve them.

With regard to Local Communities and Employees, we will promote women and young employees to the fullest extent. As of the end of March 2021, 63.5% of our full-time employees are women, and 46.5% of managerial positions are now held by women, and thus they are achieving success even in comparison with other companies. However, there are still too few women executives, so we will reform our awareness so that women managers at the departmental manager level will be motivated to advance their careers. Looking five to ten years ahead, we will actively promote young employees so that they can play a central role in management. In addition, supporting the employment and

Topics

Received the Minister of Health, Labour and Welfare Award at the 11th Japan’s Most Beloved Company Grand Prize

FANCL received the Minister of Health, Labor and Welfare Award at the 11th Japan’s Most Beloved Company Grand Prize.

Sponsored by the Management-Academia Conference That Values People® and other organizations, Japan’s Most Beloved Company Grand Prize is a system that commends companies that value their people and continue to practice actions that realize their happiness, and whose efforts are particularly excellent. The Minister of Health, Labour and Welfare Award is given to companies that have practiced excellent activities related to comprehensive employment management, such as promoting to the fullest extent the active participation of people with disabilities, the elderly, and women, and reducing long working hours.

The highly evaluated aspects included: that we have practiced management that values people since our founding; the high ratios of those in regular employment and women in managerial positions; the high take-up rate of annual paid

leave; and that an “active senior employee” program, by which employees aged 65 and over continue to be employed, is being utilized.

➡ For specific initiatives, please see page 36.



Chairman, Management-Academia Conference That Values People® Koji Sakamoto

independence of people with disabilities is also an important theme. As of the end of March 2021, the number of people with disabilities exceeded 100, and the ratio of employees with disabilities stood at 3.74%. In the years ahead, we will further promote inclusion and strengthen the creation of a system that enables people with disabilities to play an active role in various workplaces to the fullest extent, aiming for the ratio of employees with disabilities to stand at 5% in FY Mar/2031.

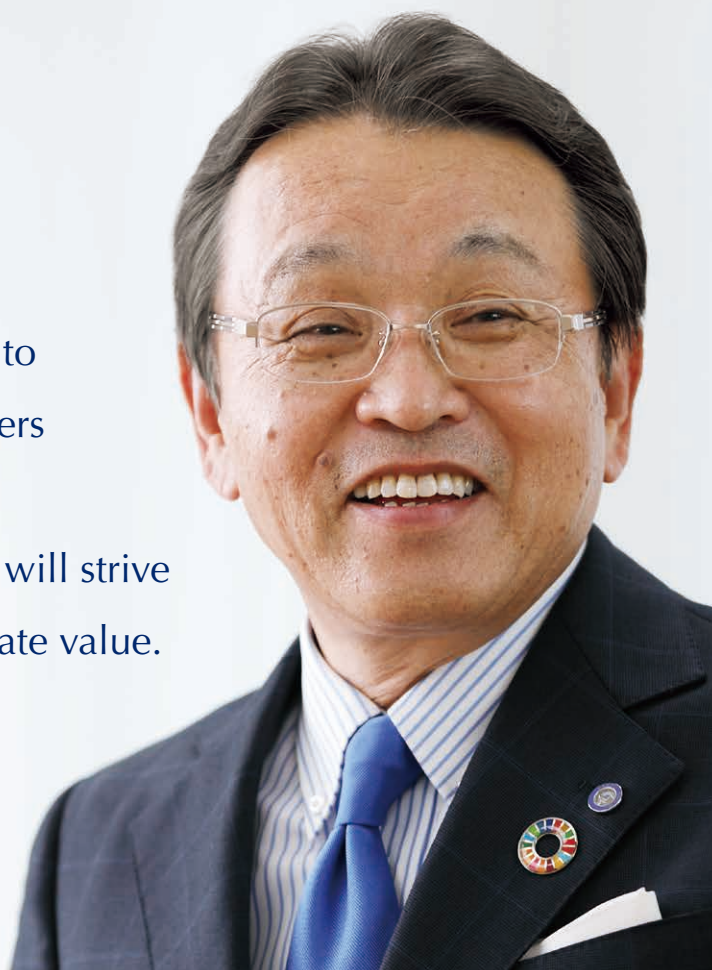
To Our Stakeholders

The slogan adopted for “VISION2030” is “Make the world healthier and more beautiful and become a company that is loved around the world.” I cherish the phrase “a company that is loved” in this statement. In the harsh environment of the COVID-19 pandemic, I once again realized that FANCL is a truly beloved company. We have the trust of our customers and business partners, our employees display great loyalty, and many individual shareholders and institutional investors have held our shares and supported us over the long term. That is why I have a strong belief that, in the years to come, we will continue to live up to those expectations more than ever.

To that end, we need to constantly listen to the opinions of our stakeholders, reflect them in our business strategies, and further reinforce our governance system to realize sounder and more transparent management. From June 2020 onward, I have changed the chairman of the Nomination and Compensation Committee from myself to an outside director, thereby increasing management transparency in personnel and compensation for officers, including my own. At the present time, four outside directors, each with different experience and specialized skills, are participating in Board of Directors’ meetings, and the structure is very well balanced. To connect these abilities as a forum to discuss FANCL’s future development in a firm manner with outside directors from FY Mar/2021, we have set important themes, such as DX, SDGs, and the Medium-Term Management Plan, and hold theme sessions several times a year. The face-to-face discussions are heated and provide us with a variety of insights.

We at FANCL will continue to listen carefully to the opinions of our stakeholders, reflect those opinions in our business strategies, and strive to further improve our corporate value. We ask for your continued understanding and further support. Thank you for your cooperation.

Continuing to listen carefully to the opinions of our stakeholders and reflecting those opinions in our business strategies, we will strive to further improve our corporate value.



FANCL
Cosmetics



Yuna
Akashi

Cosmetics Division
General Manager

Profile

After joining FANCL, Yuna Akashi gained experience in cosmetics product planning, sales planning, and store management. After that, she transferred to the Customer Perspective Promotion Department. In this department, she realized the importance of creating a system that leverages customers' opinions in management and worked on that system, which is now one of her major assets.

Without taking the usual for granted, we will gather information sensitively on customers' negative experiences and contribute to bringing happiness to people all over the world.

Review of the 2nd Medium-Term Management Plan “ACTION 2020”

As a brand strategy, we built a brand system for each target and promoted diversification with the aim of developing new age groups. Specifically, we reinforced *Beauty BOUQUET* for mature customers. We launched *AND MIRAI*, which is targeted at the younger market around the age of 30, and succeeded in increasing the number of customers in the new age groups. Partly due to these measures, FANCL Cosmetics' share of the domestic cosmetics market made a big leap, and we were able to rank in the top three.

In addition, we launched *DEEP CLEAR WASHING POWDER* in May 2019 and *CORE EFFECTOR* in August 2020, which were highly evaluated by our customers and made them into blockbuster products. I firmly believe that the background to these hit products was the founding philosophy of “eliminating the negatives” as the starting point for product development. For example, *DEEP CLEAR WASHING POWDER* is a product that was released with the aim of eliminating the negative experiences of customers who had said, “Enzyme facial cleansing removes dirt from pores but the dryness that comes with it is of concern.” Previously, there had been many customers who were resigned to

the idea that “enzyme facial cleansing usually causes dryness.” However, instead of taking the usual for granted, we leveraged our R&D capabilities and developed an epoch-making product that keeps the skin moisturized while firmly removing dirt from pores. I believe that the elimination of this “negative” has been supported by many customers.

Changes in Consumer Values in the COVID-19 Pandemic

Consumer values with regard to beauty have also been greatly changed by COVID-19. According to our investigations, about 80% of people have experienced rough skin from wearing masks, and 90% of people asked for safe skincare cosmetics that also provide peace of mind. It can be said that this is an era in which essential beauty, including those of our customers who want to enhance their skin's natural strength, is required more than superficial beauty. For example, *CORE EFFECTOR* is an essence that focuses on such “strength that forms the foundation of the skin” and was a big hit by capturing the needs of customers in the COVID-19 pandemic. In the years to come, we will continue to be sensitive to these changes in values while aiming for further growth.



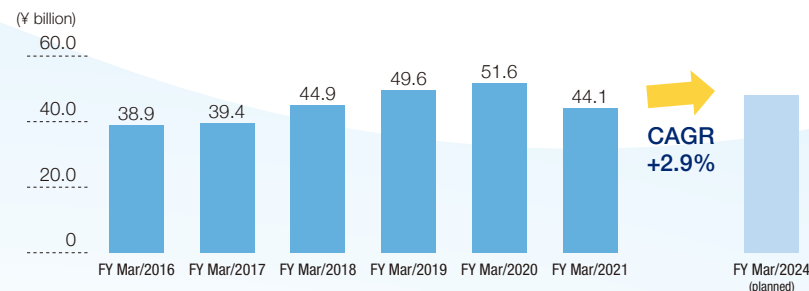
DEEP CLEAR WASHING POWDER



CORE EFFECTOR

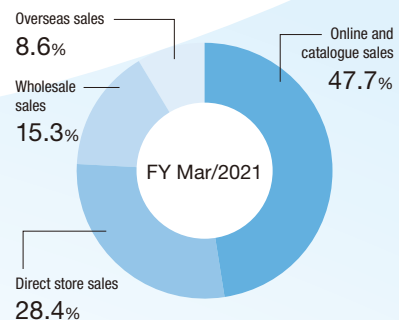
FANCL Cosmetics

Sales



(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



Business Strategies for the 3rd Medium-Term Management Plan "FORWARD 2023"

Continuing from the 2nd Medium-Term Management Plan, we will strongly promote our brand diversification strategy. First, in our basic skincare The FANCL products, which form the core of our business, we will renew one line each year with the aim of increasing the number of users, and focus on branding advertisements that fully emphasize the value of *Mutenka* cosmetics. In the face wash category, where we are aiming to become the No. 1 brand in the market, we will reinforce *DEEP CLEAR WASHING POWDER*, launch new products and also a highly functional essence to follow on from *CORE EFFECTOR*, last year's major hit, while working to increase the number of essence users.

Next, *Beauty BOUQUET*, which is positioned as a development brand, is currently scheduled for renewal using highly functional anti-aging raw materials jointly developed with the Kirin Group.

In another development brand, *AND MIRAI*, we will reinforce Instagram-based information dissemination to further improve brand awareness. The brand is also very popular in the inbound tourism market, so we will prepare for overseas expansion in the months to come.

In addition, we will launch the new Prestige brand in 2021.

The Prestige brand is targeted at the customer base that invests highly in skincare products, and we plan to offer value propositions and branding from a perspective that is different from other FANCL brands. From FY Mar/2023, we are planning cross-border e-commerce in China and aim to establish our position as a global brand.

In Conclusion

The *Mutenka* research that we have been conducting for more than 40 years is a great asset, and I feel confident that we can promise natural skin beauty to anyone. In the years to come, what will be important is how to supply natural skin beauty in forms that match beauty awareness and customs, which will lead to a brand diversification strategy. As various brands packed with our philosophy and research capabilities spread all over the world, the number of people who can spend their time with confidence in their natural skin and with smiles on their faces will increase. This is our goal. Without taking the usual for granted, we will gather information sensitively on customers' negative experiences while demonstrating our utmost efforts so that we are able to bring happiness to people all over the world.

Business Strategies

Based on the absolute value of "safety" and "reliability," the Company will promote brand diversification by launching new products and disseminating information on the high efficacy and value of *Mutenka* cosmetics that enhance the skin's natural function.

	Representative Products	Core Users	FY Mar/2031 Sales Composition Ratio (Target)
The FANCL	<i>Mutenka</i> skincare, <i>Mutenka</i> makeup, etc.	30s to 40s	80% (FY Mar/2021 95%)
	Cleansing, Facial wash, etc		
Neo	<i>Beauty BOUQUET</i>	Aged 50 and above	20% (FY Mar/2021 5%)
	<i>AND MIRAI</i>	Aged around 30	
Prestige	New Brand X	20s to 30s Group that invests highly in skincare products	

Health Foods



Increase the use of health foods (supplements) in Japan to 50%, helping to extend people's healthy lifespans and reduce medical costs

Kazumasa Wakayama

Health Food Division
General Manager

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 of the 2nd Medium-Term Management Plan "ACTION 2020"

I am confident that FANCL has cemented its place as the leading supplements company over the past three years, launching hit products such as *Naishi Support* (weight and body fat care). Net sales for foods with Function Claims increased ¥8 billion from FY Mar/2018 to ¥23 billion in FY Mar/2021. I believe our major success lies in the high marks we have received from customers for the functionality and easy-to-understand names of our products, a strength we have refined to date.

In addition, business profitability has increased, with the operating margin rising from 2.4% in FY Mar/2018 to 12.2%, indicating that "ACTION 2020" was a very fruitful period. We will further accelerate the strategies pursued so far to maintain this favorable momentum going forward.

Business Strategies for the 3rd Medium-Term Management Plan "FORWARD 2023"

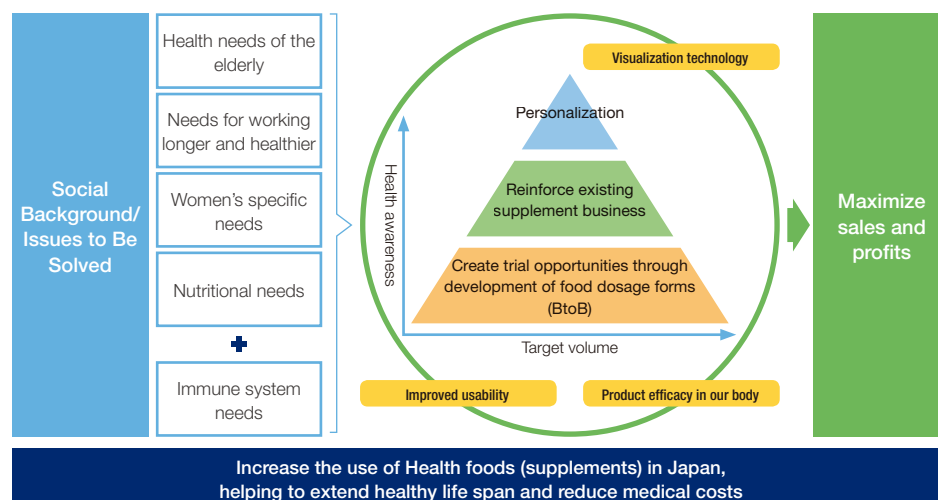
With a declining birthrate, aging society and women entering the workforce, needs and issues that previously went largely unnoticed are becoming more apparent. We must be quick to identify these needs and issues and take the lead in producing appealing products at the right time. In other words, the philosophy that we have cherished since our founding—develop products with an eye to the future "negatives"—is now becoming increasingly important.

Against this social backdrop, the Health Business will resolutely continue to pursue the three basic strategies: "strengthening our existing supplement business," "personalization," and "creating trial opportunities (BtoB) through the development of food formulations."

Firstly, with regard to "strengthening our existing supplement business," we have established five categories in which needs are

Business Strategies

Based on the three pillars of "strengthening our existing supplement business," "personalization," and "creating trial opportunities (BtoB) through the development of food formulations," the company aims to create a highly profitable business model that responds to new needs arising from the declining birthrate, aging society, and COVID-19.



Increase the use of Health foods (supplements) in Japan, helping to extend healthy life span and reduce medical costs

FY Mar/2018

27%

FY Mar/2021

31%

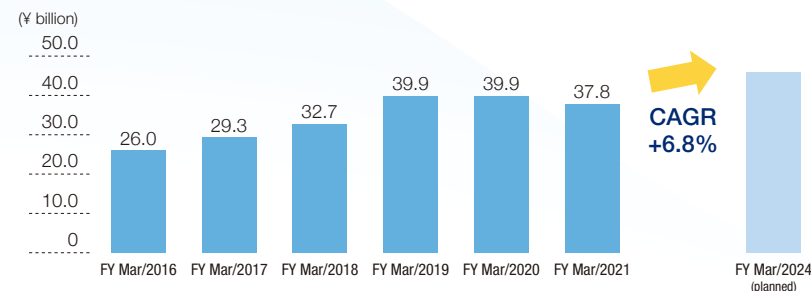
FY Mar/2031

50%

(Source: FANCL Health Needs Survey)

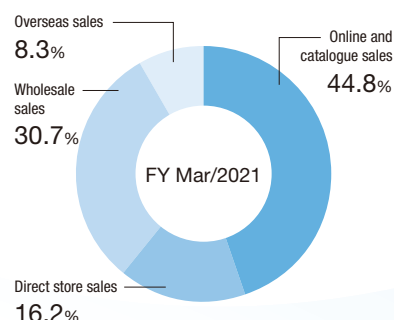
Nutritional Supplements Business

Sales



(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



expected to increase, and we will regularly renew star products and introduce new products in accordance with these categories. Particularly among these, we will proactively invest in advertising mainly targeting people in their 40s and 50s, positioning supplements that address lifestyle-related diseases, led by strong-selling *Naishi Support* (Weight and body fat care), as growth drivers. In addition, we will develop into core products foods with functional claims that have large markets and have gained attention for fighting fatigue during the COVID-19 pandemic.

With regard to "personalization," we will focus on *Personal ONE*, which was released in February 2020. While more people are concerned about their health amid the pandemic, required nutrients differ depending on individuals' constitution and lifestyles. Accordingly, it has become necessary to "visualize" the state of customers' health. The Company has furthered proprietary urinalysis technology and deepened technologies that can analyze in greater detail which nutrients are lacking. We will evolve this "visualization technology" and develop it into a business pillar by enhancing our extensive lineup of products that address wide-ranging concerns.

In BtoB, we will work with food manufacturers to develop collaborative products that both taste good and are healthy to improve FANCL brand penetration and cultivate potential supplement customers. These initiatives have already been more successful than anticipated, and we aim to gain new users by developing products jointly with the Kirin Group and major food manufacturers.



Personal ONE

BtoB

Develop products that address health needs linked to social issues

Category	Policy	Typical products
Needs for working longer and healthier	<ul style="list-style-type: none"> Launch new food with functional claims products that address lifestyle-related diseases and meet new needs brought about by the pandemic 	<i>Naishi Support</i> (Weight and body fat care), <i>Ketsuatsu Support</i> (Blood pressure support) NEW Supplements using Kirin ingredients
Women's specific needs	<ul style="list-style-type: none"> Maintain and expand upon FANCL's No. 1 position in the diet market Strengthen beauty supplements 	<i>Calolimit</i> series <i>DEEP CHARGE COLLAGEN</i>
Health needs of the elderly	<ul style="list-style-type: none"> Expand product lineup 	<i>Enkin</i> (Anti-aging eye care) (Renewal in April 2021) <i>Raku Hiza</i> (Joint support)
Nutritional needs	<ul style="list-style-type: none"> Lineup of products according to age, genetic makeup, and concerns 	Basic nutritional supplements, Age bracket-based supplements
Immune system needs	<ul style="list-style-type: none"> Expand product lineup 	NEW <i>Meneki Support</i> (Immunity Support) (Lineup expanded in 2021)

In Conclusion

The Company has raised a vision increasing the use of health food (supplements) in Japan from 30% at present to 50% by FY Mar/2031 to help extend healthy lifespan and reduce medical costs. We all have things we want to do and achieve in life, none of which is possible without a healthy body. In other words, most people desire to live long and healthy lives, so it is our mission to continue supplying products and services that achieve this. Accordingly, we need to broaden our perspective beyond manufacturing supplements to providing services that maintain and improve health. The ultimate goal is to extend our customers' healthy lifespans. To this end, we will pursue optimal business models based on considering what actions will make it easy for customers to stay healthy. I am convinced that continuing to take on these challenges will help our customers realize more active lives and lead to further growth in the Health Food Business.

Overseas



Accelerate global expansion and support the beautiful and healthy lifestyles of our many customers around the world

Hiroaki
Hori

International
Business Division
General Manager

Profile

Hiroaki Hori was assigned to the Store Sales Division after joining FANCL in 1999. In 2003, he joined the International Business Division in charge of China, working with local partners to launch new businesses and expand sales channels. In 2012, he was transferred to the Wholesale Division, where he was responsible for strategic planning as general manager. In 2020, he returned to the International Business Division as general manager.

Review of the 2nd Medium-Term Management Plan “ACTION 2020”

In the China supplement business, cross-border e-commerce sales have grown at a much faster pace than initially planned based on the partnership with China Sinopharm International Corporation. In addition, five vitamins and minerals have been approved as health food products, giving us a foothold for full-scale expansion. Awareness of the FANCL brand is gradually increasing, and we have gained a certain level of recognition for reliability, safety, quality, and high functionality based on “product efficacy in our body.”

In the Cosmetics Business, the positive impression of *Mutenka* products that feature high Japanese quality and draw out the skin's natural ability to become beautiful are gaining popularity among many customers overseas.

Chinese Supplement Market Growth Potential

The Chinese supplements market—our main market—has seen annual double-digit growth continue over the past 10 years, reaching ¥2.6 trillion in 2019, which is 2-3 times the size of the domestic market. In China, more people suffer from lifestyle-related diseases and have shorter healthy lifespans compared to

Japan due to industrialization, urbanization, and an aging population. In response, the Chinese Government is promoting the “Healthy China 2030,” implementing various initiatives aimed at raising health levels to those of developed countries, so the health-related services market is expected to expand further. I think the role supplements will increase with heightened health awareness and greater importance of preventive healthcare. This is an attractive market, so of course competition is intensifying with a series of overseas brands making inroads. The biggest theme is how to gain an advantage in such an environment.

The Company's advantage lies in being the only Japanese manufacturer that offers an extensive product lineup in China, providing highly unique supplements represented by “product efficacy in our body” and food with functional claims products. In addition, we are able to utilize our proprietary SDI (Supplement and Drug Interaction) system, which allows us to instantly check health food and medication interactions, and an expansive network operated by Sinopharm, China's largest pharmaceutical company group. Leveraging and enhancing these advantages, I am confident that we can reach our goal of becoming the No. 1 selling overseas brand in China.



The 3rd China International Import Expo booth



Five vitamins and minerals approved in China as health food products



Sinopharm International Duty Free Plaza/FANCL outlet

Chinese Supplement Market Growth Potential



Business Strategies for the 3rd Medium-Term Management Plan “FORWARD 2023”

Under “FORWARD 2023,” we plan to grow the China supplement business through both cross-border e-commerce and general trade sales. Currently, most of the buyers in cross-border e-commerce are women in their 20s and 30s, and we will continue to promote “Age bracket-based supplements” to this core target market while further improving brand value. With these women’s families being sub-targets, we plan to increase sales by promoting beauty supplements to younger consumers and supplements to address lifestyle-related disease for middle-aged/elderly consumers.

In general trade sales, we aim to expand our present lineup of five health food vitamins and minerals to 15 in FY Mar/2022. Sales channels are currently expanding steadily, and following the Hainan Island duty-free shopping complex, high-end department stores and supermarkets have started to handle our products. As product lineups increase, we will gradually open e-commerce mall

Tailwinds from “Healthy China 2030” national strategy

Policy announced in 2016 as medium-, long-term health sector strategy

Background

Increase in patients with lifestyle-related diseases mainly due to industrialization, urbanization, and aging population

Key countermeasures

- Enhance national health education
- Promote self-motivated behavior (healthy meals, exercise)
- Prevent serious illness
- Provide high-quality medical services
- Strengthen health-related services

Health service industry market size	2020	2030
	over CNY8 trillion	CNY16 trillion

Source: Healthy China 2030 (The State Council, the People’s Republic of China)

flagship stores and expand to real stores such as drugstores and hospital pharmacies.

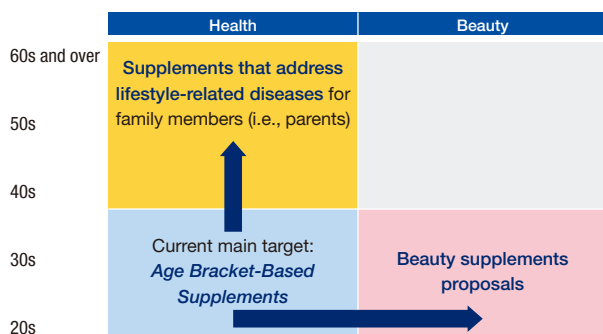
In Conclusion

The Company targets an overseas sales ratio of 25% in FY Mar/2031. In addition to strengthening supplements, we will expand cosmetics through e-commerce in Asia by diversifying our brands.

I make it a point to share with my team members our aims over the long term and the importance of working together. There may be various external changes in the short term like COVID-19, but as long as we remain steadfast in our goal, we will not hesitate to take the next step. The Company has continued to produce reliable, safe, high-quality products by sincerely addressing the “negatives” faced by our customers. We aim to realize healthier and more beautiful lifestyles as we work to resolve all kinds of “negatives” faced by our customers worldwide.

Triple China supplement business sales through both cross-border e-commerce and general trade sales (¥6 billion in FY Mar/2024)

Achieve growth in the areas of health and beauty



NEW

General trade sales (health food)

	April 2021	FY Mar/2022	From FY Mar/2025
Products	Five vitamins and minerals	Expand to 15 vitamins and minerals	Functional supplement sales
Sales channels	Domestic e-commerce (independent mall)	Domestic e-commerce (mall flagship stores, etc.)	
	Duty-free stores		
	High-end department stores, supermarkets		
		Drugstores, hospital pharmacies	

Develop into health management service for employees of state-owned enterprises

FANCL's Value Creation

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 practicing "Upholding Quality."

Opportunities

- Increase in e-commerce customers
- The growing importance of working in good health for a long time
- The growing need for aging care products
- The growing Chinese market

External Environment

Risks

- Changes in consumer behavior
- Natural disasters and the spread of infectious diseases
- Manufacturing and quality control
- Information management and security
- Environmental measures

Research and technological capabilities

Top share **17.9%**

Market share of Food with Function Claims
*Source: Fuji Keizai Co., Ltd.
CY2019 results

Robust financial base

72.3%

Shareholders' equity ratio

FANCL Group's
Founding Philosophy

Eliminate the "Negatives"
with a Sense of Justice

FANCL Group's
Corporate Philosophy

"Can Achieve More"

Philosophy/Business Activities

Integrated Manufacturing and Sales Framework

Research /
Planning
P22-23

Manufacturing
P25

Sales
P26

Beauty and Health Business Development

Active Human
Resource Participation

81.6%

Employee Satisfaction

* Data outline in "FANCL's Strengths," excluding research and technological capabilities, are results for FY Mar/2021.

VISION2030 Achievement

Make the world healthier
and more beautiful and become
a company that is loved around the world

The 3rd Medium-Term Management Plan

FY Mar/2024 Numerical Targets

Consolidated sales

¥120.0 billion

Operating income

¥15.0 billion

Customer base

2,700,000

Number of active online
and store users

FANCL's Strengths

Value Produced

Contribute to a Sustainable Society

Became a signatory to the United Nations Global Compact

As a company that continues to expand
globally, FANCL became a signatory to the
United Nations Global Compact in April 2013.



Contributing to the Realization of the SDGs

SUSTAINABLE
DEVELOPMENT GOALS



For further information, please see the section regarding our Sustainable Declaration
on page 28.

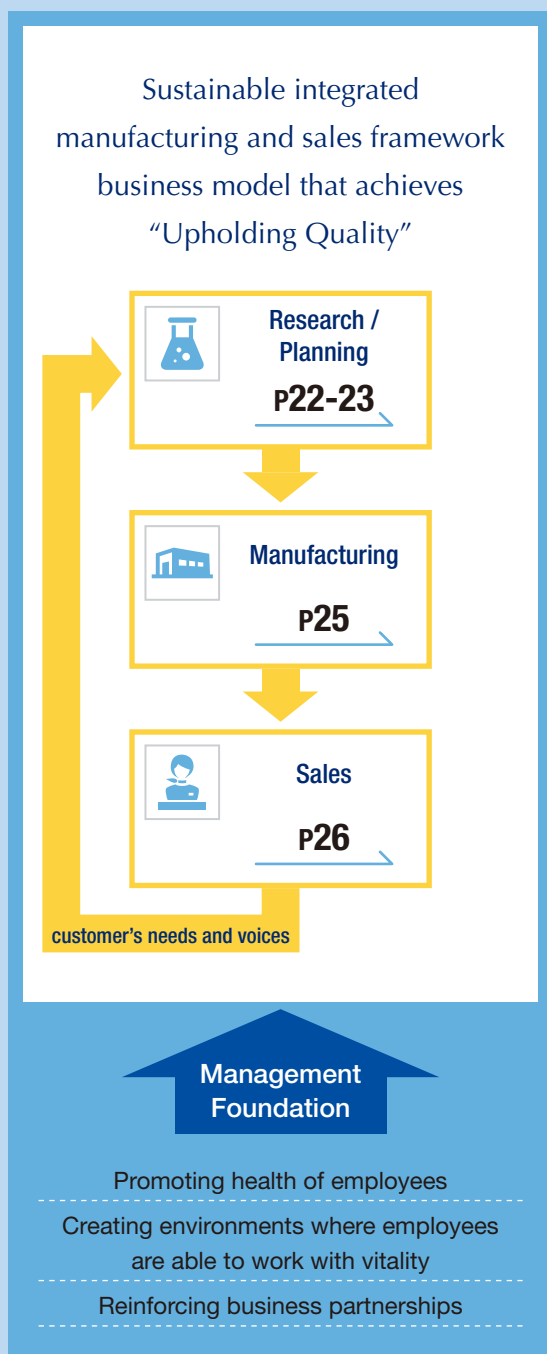
Contribution to
the environment

14.5% of total
electricity used

Amount of electricity generated by solar
power generation systems at the
Shiga and Gunma factories

FANCL's Business Model

The FANCL Group has handled every aspect of its business, from research and development to production and sales, on its own in order to grow as a company oriented towards resolving social issues. As a research and development manufacturer with a direct sales department, the Company creates products that reflect the needs and voices of its customers. The Company is working to eliminate the new “negatives” that have emerged with COVID-19, and aims to create value for the purpose of achieving sustainable growth and of further enhancing corporate value.



FANCL's Business Model

Promote research on solutions to

Consistently bearing in mind FANCL's founding philosophy of eliminating the “negatives” through science, the Research Institute is responsible for everything from foundational research to product development in beauty and health, and engages in research and development activities in these areas. The Company will tirelessly undertake challenges as a research and development manufacturer under the flag of “innovation with the customer in mind,” which it raised with the establishment of a second Research Center intended to serve as an innovation research facility.

Major Achievements in FY Mar/2021

Number of products developed	
FANCL Cosmetics	91
Nutritional Supplements	35
ATTENIR Cosmetics	29
Hatsuga genmai, Kale Juice, and other food products	7
Number of patent filings	
	65
Number of academic presentations	
	36
Number of research publications	
	12
Partners in joint research	
	25
Research and development expenses	
	¥3,145 million
Number of Researchers and Professional Qualifications	
*As of April 2021	
Researchers	214
Ph.Ds.	24
Pharmacists	12
Registered dietitians	6

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	Basic Scientific Research	Applied Research	Product Development
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	●	●	●
Innovation Research Center	Innovation research responsible for the next-generation, including areas beyond beauty and health	●	●	●
Pet Food Development Office	Product development based on pet food commercialization planning and product proposals		●	●
Human Life Science Research Project	Exploring the “negatives” in the new normal and developing solutions for these		●	●

eliminate new “negatives”

Preservative-free Cosmetics Research

-Focus on *Mutenka*-

Under its desire to free women from skin problems caused by cosmetics, FANCL has pursued the skin problems and concerns of women, and has focused on *Mutenka* (preservative-free) cosmetics from various angles in order to deliver safety and reliability to its customers.

Today, the Company goes beyond simply ensuring safety and reliability in its *Mutenka* cosmetics, and continues to engage in more involved “*Mutenka* Anti-stress Science” research that proves the effects of these cosmetics on skin and pursues natural skin beauty.

The Company continues to develop cosmetics under a policy committed to only using skin-friendly components, and not only uses safe raw materials, but also creates *Mutenka* cosmetics by employing safety and efficacy testing targeting those with sensitive skin at the stage these raw materials become products.

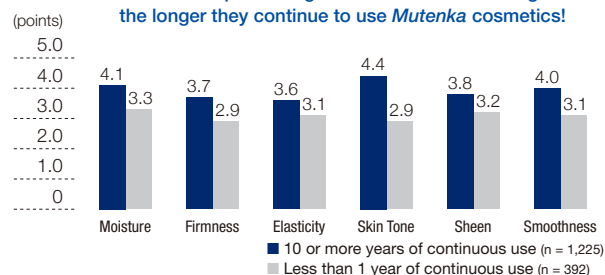
According to a customer survey conducted in 2005, in addition to comments such as “skin-friendly” and “useable on sensitive skin,” the Company received many comments, particularly from the longest-term users, indicating that continued use of FANCL *Mutenka* cosmetics results in beauty, such as “Those around me

say I am beautiful” and “I’m told I am young.”

FANCL has focused on these customer voices and engaged in research that extends the healthy, attractive lifespan of beautiful skin. The Company has scientifically proven the benefits of *Mutenka* cosmetics, including the safety and peace of mind of having no negative effects on the skin and their resulting in beauty when used continuously. Moreover, FANCL has scientifically proven that preservatives and other stress-inducing components accelerate skin aging and inhibit natural skin beauty at the cellular and DNA level.

Customer Experience Data

Customers experience greater benefits in all categories the longer they continue to use *Mutenka* cosmetics!



[Survey Overview]

Average score (5-point maximum) based on a self-evaluation of six items regarding skin beauty
Duration: July 11 to 16, 2019/Method: Internet customer survey/Responses: 3,340/Conditions: Current female users of FANCL skincare in their 30s to 60s (*lotion use required)

Contributing to Human Health Through Proprietary Formulation Technologies

Ever since the launch of its Nutritional Supplement Business in 1994, FANCL has conducted reliable evidence-based product development. The Company advances development with a primary focus on clinical trials, and develops products through a wide range of research, from seeking out functional materials to developing formulation technologies. As part of supplement development and commercialization, the Company searches for functional materials through basic scientific research, and develops formulation technologies and processing technologies designed to control absorption and other aspects to ensure that these functional components unfailingly function within the body.

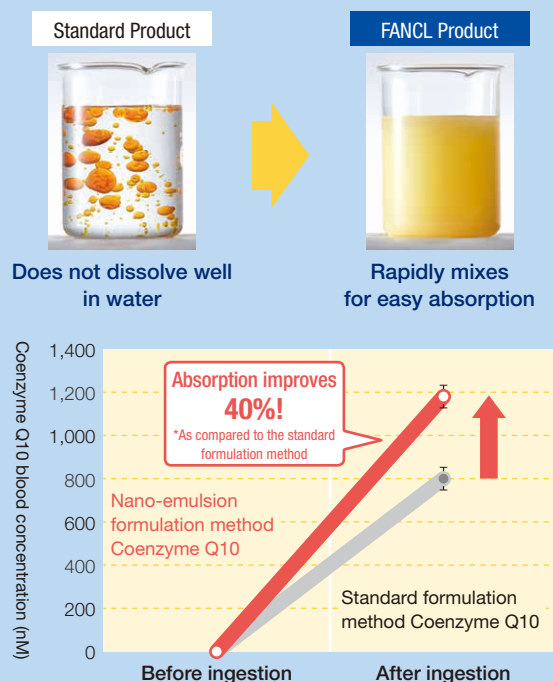
The Company’s proprietary “product efficacy in our body” formulation technology designs products that deliver functional components to the required location by going beyond a focus on component quantities to consider dissolution methods and component combinations that ensure supplements function efficiently within the body. In short, the Company develops formulation technologies that ensure a formulation balance that enhances the persistence, absorption, and function of each individual component and that maximize the function of supplements. The Company also focuses on the ease of ingesting pills, including their size, shape, and flavor.

Many of the Foods with Function Claims developed by FANCL have acquired evidence regarding these claims through clinical trials. FANCL independently conducts mandatory clinical trials for pharmaceuticals and verifies effectiveness and safety to deliver highly functional products. For this purpose, the Company was one of the first enterprises to address the system of Foods with Function Claims, which began in 2015, and now develops many Foods with Function Claims.

FANCL pursues safety and functionality for the health of its customers, and contributes to extended healthy life expectancies and lower medical costs for people around the world through its “product efficacy in our body” backed by reliable formulation technologies.

Example of product efficacy in our body using Coenzyme Q10

The “Nano-emulsion Formulation Method” used for FANCL’s Coenzyme Q10 relies entirely on contact with water to emulsify the components to the nano-level, which increases the amount absorbed by the body.





Sterol from White Koji Mold

KIRIN

FANCL

FANCL launched a joint research project in collaboration with Kirin Holdings after the two companies formed a capital and business alliance in 2019.

Kirin Holdings Company, Limited, (hereafter, Kirin) had already confirmed that the “Koji Sterol” found in the “White Koji Mold” owned by Kirin provides a powerful skin quality improving effect when ingested orally, but had not discovered the mechanism by which it works on the skin. Therefore, the two companies began a joint research project that seeks to discover the mechanisms related to the skin quality improving capability of “Koji Sterol” and its effect on skin.

FANCL has confirmed that “Arginase 1,” which already exists in large quantities on the surface of skin, is involved in the moisturizing function of the epidermis, as well as in the control of skin oxidation and glycation, and that it therefore serves as an important protein in leading to more attractive skin that is brighter and has fewer wrinkles. The project evaluated “Koji Sterol” with a focus on its effect on this protein.

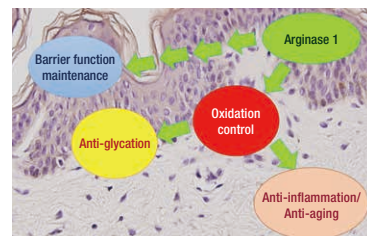
The amount of arginase-1 in cultured human epidermal cells was measured after “Koji Sterol” treatment. The results confirmed

that cells treated with “Koji Sterol” had a greater amount of “Arginase 1” than control cells that had no treatment.

“Arginase 1” functions to normalize aging-related skin function decline, including the skin’s moisturizing function, as well

as functions that control oxidation and glycation, and is therefore referred to as a skin beauty protein.

Increasing the amount of “Arginase 1” is not akin to conventional responsive aging care, but is instead expected to function as an all-mighty component that has a fundamental anti-aging effect on the skin. Going forward, the project will further advance functional research and consider application to a wide range of products for which anti-aging functions are anticipated, such as cosmetics and sun screens.



“Arginase 1” Functions in the Skin

Message from the Key Persons

Leveraging the Power of Raw Materials

Kirin Central Research Institute leveraged the fermentation technologies in which Kirin’s strengths lie to develop a technology for mass producing the “Koji Sterol” active ingredient found in White Koji Mold. As part of our efforts to compound this “Koji Sterol” into cosmetics, we made many repeated joint investigations during the development of White Koji extract and thereby successfully developed cosmetics.

Along with continuing to aim for an expanded lineup of cosmetic products formulated with Kirin’s unique “Koji Sterol” raw materials, we expect to see more and more cases of joint research follow on the heels of this collaboration.

Kirin Holdings Company, Limited, R&D Division, Kirin Central Research Institute

Yoshihiko Sugihara

Bringing Together the Strengths of Both Companies

The “Koji Sterol” found in White Koji Mold was an attractive component that had already been proven to have many effects, so we wanted to apply it to beauty-purposed products and started this joint research project with the aim of better understanding its skin quality improving effects and of converting it into a raw material. This research confirmed “Koji Sterol” increases “Arginase 1,” a component involved in attractive skin, and also advanced development of it as a raw material. We are also considering formulating it as a proprietary component into cosmetics to be renewed in the fall of 2021. By sharing the past research results held by both companies and working together, we aim to efficiently create new value.

FANCL Research Institute, Beauty Science Research Center, Skin Science Group #1

Akiko Enomoto



Yoshihiko Sugihara

Akiko Enomoto



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, which comprises 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. Based on the concept of "natural and fresh," the Company is driving the transition to robots and the use of IoT, and is aggressively advancing a unique, flexible production system that efficiently produces the required quantity of products at the required timing.

Standards for Production Bases

FANCL B&H CORPORATION	Standards		GMP*1 Standards	FSSC 22000*2	Facility
	Bases and Major Products				Clean Room
	Chiba Factory	Cosmetics, supplements	●	—	●
	Shiga Factory	Cosmetics	●	—	●
	Yokohama Factory	Supplements	●	—	●
	Gunma Factory	Cosmetics	●	—	●
	Nagano Factory	Germinated brown rice, supplements	—	●	●
	Mishima Factory	Supplements	To be acquired shortly after operations begin	Scheduled for acquisition in 2022	●

*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 Mishima Factory, the First Supplement-dedicated Factory in Five Years

FANCL's new supplement factory began operations in April 2021. Dedicated to producing supplements, this factory will address the growing demand for supplements resulting from the recent increase in health awareness, as well as future global expansion.

The new factory will increase production of pills by approximately 1.3 times compared with existing production capacity, and expand aluminum packaged product manufacturing capacity by approximately 1.4 times. In addition, it offers significant potential for expansion, where augmenting facilities will enable production to be increased by up to 3 to 3.5 times. Going forward, the factory will also produce products for the Kirin Group, with which FANCL formed a capital and business alliance in August 2019, to create collaborative synergy.

The factory is initially scheduled to primarily produce mainstay products. The factory will serve to reinforce the supply structure by shortening procurement lead-times, increasing production capacity, and addressing rapid fluctuations in demand to stabilize supply as part of BCP measures.

Kansai Logistics Center Expands Shipping Capacity

The Kansai Logistics Center, which began full-scale operations in June 2021, is designed to ship FANCL and ATTENIR products as an environmentally-friendly facility. Locating this new logistics center in Osaka Prefecture increases the total shipping capacity of the FANCL Group by approximately 1.4 times and expands the area for next-day delivery. In addition, the entire roof of the Center is equipped with a solar panel array that covers approximately 16% of the electricity used, making it the largest in the FANCL Group. Introducing state-of-the-art automated equipment will serve to reduce labor, while streamlining shipping operations for online and catalogue sales, for which demand has increased during the COVID-19 pandemic and provides an outlook for shorter delivery times. Building this East-West dual-base framework promises to shorten delivery lead-times to areas west of the Kansai region, streamline operations, and enhance business continuity.



Supplement-dedicated Factory Overview
[Official Name]
 FANCL B&H Mishima Factory
[Location]
 Mishima City, Shizuoka Prefecture
[Site Area]
 34,671 m²
[Total Floor Area]
 30,715 m² * Largest FANCL factory
[No. of Floors]
 SRC structure, 6 floors above ground



New Logistics Center Overview
[Official Name]
 FANCL Kansai Logistics Center
[Location]
 Kadoma City, Osaka Prefecture
[Site Area]
 10,629 m²
[Total Floor Area]
 17,051 m²
[No. of Floors]
 Steel-frame structure, 4 floors above ground



Infrastructure that Supplies Products and Services Through a Variety of

In addition to online and catalogue sales, FANCL provides products and services through direct store, wholesale, and multiple other sales channels.

In order to provide more complete information to its customers, the Company communicates via counseling at stores, inquiries over the telephone, and various other formats.

To evolve into multi-channel operations and implement OMO (Online Merges with Offline) 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.

Sales Channels

FY Mar/2021

Online and catalogue sales	Direct store sales	Wholesale sales	Overseas sales
50%	23%	18%	9%

73% of sales come through online and catalogue, store, and other direct sales channels

Customer Opinions in FY Mar/2021

401,976

Breakdown	
Questions	221,954
Requests / opinions	164,845
Praise	15,177

Major Achievements in FY Mar/2021

Number of direct stores	211
Number of wholesalers	286
Number of SDI System inquiries	22,037

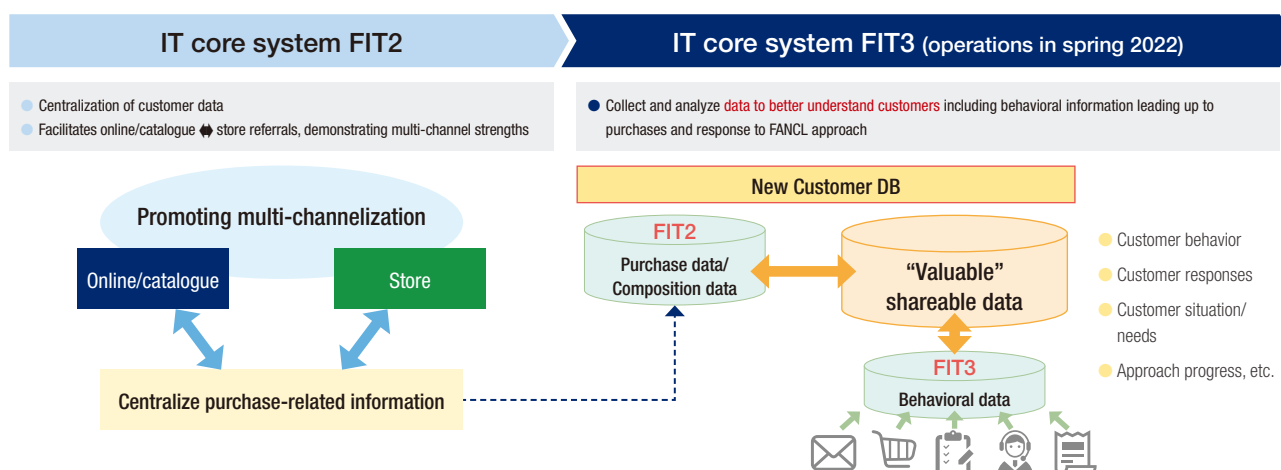
Uniquely Developed IT Core System "FIT (FANCL Information Technology)"

FANCL's uniquely developed IT core system "FIT" supports its online/catalogue and direct store sales channels. Following the renewal of the online and catalogue sales system in 2016, the Company built FIT2 in 2018, at which time it updated the store and WEB systems to achieve centralized management of customer purchasing data. These moves simplified mutual customer referrals between online/catalogue and store sales channels, thereby allowing the Company to demonstrate its multi-channel strengths during the COVID-19 pandemic.

As part of its CRM Strategy, the Company engages in personalized

communication by recommending the right products at the right timing based on "customer attributes" and "purchasing information."

In order to further evolve this initiative, the Company is now building "FIT3" with the aim of launching operations during the spring of 2022. "FIT3" will go beyond simply collecting purchasing information and will ultimately serve as an updated system that can collect and analyze "data for understanding the customer," including behavioral information up to purchase, response to approaches by the Company, and what information was provided before a customer became a loyal customer. This move will help the Company more deeply understand its customers and convert them into "fans."



Sales Channels

OMO (Online Merges with Offline)

That Is Unique to FANCL “Maximizing Customer's Value Experience”

FANCL works to maximize its customers' value experience by integrating the strengths of both its online/catalogue and store sales channels through the use of IT.

Several examples of this include leveraging IT to provide customers with new value experience through personalized makeup lessons and live commerce.

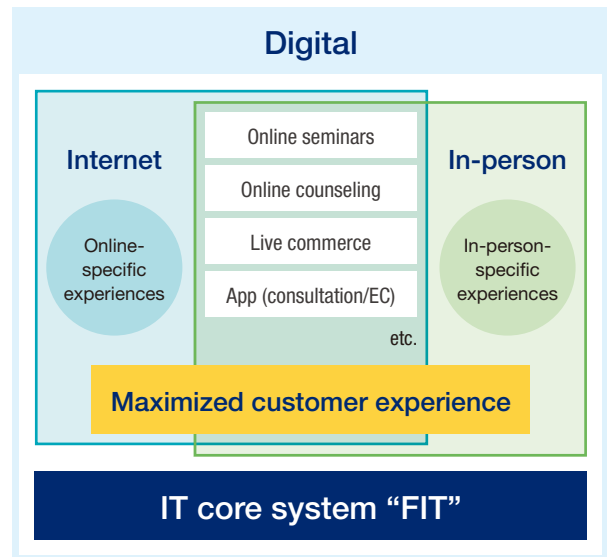
Live commerce events, launched in July 2020, have been held a total of 54 times and have been attended by a total of 210,000



Live commerce

customers as of March 2021. Store and call center staff with extensive customer service skills directly respond to customer questions and comments in real-time, garnering praise from many customers.

Going forward, the Company will further evolve these initiatives, and plans to introduce an integrated online/catalogue and store app, smartphone-based AI skin diagnosis app, and an advance reservation service for store visits.



External Online and Catalogue Platform Growth

In addition to its “FANCL Online” in-house mail order system, FANCL operates official shops on e-commerce marketplaces, such as Rakuten and Amazon, in order to strengthen its external online and catalogue platforms as a new digital customer contact point.

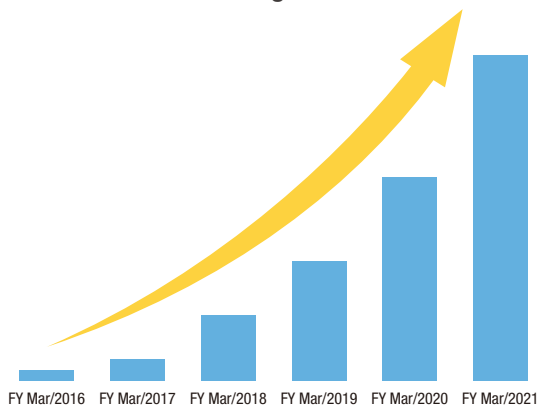
External online and catalogue platforms have been used by many customers during the COVID-19 pandemic, and continue to grow significantly, with sales in FY Mar/2021 reaching approximately five times those in FY Mar/2018.

The strengths of FANCL remain centered on its highly profitable “direct sales” business despite the growth in external online and

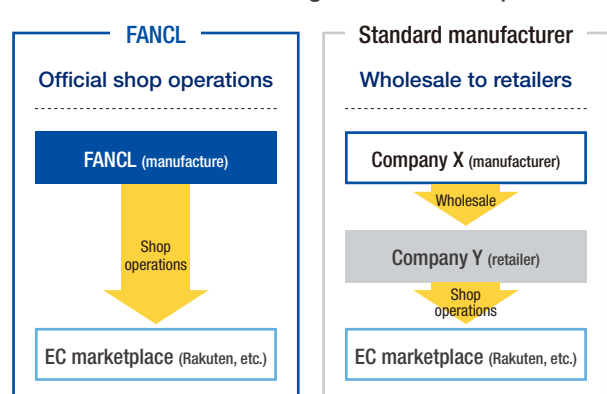
catalogue platforms. By linking the core systems of different EC marketplaces with FANCL's unique IT core system (FIT), the Company delivers products utilizing its fulfillment capabilities, while digital technology personnel nurtured through its many years of know-how in online and catalogue sales handle e-commerce marketplace operations.

The Company will continue to aim for a high rate of growth by leveraging the strengths that enable it to analyze customers and provide services through external online and catalogue platforms to the same degree it can on its in-house mail order system.

External Online and Catalogue Platform Sales Trends



External Online and Catalogue Platform Shop Format



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.



Contributions toward
the achievement of SDGs



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.

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* to achieve 100% sustainable packaging by FY Mar/2031
- 30% plant-derived and recycled plastics rate in FANCL cosmetics by FY Mar/2031
- 100% certified palm oil by FY Mar/2024

* Reduce, Reuse, Recycle, Renewable



Contributions toward
the achievement of SDGs



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.

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 will use supplements and health foods to address health-related issues.



Contributions toward
the achievement of SDGs



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."

Key issues

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

Targets

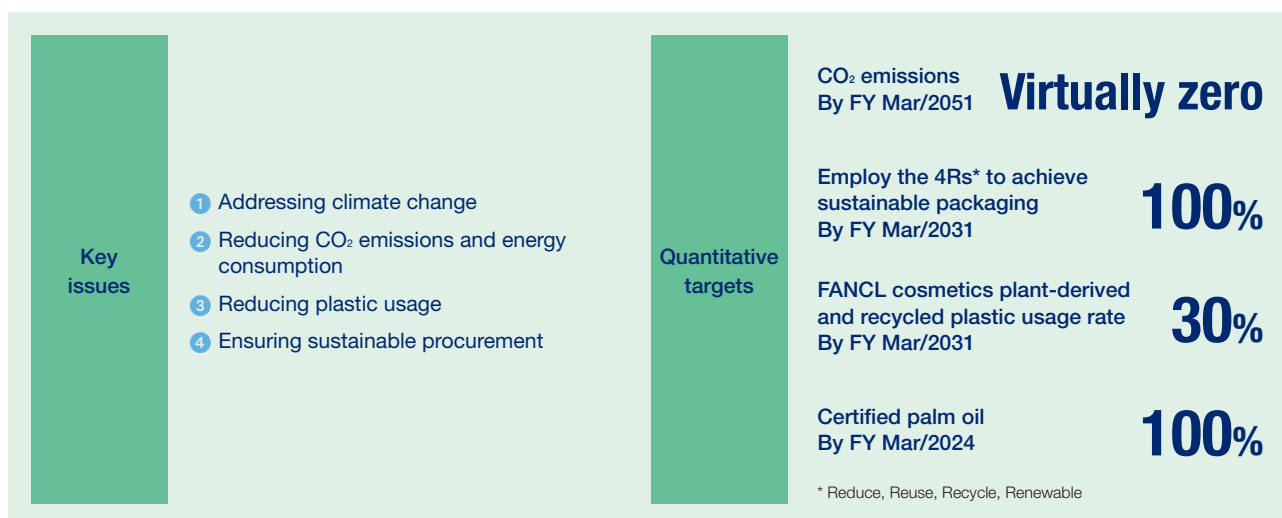
- Ratio of female managers: 50% in FY Mar/2024
- Employment rate of people with disabilities: 5% in FY Mar/2031

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.



Addressing Climate Change

In June 2018, the FANCL Group formulated the “Sustainable Declaration”: Building a Bright Future Together. With regard to reducing CO₂ emissions, which are most closely related to climate change, based on the Paris Agreement we set a target of a 26% reduction in CO₂ emissions (compared with 2013) by 2030. At each base we have been actively carrying out energy conservation activities, installing solar panels and reducing CO₂ emissions in our logistics operations.



In the years to come, we will further address the issue of climate change with the new, global trend goal of virtually zero CO₂ emissions by FY Mar/2051.

In October 2020, we agreed with the recommendations of Task Force on Climate-related Financial Information Disclosure (TCFD)*. Having extracted climate change-related risks and opportunities related to the entire business, we identified short- and medium-term risks. Furthermore, in the years ahead, we will promote the creation of systems and the construction of infrastructure so that we can comply with the information disclosure recommended by TCFD, such as the quantitative analysis of, for example, financial impact.

* TCFD: A task force established by the Financial Stability Board (FSB) for the purpose of disclosing climate-related information and reviewing the response of financial institutions. Having positioned climate change to be a serious risk to the world economy, the TCFD has published recommendations to encourage companies to ascertain and disclose the specific measures they are taking to address climate change.



More information about FANCL Group and the TCFD can be found here (in Japanese):

<https://www.fancl.jp/sustainable/environment/tcfd>

Selected for CDP Supplier Engagement Leaderboard

In February 2021, an international non-profit organization that provides environmental information disclosure systems, CDP, recognized FANCL's efforts to mitigate climate change risk throughout its supply chain. For the first time, FANCL was selected as the highest on the Supplier Engagement Leaderboard in the CDP Supplier Engagement Rating and ranked among the roughly 400 companies that represent the top 7% of companies and organizations in the world.



More press release information on the CDP selection can be found here (in Japanese):

https://www.fancl.jp/news/pdf/20210210_cdpsapuraiya.pdf



Reducing CO₂ Emissions and Energy Consumption

The FANCL Group aims to contribute to a carbon-free society by making the addressing of climate change and CO₂ emission reductions its environmental main key issues.

Response Policies

- We will strive to save energy by increasing the efficiency of energy use required for corporate activities.
- We will utilize renewable energy by installing solar panels and switching electric power sources.
- We will reduce CO₂ emissions throughout the supply chain through partnerships with our customers and business partners.
- We will strive to design products and services that are human-friendly, highly safe, and have a low impact on the environment and ecosystems.

Content of Initiatives

In addition to the conventional initiatives, including the introduction of renewable energy equipment, such as solar panels, and the installation of energy-conserving equipment, under the Medium-Term Management Plan we will newly purchase renewable electricity in a strategic manner and aim for virtually zero CO₂ emissions by FY Mar/2051.

With regard to measures at factories and offices, we are collectively ascertaining the status of energy usage for the entire group while working on efficient energy-conserving measures. In factories, we are working to conserve energy and reduce costs by curbing operations on weekends and holidays as well as at night.

We had previously installed solar power generation systems at our Gunma and Shiga factories, and in FY Mar/2021 14.5% of the electricity used by these two factories was provided by solar power. The solar power generation system was newly put into operation at the Kansai Logistics Center, which commenced operations in June 2021, and the Mishima Factory that manufactures supplements, which came on line in April 2021, plans to install a solar power generation system during FY Mar/2022. Solar panels are thus scheduled to be in operation at four domestic bases, including the Gunma and Shiga factories where they have already been installed.

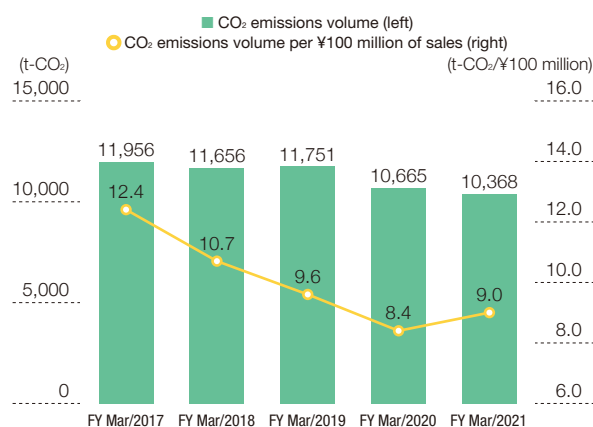
We are also co-sponsoring the Yokohama City Wind Power Generation Project, which is being promoted by Yokohama City to encourage the use of renewable energy. We will also work in partnership with local governments and promote contributions to the SDGs through the utilization of renewable energy.

Forms of Employee Participation

Initiatives Designed to Reduce CO₂ Emissions

To support eco activities at home we have been working on the Eco Program at Home since 2008. If the total electricity, gas, and water usage charges are 5% below the national average by household, gift certificates will be given in accordance with the number of family members. This activity also leads to raising the environmental awareness of employees and environmental education for families with children.

CO₂ Emissions



Kansai Logistics Center



Solar power generation panels at the Shiga Factory



Co-sponsoring the Yokohama City Wind Power Generation Project

Environment To achieve business activities in harmony with nature

Reducing Plastic Usage

We will respond to the problem of marine plastics and strive to reduce the amount of plastic used in containers and other products.

Response Policies

- From the perspective of the 4Rs (Reduce, Reuse, Recycle, Renewable), we will work to reduce plastics in our products and services.
- We aim for 100% sustainable containers and packaging in any of the 4Rs by FY Mar/2031.
- In the Cosmetics Business, we aim to use 30% of plant- and recycling-derived plastics.

Content of Initiatives

■ Reduce (Reduction of plastic in containers)

Reducing amount of plastic in containers

In the case of *Mild Cleansing Oil* cosmetic product, we have worked to reduce the weight of bottles and to date have reduced the amount of resin used in bottles by about 39% (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.



■ Recycle (Container recovery and recycling)

Container recovery and recycling

From July 2021, used cosmetic containers will be recovered from customers at some of our directly managed stores.

We will contribute to the realization of a recycling-oriented society together with our customers through container recovery.



Container recovery box

■ Renewable (Substituted by raw materials other than plastic)

To eco-friendly materials

Having been adopted for use in foundation cosmetics containers, plant-derived plastics have reduced petroleum-derived plastic usage by one-third of the conventional level. In the case of *DEEP CLEAR WASHING POWDER*, we mixed plant-derived plastic into part of the container and also switched from plastic packaging to paper.



Adopted plant + recycling-derived plastics

DEEP CLEAR WASHING POWDER paper packaging

Recycling PET bottle caps into containers

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.



Skin Clear Cleanse Oil eco pack
Recycled plastic adopted for spout part

Forms of Employee Participation

Reduced paper and plastic usage

In January 2021, we launched the FANCL Green Challenge, in which employees take on the challenges of reducing the amount of paper used in the workplace and reducing the use of plastic.

Ensuring Sustainable Procurement

We will build relationships of mutual prosperity and coexistence with our business partners, while aiming for sustainable procurement that takes into consideration aspects that include the environment, human rights and labor issues.

Response Policies

- We will carry out sustainable procurement together with our business partners in accordance with the FANCL Group Sustainable Procurement Policy.
- We will work on sustainable palm oil procurement and consumption with members who support RSPO*¹ and JaSPON*².

*1 Roundtable on Sustainable Palm Oil: An international NPO established in 2004. Promotion of efforts to realize sustainable palm oil supply, palm oil certification audit. The FANCL Group joined RSPO in 2018.

*2 Japan Sustainable Palm Oil Network: A platform in Japan for sustainable palm oil. FANCL participated in 2019.

Content of Initiatives

Support for certified palm oil

The FANCL Group aims for 100% RSPO use of its palm oil, including B&C (Book and Claim) by FY Mar/2024.

Support for forest-certified paper (adoption of eco-friendly paper)

We are adopting 100% eco-friendly paper, such as FSC-certified paper*, for the packaging material of our products. We have switched from polyethylene to FSC-certified paper bags for the shopping bags at directly managed stores.

As a new trial, in February 2021 FANCL's directly managed stores adopted for the first time furniture for which use is made of corrugated cardboard made from properly managed forests in their Health Check Corner areas.



We are using wood materials produced from certified forests that meet forest management standards.

For the first time, we adopted corrugated cardboard furniture that gives consideration to the environment.



* FSC-certified paper is made into materials in accordance with the standards of the international NGO FSC® (Forest Stewardship Council) from well-managed, FSC®-certified forests, renewable resources and other managed, eco-friendly materials.



Contributing to the environment through cosmetics together with our customers

FANCL has long been engaged in eco-friendly production, such as the early adoption of instructions on the back of the product box in 1997. We have reduced the amount of plastic used in the containers of our *Mild Cleansing Oil* core products each time they have been renewed and realized refill packs for *Mutenka* (additive-free) products in 2020. It was extremely difficult to develop refill packaging while maintaining *Mutenka* quality, but we were able to achieve this through countless tests conducted with our Cosmetics Research Institute. As far as our customers are concerned, what we especially value are ease of participation and the evoking of an emotional response. In addition to the convenience of customers being able to participate in eco-friendly activities simply by purchasing products, we maintain an awareness so that they are also able to take part in activities that are fun. Going forward, besides additional eco-friendly products, we are also taking on challenges by working together with our customers, such as in container recovery programs.

Daiki Hirano

Product Planning Group #1
Cosmetics Product Planning Department

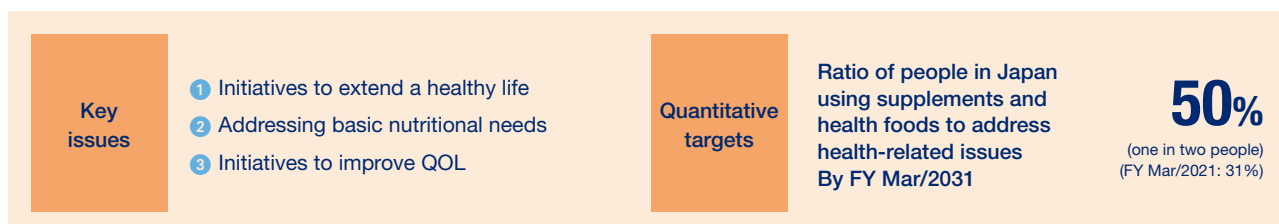


Healthy Living

For a healthy lifestyle that is unique to you



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.



Five Health Needs That Should Be Addressed by Taking Social Background into Account

In the health food business, FANCL Group's core business domain, we are concentrating our efforts on addressing five needs. In addition to the four elderly needs including working in good health for a long time, support for women, and nutritional measures associated with a society undergoing a decline in birthrates and an aging population, there is the fifth need revealed by the recent COVID-19 pandemic, that being the "immune system."

Social Background	Health Needs	Products to Address These Needs
Declining working population	Needs for working longer and healthier Wishing to continue working, in physical and mental health, and without becoming ill	
Social advancement for women	Women's specific needs Wishing to properly care for physical condition and beauty, despite having a busy daily life	
A growing number of elderly people	Health needs of the elderly Wishing to live life with energy and purpose even when getting older	
Changing dietary habits and nutrition	Nutritional needs Wishing to supplement lacking nutrition that results from a changing dietary lifestyle	
+		
Viral threats	Immune system needs Wishing to protect one's own health and that of family members, from viruses	

Proposing Comprehensive Health Solutions

To fulfill the above five health needs, FANCL will propose comprehensive health solutions that introduce exceptionally competitive products and services.

1) Evolving technology to "visualize" the state of health

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.

2) Deepening "product efficacy in our body," a product function that meets needs

Having cultivated "product efficacy in our body" technology, FANCL develops highly functional and exceptional products that meet customer needs.

3) Enhancing usability

FANCL focuses its efforts on developing dosage forms that customers find easier to incorporate into their lifestyles, and works to enhance usability and continuity.



For further information, please see the commitment to health food section of our website (in Japanese).

<https://www.fancl.co.jp/healthy/kodawari>

Raising Quality of Life in the COVID-19 Pandemic

Protecting ourselves from the novel coronavirus (COVID-19) in our daily life will be an ongoing concern. Seeking to maximize the strengths that only FANCL can offer, we are developing and introducing products that bring new added value.

Eliminating the “negatives” of masks

At one point in the pandemic, a shortage of masks arose due to the growing number of COVID-19 infections. This was the impetus for FANCL to bring to market its non-woven masks intended to eliminate the negatives of “anxiety” and “inconvenience” that came with not being able to purchase masks. Another aspect of this product was the benefit of being gentle on the skin, a quality FANCL pursued as the wearing of masks had become a regular part of life. The result was the launch of this mask product that featured a 100% cotton knit fabric layer, that being the part that makes contact with the skin.



Moisturizing mask with antibacterial function

For new sanitary habits

Amidst all the encouragement to lead new lifestyles, FANCL launched its *CLEAN & BARRIER* series that meets hygiene and sanitation needs.



FACIAL BARRIER MIST



HAND SANITIZER MIST,
specified as a quasi-drug
in Japan

Care for “mask-related skin irritation”*

During the COVID-19 pandemic, people are wearing masks for prolonged periods, and given that, it has become understood that FANCL's proprietary “Skin Barrier Ingredient” can be anticipated to enhance the skin's barrier function and mitigate skin stress. With the added benefits to skin care the Skin Barrier Ingredient offers, we recommend it to foster and maintain skin that stands up well to mask-related skin irritations. At FANCL, we are utilizing our existing skin irritation research technology and pushing forward in top-line R&D to create ever greater functionality and useability.

* “Mask-related skin irritation” refers to when a mask or other material increases skin stress, and temporarily causes conditions of skin irritation, resulting in dry, itchy, or stiff skin.



Formulated with Skin Barrier Ingredient, Mutenka FDR
SENSITIVE SKIN CARE line



Wishing to make the dream of continued health come true for all

The Health Food Business advances activities that support the good health of all our customers based on a well-rounded understanding of customers' health needs that arise with changes in the societal environment, including the aging of society and social advancement for women. To satisfy the health needs of our customers, the ideal is to be able to fulfill whatever health need our customers may have with FANCL supplements and health food. To make this a reality, everyday we carry out product planning and development. Under the COVID-19 pandemic, it is no longer a given that health can be maintained, and people's health consciousness has been strengthened even further. We will continue to pursue safety and peace of mind to eliminate such health anxieties as we aim to develop innovative and unique health food products to realize the hope of all customers, that being to lead more enriched lives.

Kaichi Mukoyama

Department Manager
Health Food Product Planning Department



Local Communities and Employees

To create a society where everyone can shine

Contributions
toward the
achievement
of SDGs



The FANCL Group promotes diversity and inclusion, works to invigorate local communities, and contributes to the creation of a society where everyone can shine, based on our corporate culture of “truly cares for people.” Since FANCL’s foundation, our corporate culture has encouraged employees with various values and ideas to shine—particularly women and people with disabilities—and has become the driving force behind our corporate activities. We will make the most of this strength to provide vitality to society.

Key issues

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

Quantitative targets

Ratio of female managers:
50% by FY Mar/2024

50%
(FY Mar/2021: 46.5%)

Employment rate of people with
disabilities: 5% by FY Mar/2031

5%
(FY Mar/2021: 3.7%)

Workstyles

Creating Comfortable Workplaces

We place the highest priority on the physical and mental health of our employees and are proactively working to create lively working environments. In addition to enhancing systems such as for teleworking and flextime, we have promoted mental health measures and health management using public health nurses. In order to further promote health management, we are pursuing various measures using the Health Support System (HSS) centered on industrial doctors, public health nurses, and human resource managers.

Keeping Employees Safe from COVID-19

During the COVID-19 pandemic, FANCL has implemented measures that place the highest priority on keeping employees safe, including enhancing teleworking and dispersing call centers that had been concentrated at the head office. As for workstyles, we have expanded the existing teleworking system as well as encouraged staggered working hours and online meetings. In addition, we have realized employee safety and flexible workstyles mainly by starting to operate home call centers.

	FY Mar/2020	FY Mar/2021
Average paid leave days taken	15.0 days	16.1 days
Average number of overtime hours per month	4.2 hours	3.5 hours
Rate of regular health checkups	100%	100%
Stress check completion rate	97.6%	97.7%
Employee satisfaction rate	82.0%	81.6%

* Consolidated domestic Group companies



Voice

Employee Feedback

Further Increase Engagement



Under the slogan “Embrace differences,” we have been working to create workplaces where a diverse array of employees can shine by establishing various systems and conducting training to promote understanding. We always keep in mind the importance of not just creating systems, but also ensuring they are used as a matter of course. I believe that having long-standing employees who work with enthusiasm is indispensable for corporate growth.

I feel FANCL reaffirmed its strong bond with customers through initiatives to celebrate the 40th anniversary of its foundation last year. I also think this further deepened the affection employees have for the Company. Going forward, we aim to be a company eternally beloved by both customers and employees by going beyond merely accepting individual differences to increasing opportunities for everyone to shine.

Satomi Wada

Group Manager
Human Resources Department
Human Resources Planning Group

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, such as taking into account gender, age, and disabilities. We also promote innovation and value creation by leveraging teamwork in environments where individuals can shine and thrive.

Promotion of Female Empowerment

President & CEO, Representative Director Kazuyuki Shimada announced a declaration of action at the Cabinet Office's “Male Leaders Coalition for Empowerment of Women” meeting. In addition, we participate as a member of “Support the Success of Kanagawa Women.” Since its foundation, FANCL has enjoyed a corporate culture in which men and women can support and cooperate with each other in their professional activities. To support employees combining work with childbirth and childrearing, we have expanded opportunities for short-time working and offer diverse work styles including flextime and homeworking. This is reflected in the 100% return-to-work rate of employees taking childcare leave. Meanwhile, we have supported female career development through proactive promotion of women to managerial positions towards a goal of women occupying 50% of managerial positions by FY Mar/2024.

People with Disabilities, Special Subsidiary FANCL SMILE Co., Ltd.

Special subsidiary FANCL SMILE Co., Ltd. was established in February 1999 with the aim of supporting people with disabilities to lead more independent lives. Since its establishment, FANCL SMILE has expanded its field of activities by taking on tasks mainly relating to the Group's internal operations, such as packaging of cosmetics, sending direct mail to customers, PC data inputting, and printing business cards.

FANCL SMILE achieved its goal of providing employment to 100 people with disabilities Groupwide by expanding work locations to the Chiba Factory and Kanto Logistics Center in 2019 and Kansai Logistics Center in February 2021. FANCL's ratio of employees with disabilities is 3.7%, which is higher than the current legally required ratio of 2.3%. We will systemically upgrade this program to reach 5% in FY Mar/2031.

Active Seniors

Active Senior Employee Program was started in April 2017. There are currently 13 active seniors taking advantage of this program, which rehires employees over 65 years old who are very eager and able to make a difference in the Company. In addition, we raised the mandatory retirement age for regular employees from 60 to 65 starting in April 2020. We provide opportunities where people can shine regardless of age by creating environments where employees can work for a long time with peace of mind.

Supporting Employee Success

Associate Permanent Employees

This is a new employment category created for employees unable to continue working under a regular permanent employee contract due to nursing care responsibilities, a physical illness requiring long-term treatment, a physical disability or other such reason. We have introduced specialized equipment to provide support based on disability type.

This status allows them to combine work with life's other demands thanks to the understanding and cooperation of the workplace.



Acquired the Kurumin mark symbolizing childcare support from the Ministry of Health, Labour and Welfare in 2008



Certified as an Eruboshi company by the Ministry of Health, Labour and Welfare in 2016



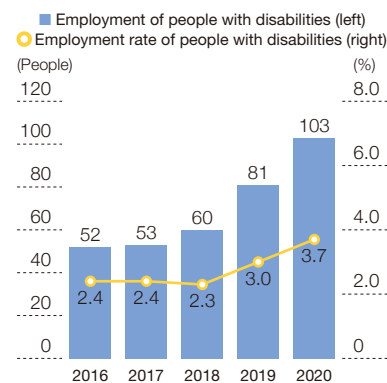
PRIDE Index 2020 Bronze Rating



Gold prize in gan-ally-bu AWARD 2020 (a cancer support program)

FANCL Group number/ratio of employees with disabilities

(as of March 31)



FANCL SMILE is expanding its field of activities in various occupational fields.



Employees with visual impairments use magnifying readers.

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

Advance Educational Seminars on Health and Beauty

For more than 30 years since 1988, FANCL has been conducting seminars throughout Japan. We currently offer two types of seminars: the “FANCL Seminar,” a free seminar for people with disabilities or diseases (mainly for special needs schools, visually impaired individuals, and cancer patients), and the “FANCL College Skill Improvement Seminar,” a paid seminar for everyone else. FANCL will continue to enthusiastically conduct seminars and training programs with the idea of “wanting everyone to stay healthy and beautiful.”

Online Seminars

Online seminars during the COVID-19 pandemic are held mainly for special needs schools, visually impaired individuals, and cancer patients, with people nationwide taking part. Rather than giving one-sided lectures, the seminars emphasize interactive communication, with participants practicing while listening to lectures by FANCL instructors and receiving advice through the screen.

We also provide educational materials (grooming books and product samples) to special needs schools that lack online access in order to enable them to hold seminars on personal grooming. For cancer patients, we conduct seminars on appearance care jointly with Aderans Co., Ltd. Through these online seminars, we will continue to engage in collaborative activities to support patients' positive approaches to cancer treatment and social reintegration.



Online seminar for those using the Tokyo Helen Keller Association Library for the Blind



Appearance care seminar for the patient group “Pink Ribbon Yell” held in collaboration with Aderans.



Employee
Feedback

Towards Realizing a Society where No One is Left Behind



The “FANCL Seminar” has a 30 year-plus history, and we held about 150 seminars annually in various locations before COVID-19 with the full support of all employees. Given that previously seminar participants sat close together, we have held seminars online since September 2020 in order to prevent infection and are donating books on grooming as specialized teaching materials for special needs schools. In so doing, we are finding innovative ways to continue these activities as we ceaselessly pursue our ideas. Currently, two employees of special subsidiary FANCL SMILE serve as instructors at special needs schools. Dispatching instructors who have graduated from special needs schools has generated positive synergies, giving hope to the participants and confidence to the instructors.

Going forward, we will expand activities through FANCL Seminars to realize a society where no one is left behind.

Aiko Nakagawa

Group Manager
The Promotion Office of SDGs

Connection with Local Communities

FANCL's encounter with Social Welfare Corporation "Houmon-no-le" was the start of FANCL's social contribution activities. "Houmon-no-le" is a daycare facility for people with severe and multiple disabilities located near the former head office in Yokohama. Our relationship began with "Houmon-no-le" when FANCL founder Kenji Ikemori visited its facilities in 1987 and has continued ever since. We believe that we can achieve more for the community and will continue to implement various activities to revitalize local communities.

FANCL Kanagawa SDGs Seminar: Hope for the Future

As a new initiative starting in FY Mar/2022, we are conducting seminars to communicate the importance of the SDGs to children in Kanagawa Prefecture.

We will further promote studies about FANCL's SDGs initiatives and SDGs issues closely involving children for elementary and high school students.

FANCL will help the young generation—who will create the future—to understand and promote SDGs in order to create a hopeful future.



General view of Kanagawa SDGs Seminar

Donations

We engage in a variety of donation activities such as "customer donations of loyalty point," "shareholder donations," and the "Can Achieve More Fund" employee donation initiative with the aim to apply the "can achieve more" concept not only to our business but also to social activities. We will continue to proactively engage in social activities aimed at eliminating the various "negatives" facing society.

Type	Donations made in FY Mar/2021	Main recipient
Customer donations of loyalty points*	¥2,549,677	Japan Philanthropic Association, etc.
	Non-woven face masks: 57,000 units	Japan Association of Geriatric Health Services Facilities
Shareholder donations	¥1,233,000	Japanese Red Cross Society
	Non-woven face masks: 53,550 units	Japan Association of Geriatric Health Services Facilities
Employee donations to the "Can Achieve More Fund"	¥4,697,488	Japan Philanthropic Association, etc.
	Non-woven face masks: 100,000 units	Japan day nursery association (social welfare service corporation)

* This is a program that enables denotations of FANCL points in units of 100 with a minimum donation of 500 points through the FANCL Members Service, a purchase reward scheme.

Donations During COVID-19

The FANCL Group, together with its customers and shareholders, provided support through non-woven face masks and donated its own products in order to care for people facing difficulties caused by COVID-19.

We donated to the Japan Association of Geriatric Health Services Facilities 57,000 non-woven face masks thanks to points generously donated by customers and 53,550 through the support from 911 shareholders.

Videos intended to "communicate our gratitude and encouragement to healthcare professionals" were broadcast at FANCL Ginza Square. Donations were made to the Japanese Red Cross Society based on viewing numbers.

On April 30, 2021, we launched the "Immune Support Project" to contribute to society through *Meneki Support* (Immunity

Support), a food with functional claims that maintains immune function. We are donating this product especially to medical professionals.

Looking ahead, FANCL will continue helping to solve social problems together with its customers and shareholders.



Donations to nurses at eight hospitals in Kanagawa Prefecture who care for COVID-19 patients.

With a high degree of transparency, striving for management that is, without fail, scrupulous.

Corporate Governance Framework

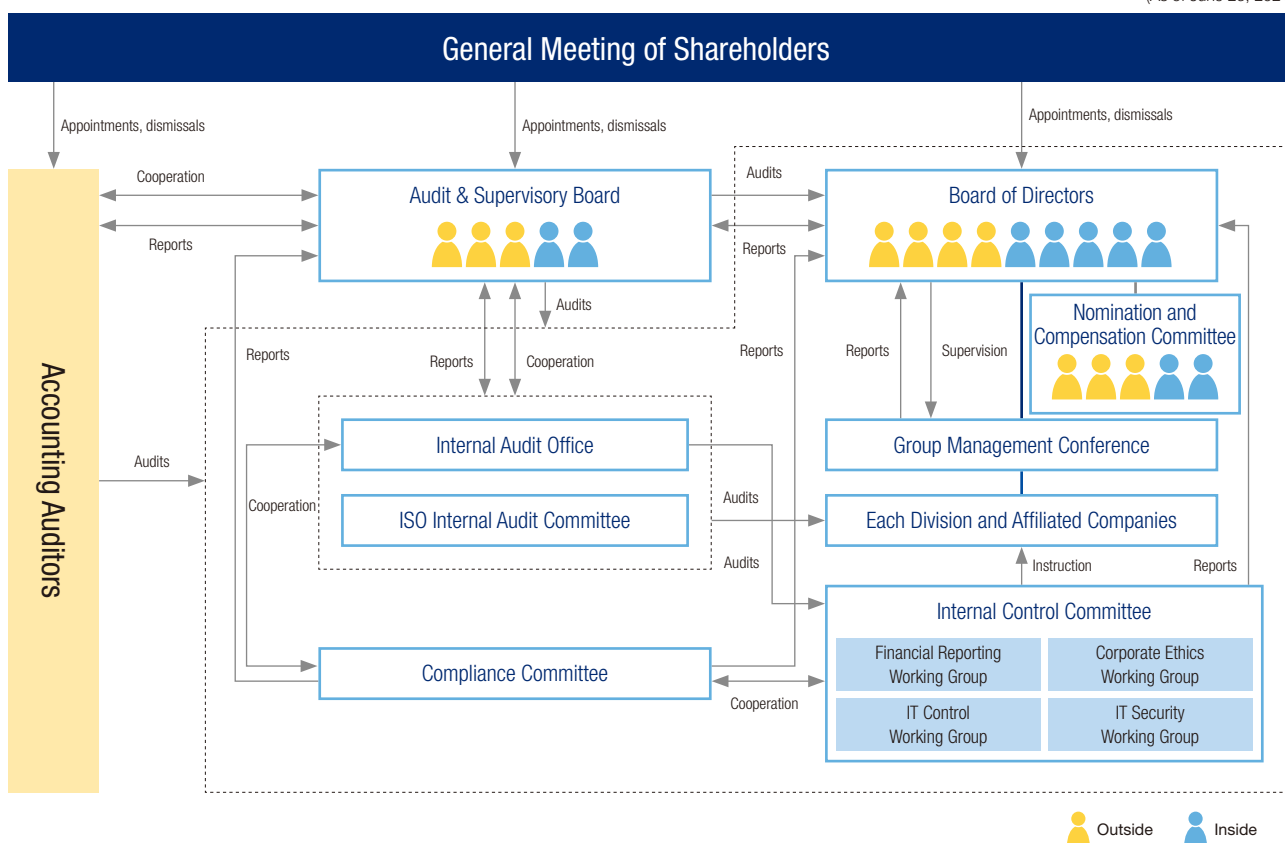
The Board of Directors decides on and supervises the execution of important business matters. The Group Management Conference conducts preliminary deliberations on matters for decision by the Board of Directors, and deliberates on important matters regarding management, within the scope of authority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

Having also adopted an Audit & Supervisory Board System, the Audit & Supervisory Board members have attended and stated

appropriate opinions at meetings, including those of the Board of Directors, to improve the effectiveness of audits in management decisions. In addition, they have opportunities to exchange opinions with top management as appropriate, and have in place a fair management oversight system.

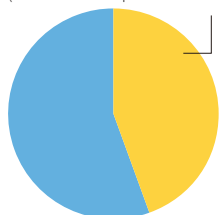
In June 2021, we appointed a woman as one of the new outside Audit & Supervisory Board members. Going forward, we will continue to seek diversity in the Board membership.

(As of June 26, 2021)



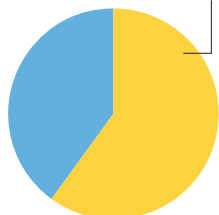
Board of Directors 9 Directors

4 Outside Directors
(Of whom 3 Independent Directors)



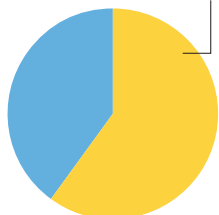
Nomination and Compensation Committee 5 Members

3 Independent Outside Directors



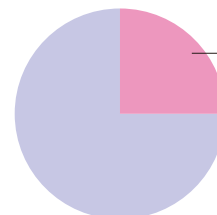
Audit & Supervisory Board 5 Members

3 Independent Outside Audit & Supervisory Board Members



12 Executive Officers

3 Female Executive Officers



* Excluding directors who serve as executive officers

Nomination and Compensation Committee Established

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. In FY Mar/2021, the Nomination and Compensation Committee met four times.

Giving full consideration to each person's personality and insights—regardless of gender, age, nationality—while properly understanding and putting into practice the Company's founding philosophy (Eliminate the “Negatives” with a Sense of Justice) and corporate philosophy (“Can Achieve More”), the policy is to appoint people who will be able to fulfill their duties and responsibilities as directors.

Officer Compensation System

Officer compensation consists of monthly compensation, which pays a fixed amount each month and a performance-linked, stock-based compensation plan as a medium- and long-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. After consultations with the Nomination and Compensation Committee, the President & CEO, Representative Director makes these decisions, authorized by the Board of Directors.

Under its 2nd Medium-Term Management Plan (FY Mar/2019 to FY Mar/2021) the Company adopted monthly compensation as well as stock compensation-type stock options as a long-term incentive and a performance-linked, stock price-based compensation plan as a medium-term incentive.

Toward achieving the Plan, improving governance and increasing corporate value, under its 3rd Medium-Term Management Plan (FY Mar/2022 to FY Mar/2024) the Company

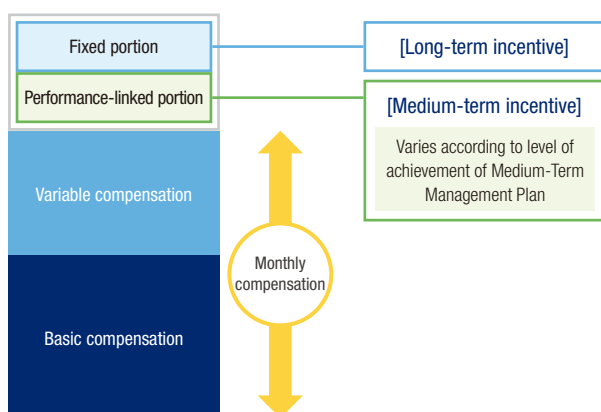
started a performance-linked, stock-based compensation plan to increase motivation to achieve long-term performance improvements and raise awareness of contributions made to increasing shareholder value.

The performance-linked, stock-based compensation plan grants to eligible directors the Company's shares and cash equivalent of the market value of the Company's shares 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.

Performance-linked, Stock-based Compensation



Officer Compensation, etc., in FY Mar/2021

Officer classifications	Total compensation, etc. (¥ million)	Total compensation, etc., by type (¥ million)			Number of eligible officers
		Monthly compensation	Stock compensation-type options	Phantom stock	
Directors (Of whom Outside Directors)	213 (29)	196 (29)	56 (-)	-39 (-)	12 (5)
Audit & Supervisory Board members (Of whom outside Audit & Supervisory Board members)	53 (21)	53 (21)	- (-)	- (-)	5 (3)

The amount of phantom stock to be paid is determined by the planned achievement level of consolidated sales and consolidated operating income in the Medium-Term Management Plan and the value of the Company's common stock. However, as the actual value was lower than the planned value, the amount estimated in the previous fiscal year has been reduced.

Efforts to Improve Board of Directors' Effectiveness



Main Efforts to Stimulate Discussion at the Board of Directors' meetings

The Company is undertaking a variety of initiatives to deepen outside directors' understanding of its corporate philosophy and business strategies.

Item	Activity
Orientation when a new outside officer takes office	Lectures from directors in charge on corporate philosophy, business strategies, etc., for newly appointed outside directors
Facility tours	Inspections of research institution, stores, etc.
Participation in policy presentations, management meetings, research result report meetings, etc.	Participation in in-house policy presentations, Group Management Conference meetings, and research result report meetings
Meetings between outside directors and the representative director	Setting up of venues for free exchange of opinions with two representative directors
Product briefings	Explanations of core products, new products, etc., by employees from, for example, product planning



Board of Directors' Activity Status

In principle, the Board of Directors' meeting holds a regular monthly Board of Directors' meetings and a quarterly settlement Board of Directors' meeting. The meeting materials are distributed in advance, and the Board of Directors strives to ensure sufficient time for deliberation.

Item	Activity
Board of Directors' meeting schedule	The Board of Directors' meeting schedule is decided six months prior to the start of the fiscal year.
Ensuring of sufficient deliberation time	<ul style="list-style-type: none"> In principle, the materials are delivered in advance three business days before a Board of Directors' meeting, and some agenda items are explained in advance. The resolutions and reports on the day will be explained appropriately and efforts will be made to ensure sufficient time for deliberation.



Resolutions / Report items

In FY Mar/2021, we started a theme session to further enhance the effectiveness of Board of Directors' meetings. In the theme sessions, the director in charge explains the current situation, issues, and directions to be pursued with regard to medium- to long-term themes, such as digital transformation (DX) and the SDGs, and then conducts an active discussion on that theme.

Main resolutions / Report items	Content
Companies Act / Timely disclosure items	<ul style="list-style-type: none"> Approval of financial results Approval of General Meeting of Shareholders, etc.
Business execution reports	<ul style="list-style-type: none"> Monthly reports on each business, sales channel performance, R&D, investment progress, personnel and labor status reports
Items required by the Corporate Governance Code	<ul style="list-style-type: none"> Reports on the results from the evaluations of the Board of Directors' effectiveness Verification of cross-held shares
Medium- to long-term discussions (theme sessions)	<ul style="list-style-type: none"> DX, SDGs, improving Board effectiveness, medium-term management plans, etc.
IR reports	<ul style="list-style-type: none"> Quarterly reports on the status of IR interviews and the opinions of investors/analysts



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.

Evaluation approaches	Questionnaire survey
Scope of evaluation	Board of Directors' meeting
Evaluator	Directors and Audit & Supervisory Board members, excluding the chairperson
Question content	Questions and free-form questionnaires on: role / responsibilities of the Board of Directors; structure of the Board of Directors; management of the Board of Directors; role of outside directors; support system / training for directors; communications with stakeholders, each director's self-evaluation
Results of FY Mar/2021 Evaluation	<ol style="list-style-type: none"> Based on the Company's founding philosophy and management philosophy, free and open discussions are taking place at Board of Directors' meetings. The executive side has also accepted and improved the issues raised by outside directors in a positive manner. Well-balanced in their composition, the outside directors have different areas of specialization. In the future, I expect to see further diversity, such as by increasing the number of female directors and appointing non-Japanese nationals as directors. At Board of Directors' meetings, issues that cannot be fully discussed are taken up in theme sessions, which has led to an improvement in the effectiveness of the Board of Directors' meetings. In the future, I would like to see more active discussions on subjects other than business, such as governance and the strengthening of organizational capabilities.

Risk Management

Risk Management System /

Process for Establishing Priority Risks

As part of the development of its internal control system, the FANCL Group has established an Internal Control Committee, chaired by FANCL Corporation's President and CEO, and comprising members from the Company's directors and Audit & Supervisory Board members.

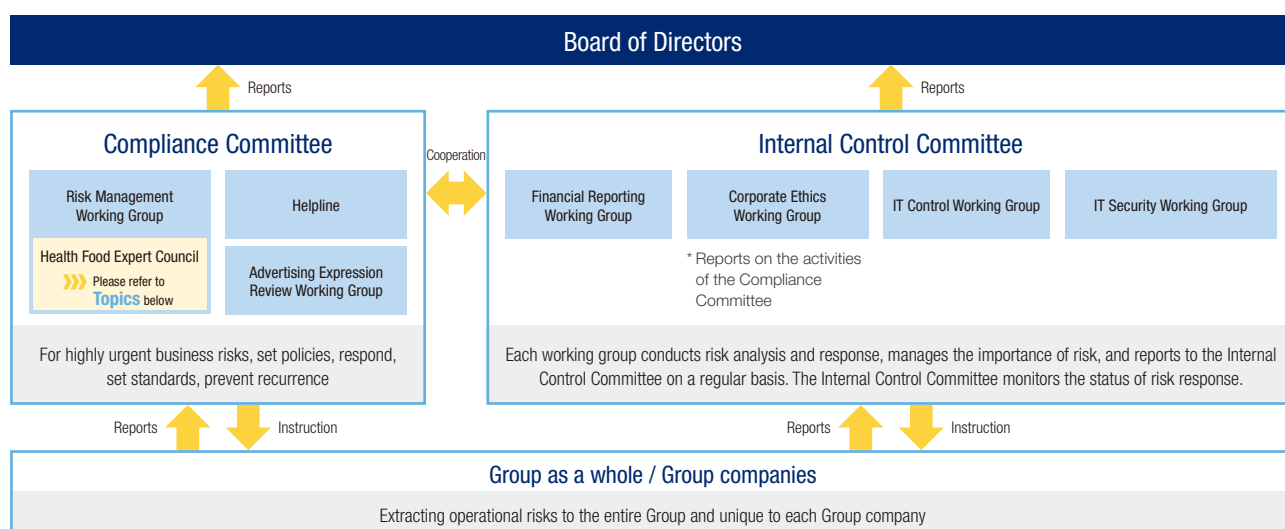
Performing risk analysis and responses as well as undertaking the management of risk importance, each of the working groups—the Financial Reporting Working Group established within the Internal Control Committee, the Corporate Ethics Working Group, IT Control Working Group, and the IT Security Working Group—

regularly report to the Internal Control Committee, which monitors the status of responses to risks.

We have also established a Compliance Committee to establish policies and standards for urgent business risks, to work to prevent recurrence, and to cooperate with the Internal Control Committee.

In the case of the process for setting priority risks in the FANCL Group, based on the Crisis Management Regulations each Group company extracts the business risks to the entire Group and unique to each Group company and reports them to each working group.

Each working group then sets priority risks for each fiscal year after ascertaining the internal and external environmental conditions, and then analyzing and evaluating the reported risks.



Topics

Health Food Expert Council Doctors evaluate changes in physical condition

FANCL has a unique approach by which doctors and others objectively evaluate offers in response to inquiries received from customers and consultations with regard to changes in physical condition caused by ingestion of health foods.

In the event of a request from a customer with regard to a change in his or her physical condition, this is objectively evaluated by the in-house-established Health Food Expert Council (Chairman Ryukichi Kumashiro: Vice President of Shonan Kamakura University of Medical Sciences). We thus have a system in place to quickly cooperate with related organizations as needed.

Consisting of four outside councilors, including doctors, experienced administrative personnel, and experts familiar with social affairs, and 10 members selected from related departments, such as in-house quality assurance, legal affairs,

research, and planning, the Health Food Expert Council evaluates and records in a proper manner.

In FY Mar/2021, the Health Food Expert Council was held 10 times and conducted 15 evaluations, but there were no evaluations of damage to health caused by the Company's products.

In the years to come, we will work to strengthen our systems and maintain an environment in which customers can enjoy healthy foods with peace of mind.



General view of a Health Food Expert Council meeting



Anticipating a further push forward on initiatives for sustainability

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)

Companywide independence is building the momentum that will become a second founding

FANCL has recently announced its new Medium-Term Management Plan with a view toward achieving its long-term vision, "VISION2030." Due to the 2019 retirement of the Company's founder, Kenji Ikemori, this new plan was formulated in the absence of any charismatic voice that would be an ultimate authority. It was therefore the case that directors, and on down to each employee, have taken personal "ownership" of FANCL's future. I believe that much thought and deliberation went into what vision for the future the Company should have, and in what way each individual can themselves contribute. My impression of being witness to a concentration of Companywide power, and the change in stance to chart a course to the future, is that the Company is truly experiencing a second founding.

With a spirit of independence having established itself within the Company, momentum is building in the steady drive into new business domains. As proof of that there has been the establishment of a new brand with a new company in the Cosmetics Business. The move to not rely solely on the FANCL brand is also gaining steam, and in the Health Food Business as well, the Company is aggressively moving forward on the development of products that address needs associated with the declining birthrate and aging population, as well as the rising number of double-income households.

On another front, up and coming issues, I feel, are securing the Company's presence domestically in Japan and fostering the human talent that will be a launching pad to soar internationally. Of course, this includes future director candidates, on-site people in charge at overseas locations, and others, and to broaden the range of human resources and prepare for surging growth in business and business domains, I believe it essential to create a structure in which the Company can move with agility. In addition, together with giving younger employees chances that enable them to take on ever greater challenges, they should also have proper experiences with failure. We must enhance their ability to come into their own in what will become FANCL's framework in 10 or 20 years. I have great expectations for FANCL's policies and measures for personnel growth in the future.

Addressing environmental issues will become a competitive strength

In 2018, with the formulation of FANCL Group's "Sustainable Declaration," FANCL clearly expressed its intention to contribute to the environment and work toward achieving Sustainable Development Goals (SDGs). Moreover, in 2020 the Company established its The Promotion Office of SDGs to clarify its commitment toward educational activities for employees, and using enhanced material disclosure, to find solutions to environmental issues. As a specific KPI, the Company is also evaluating the goal of net zero CO₂ emissions by FY Mar/2051. Furthermore, last year the Company expressed its support for TCFD*, and has been

* Task Force on Climate-related Financial Disclosures; See page 30.

moving forward on analysis of risks associated with climate change, a global issue of escalating importance.

Now is the time to conserve energy along the entire supply chain, and to utilize an ability to create products with a low environmental footprint, ushering in an era of corporate competitiveness. FANCL is working to instill just such an awareness, and in product planning and development, more and more products are taking the environment into account. Going forward, I think the Company should more than ever be promoting this in its advertising, social media and other promotional fields. Clearly and publicly expressing its intentions will also work to further raise awareness of addressing climate issues within the Company as well, and I expect that will lead to a positive synergistic effect.

Officer compensation is another area the Company is using to make inroads with its environmental efforts. Specifically, it introduced a system which links officer compensation to the degree of achievement of non-financial indicators, namely, CO₂ emissions volume, employee engagement and business partner evaluations. This means that raising sales and profit are not the only roles for directors to perform. Also considered is meeting the stakeholder demand of executing management operations that make a real contribution to the environment and society over the medium- and long-term.

The qualities expected of top management

The traits that I feel are essential for top management are a positive temperament and mental and physical toughness. This means that they should have a mentality, that in case they fail, they reflect on that and use it as a lesson for next time. People who have such character will never give up, not even in a challenging environment, and are able to push through their plans to break out of whatever kind of situation. I've been around quite a few

executives in my career, and the best of this type of leader have a way of making employees think that they “want to fight side-by-side with this person.” They heighten organizational adhesiveness, and there are numerous cases where they substantially raise corporate value. Together with this, taking a hands-on approach is another important point. Armchair theories are insufficient to execute exceptional management. It's important to physically be on site, and in tandem with sympathizing with employees' thoughts and struggles, to face the real issues that arise on the front lines. These are the traits that FANCL's current top management, President Shimada, is well equipped with. He is, I believe, a truly ideal leader. My hope is that he will also take great efforts in fostering his successor.

In Conclusion

For FANCL, a founding philosophy of eliminating “negatives” is at the root of all its activities. This is a company that is constantly thinking about what it can do to address the gamut of issues confronting the world. Another point is that there are so many employees who carry out their tasks with diligence and a wide array of expertise, and spare no effort in their hard work to achieve the Company's vision. The COVID-19 pandemic has been the impetus for enormous change in the business environment, but my belief is that because of this experience it has become a more resilient organization. I would like to see FANCL aim to be a company that makes proper investments as needed to further advance efforts at sustainability, and to find solutions to environmental and societal issues, and to accomplish this, to be able to secure stable and high revenue streams. I firmly believe that FANCL is more than capable of evolving into such a company. And as for myself, I will support management with all my strength as an Outside Audit & Supervisory Board member.

For FANCL, a founding philosophy
of eliminating “negatives” is
at the root of all its activities.



Directors and Audit & Supervisory Board Members (As of June 26, 2021)

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)
June 2019 Outside Director of the Company (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 Company Limited
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)
June 2021 Outside Director of Maeda Road Construction Co., Ltd. (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)
June 2020 Outside Director of the Company (Current position)



Outside Director (Independent Officer)
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 (Current position)
June 2020 Outside Director of the Company (Current position)

□ Outside Audit & Supervisory Board Members



Outside Audit & Supervisory Board Member
(Independent Officer)

Tsuneyoshi Seki

March 1991 Registered as 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)
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)



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 2021 Outside Audit & Supervisory Board Member of the Company (Current position)

□ Executive Officers

Senior Executive Officer

Kazumasa Wakayama

Senior Executive Officer

Nobuyuki Uematsu

Executive Officer

Jun Saito

Senior Executive Officer

Yuna Akashi

Senior Executive Officer

Akiko Matsugaya

Executive Officer

Kengo Muraoka

Senior Executive Officer

Yoshihisa Hosaka

Executive Officer

Koichi Matsumoto

Senior Executive Officer

Gen Inomata

Executive Officer

Hiroaki Hori

Senior Executive Officer

Junji Nagasaka

Executive Officer

Tomoko Saito

Developing the Next Generation of Managers

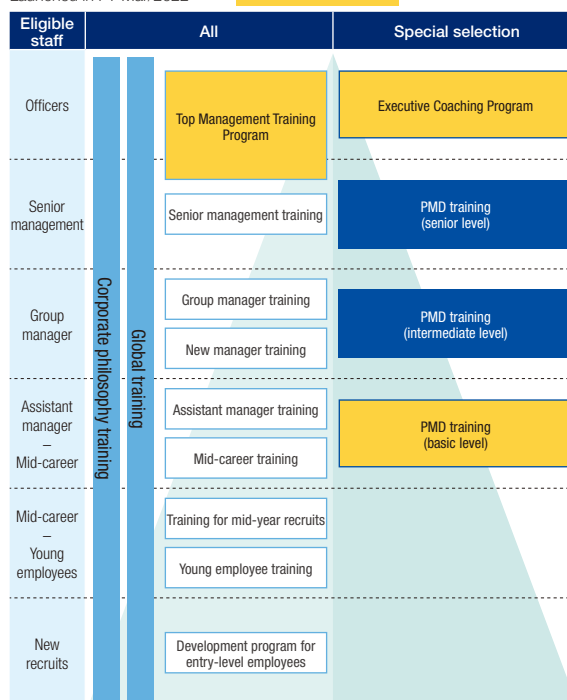
Enhancing programs aimed at developing the next generation of managers, the Company introduced the Executive Coaching Program starting from FY Mar/2021 for around 40 executive officers and senior managers in order to improve their awareness and behavior as leaders. In addition, we launched the Top Management Training Program from FY Mar/2022 in order to instill the knowledge required for executive officers. The Top Management Training Program aims to increase understanding of all aspects of management, providing instruction on a wide range of themes that include "crisis management and corporate governance," "management and financial strategies," "organizational and personnel strategies," and "capital market."

Starting from FY Mar/2020, we additionally launched a training program for specially selected managerial staff known as the Professional Manager Development (PMD) training program. From FY Mar/2021, we added the "Basic Level" mainly for assistant managers as well as enhanced training for the next generation of executives and management.

In cooperation with the Kirin Group, specially selected employees participated in the Kirin Management School in order to learn about management strategy and other topics.

Human resources development system

Launched in FY Mar/2022



11-Year Financial / Non-financial Summary

Structural Reform Period

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

(¥ million)	FY Mar/2011	FY Mar/2012	FY Mar/2013	FY Mar/2014	FY Mar/2015
Financial data					
Fiscal year					
Net sales	93,789	88,165	82,807	81,118	77,632
Cosmetics	47,678	45,824	46,721	47,525	47,471
Nutritional Supplements	28,247	27,036	26,601	25,386	23,285
Other Businesses	17,863	15,303	9,484	8,207	6,876
Results by sales channels					
Online and catalogue sales	50,318	46,342	40,133	39,696	36,545
Direct store sales	23,696	22,252	22,310	23,286	23,310
Wholesale sales	11,521	11,852	11,873	10,216	11,356
Overseas sales	8,253	7,718	8,490	7,919	6,419
Gross profit	61,842	58,997	55,528	55,393	54,295
Gross profit margin (%)	65.9	66.9	67.1	68.3	69.9
Selling, general and administrative (SGA) expenses	54,724	54,980	51,670	51,450	50,294
SGA expenses to sales ratio (%)	58.3	62.4	62.4	63.4	64.8
Operating income	7,117	4,016	3,858	3,943	4,001
Cosmetics	7,097	4,685	3,888	4,661	5,557
Nutritional Supplements	2,125	1,583	1,962	1,125	(4)
Other Businesses	(505)	(587)	(290)	(4)	152
Operating margin (%)	7.6	4.6	4.7	4.9	5.2
Cosmetics (%)	14.9	10.2	8.3	9.8	11.7
Nutritional Supplements (%)	7.5	5.9	7.4	4.4	(0.0)
Other Businesses (%)	(2.8)	(3.8)	(3.1)	(0.1)	2.2
Ordinary income	6,668	4,003	4,427	4,262	4,283
Net income	2,849	2,454	(2,193)	1,343	2,301
Net income margin (%)	3.0	2.8	(2.6)	1.7	3.0
ROE (%)	3.7	3.1	(2.9)	1.8	3.2
Advertising expenses	8,230	8,540	8,631	8,265	7,907
Sales promotion expenses	11,240	10,860	9,189	9,426	9,451
Research and development expenses	2,428	2,646	2,498	2,428	2,353
Capital investment (cash flow basis)	3,305	3,948	3,375	2,439	7,612
Depreciation	2,970	3,437	3,443	2,972	2,973
Cash flows from operating activities	6,311	6,321	6,145	6,595	5,946
Cash flows from investing activities	(922)	(7,008)	(822)	1,402	(5,972)
Cash flows from financing activities	(2,277)	(2,315)	(2,251)	(3,956)	(1,820)
Increase (Decrease) in cash and cash equivalents	3,059	(3,048)	3,171	4,149	(1,717)
Fiscal year-end					
Total assets	94,030	91,739	86,849	85,800	85,311
Net assets	78,647	78,796	74,542	72,154	73,214
Shareholders' equity ratio (%)	83.2	85.5	85.3	83.5	85.1
Shareholder Return					
Dividends per share (yen)*1	17.0	17.0	17.0	17.0	17.0
Dividend payout ratio (%)	77.5	89.9	—	161.7	94.2
DOE (dividend on equity) (%)	2.8	2.8	2.9	3.0	3.0
Number of FANCL stores in Japan	179	177	175	167	164
Non-financial data					
CO ₂ emissions (t-CO ₂)	11,954	11,316	12,502	12,764	11,997
CO ₂ emissions under the Eco Program at Home (t-CO ₂)	(21)	(48)	(114)	(206)	(269)
Number of employees	1,279	1,227	1,224	1,106	1,128
Percentage of female employees (%)	63.3	62.9	61.8	61.6	64.0
Percentage of female employees in management (%)	37.2	40.8	42.7	40.6	41.4

*1 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

*2 The fiscal years ending March 2017 and March 2018 include the special dividend of ¥12.0

*3 Reflects half-year amount as full-year figures are still being compiled

* Non-financial data updated as of March 2021.

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

FY Mar/2016	FY Mar/2017	FY Mar/2018	FY Mar/2019	FY Mar/2020	FY Mar/2021	(¥ million)
Financial data						
Fiscal year						
90,850	96,305	109,019	122,496	126,810	114,909	Net sales
55,016	56,926	66,048	71,599	75,891	65,140	Cosmetics
28,612	32,085	35,933	43,919	44,006	41,191	Nutritional Supplements
7,221	7,294	7,037	6,977	6,911	8,578	Other Businesses
Results by sales channels						
40,078	43,037	46,206	46,806	49,896	56,813	Online and catalogue sales
28,016	28,637	34,780	43,605	42,687	26,650	Direct store sales
14,573	16,388	17,813	21,676	23,549	20,970	Wholesale sales
8,182	8,242	10,219	10,408	10,675	10,475	Overseas sales
63,878	67,810	77,431	87,378	90,543	81,110	Gross profit
70.3	70.4	71.0	71.3	71.4	70.6	Gross profit margin (%)
62,673	65,565	68,983	74,990	76,417	69,534	Selling, general and administrative (SGA) expenses
69.0	68.1	63.3	61.2	60.3	60.5	SGA expenses to sales ratio (%)
1,204	2,244	8,448	12,387	14,125	11,576	Operating income
6,275	5,253	9,150	11,101	11,768	7,954	Cosmetics
(1,779)	(865)	864	3,519	4,095	5,042	Nutritional Supplements
(1,774)	(599)	149	(299)	90	224	Other Businesses
1.3	2.3	7.7	10.1	11.1	10.1	Operating margin (%)
11.4	9.2	13.9	15.5	15.5	12.2	Cosmetics (%)
(6.2)	(2.7)	2.4	8.0	9.3	12.2	Nutritional Supplements (%)
(24.6)	(8.2)	2.1	(4.3)	1.3	2.6	Other Businesses (%)
1,421	2,385	8,650	12,348	14,313	11,784	Ordinary income
522	5,146	6,191	8,649	9,985	8,016	Net income
0.6	5.3	5.7	7.1	7.9	7.0	Net income margin (%)
0.7	7.3	8.5	12.8	15.8	11.7	ROE (%)
15,035	14,816	15,164	15,919	15,402	11,850	Advertising expenses
11,888	12,833	12,839	13,430	14,542	15,668	Sales promotion expenses
2,852	3,277	3,112	3,464	3,440	3,145	Research and development expenses
3,726	4,074	2,476	3,683	11,233	8,207	Capital investment (cash flow basis)
3,207	3,185	2,826	3,057	3,307	3,665	Depreciation
3,170	2,192	10,531	8,731	14,380	10,011	Cash flows from operating activities
(3,389)	5,976	(2,392)	(3,160)	(11,309)	(8,135)	Cash flows from investing activities
(4,647)	(2,552)	(3,126)	(23,559)	6,292	(4,170)	Cash flows from financing activities
(4,920)	5,568	5,031	(18,006)	9,355	(2,503)	Increase (Decrease) in cash and cash equivalents
Fiscal year-end						
83,767	85,677	92,380	80,307	94,478	97,533	Total assets
69,639	72,402	75,597	60,916	67,138	71,215	Net assets
82.3	83.6	81.0	74.8	70.4	72.3	Shareholders' equity ratio (%)
Shareholder Return						
17.0	29.0 ^{*2}	29.0 ^{*2}	30.0	34.0	34.0	Dividends per share (yen) ^{*1}
409.1	70.8	59.4	43.6	40.9	51.2	Dividend payout ratio (%)
3.0	5.2	5.0	5.5	6.5	6.0	DOE (dividend on equity) (%)
176	201	197	204	212	211	Number of FANCL stores in Japan
Non-financial data						
11,988	11,956	11,656	11,751	10,665	10,368	CO ₂ emissions (t-CO ₂)
(249)	(299)	(291)	(274)	(265)	(121) ^{*3}	CO ₂ emissions under the Eco Program at Home (t-CO ₂)
1,223	1,278	1,288	1,381	1,432	1,277	Number of employees
66.2	67.3	69.2	69.0	68.6	63.5	Percentage of female employees (%)
42.0	43.4	45.5	46.2	43.6	46.5	Percentage of female employees in management (%)

Management Discussion and Analysis

Sales

During FY Mar/2021, overall sales decreased 9.4% compared with FY Mar/2020, to ¥114,909 million, due to lower sales in the core Cosmetics Business and Nutritional Supplements Business, resulting from a drop in domestic and inbound demand caused by the impact of COVID-19.

Cosmetics Business

Sales from the Cosmetics Business decreased 14.2%, to ¥65,140 million.

Sales of FANCL Cosmetics decreased 16.5%, to ¥49,637 million, as direct store sales, wholesale sales, and overseas sales declined due to the impact of COVID-19, outweighing an increase in online and catalogue sales resulting from proactive efforts to direct customers from direct store sales to online and catalogue sales as well as the strengthening of external online and catalogue platforms.

Sales of ATTENIR Cosmetics decreased 2.7%, to ¥12,337 million, as direct store sales declined due to the impact of COVID-19, which outweighed an increase in overseas sales where online and catalogue sales and cross-border e-commerce sales to China were strong.

Sales of boschia decreased 13.9%, to ¥2,421 million despite efforts to strengthen e-commerce channels, which was outweighed by a decline in sales at specialty cosmetics stores and department stores resulting from the impact of COVID-19.

Nutritional Supplements Business

Nutritional supplement sales decreased 6.4%, to ¥41,191 million.

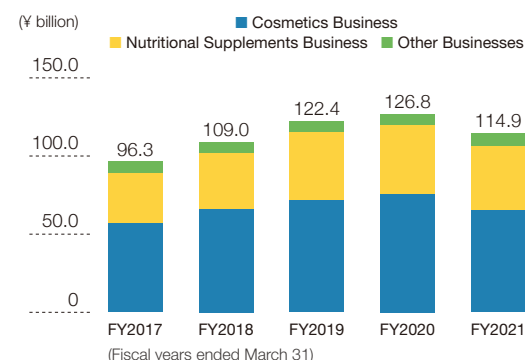
Online and catalogue sales increased due to proactive efforts to drive customers from direct stores to online and catalogue sales, along with efforts to strengthen subscription sales and sales via external online and catalogue platforms. Overseas sales also increased due to strong cross-border e-commerce sales to China. However, direct store sales and wholesale sales channels decreased due to the impact of COVID-19.

Other Businesses

Sales from Other Businesses increased 24.1%, to ¥8,578 million.

Sales of *Kale Juice* and *Hatsuga genmai* (germinated brown rice) increased due to heightened awareness of personal health. Other sales also increased as a result of the launch of sales of non-woven masks and the *CLEAN & BARRIER* series.

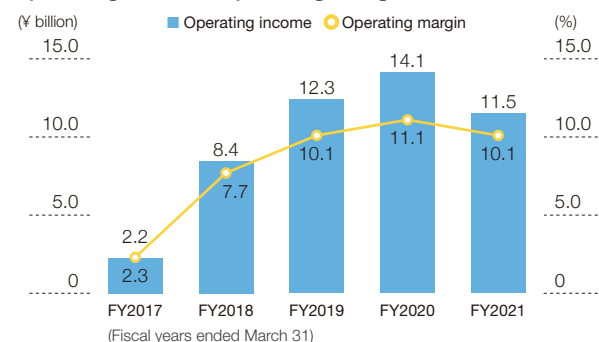
Sales



Profit

From a profit and loss perspective, operating income declined 18.0%, to ¥11,576 million. This was largely due to a decrease in gross profit resulting from lower sales, which outweighed the impact of the efficient use of advertising expenditure and a decline in variable expenses such as sales commission fees. Ordinary income fell 17.7%, to ¥11,784 million, and net income attributable to owners of the parent dropped 19.7%, to ¥8,016 million.

Operating income/Operating margin

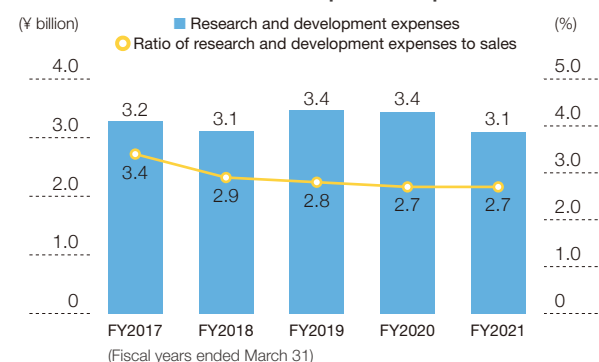


Research and Development Expenses

Total research and development expenses in the fiscal year under review came to ¥3,145 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

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



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 agriculture, pharmacy, and science.

Furthermore, FANCL is 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. FANCL and Kirin will share technologies in each of their respective areas of research, and 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.

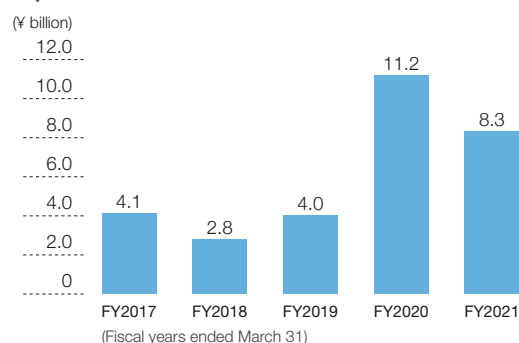
Capital Investment

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 ¥8,365 million. Looking at the amount of capital investment by segment, FANCL allocated funds of ¥2,023 million, ¥5,883 million, ¥246 million, and ¥212 million to the Cosmetics, Nutritional Supplements, Other Businesses, and Other, respectively.

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

Capital investment



Financial Position and Cash Flows

Assets increased ¥3,055 million from the end of the previous fiscal year, to ¥97,533 million. While current assets decreased ¥1,274 million, this increase was primarily due to an increase of ¥4,329 million in fixed assets. Despite an increase of ¥1,475 million in notes and accounts receivable, the primary factor contributing to the decrease in current assets was a ¥2,503 million decrease in cash and cash equivalents. The main factor contributing to the increase in fixed assets was a ¥4,317 million increase in tangible fixed assets.

Liabilities decreased ¥1,021 million from the end of the previous fiscal year, to ¥26,318 million. The primary contributing factor was a decrease of ¥937 million in current liabilities. Factors contributing to the decrease in current liabilities included a ¥443 million decrease in accrued income taxes, a ¥222 million decrease in other current liabilities due to such factors as a decrease in accrued expenses, and a ¥147 million decrease in accounts payable.

Net assets increased ¥4,076 million, to ¥71,215 million. While retained earnings decreased ¥4,100 million due to dividend payments, this was more than offset by the increase in retained earnings of ¥8,016 million owing to the recording of net income attributable to owners of the parent.

As a result, the shareholders' equity ratio increased 1.9 percentage points compared with the end of the previous fiscal year, to 72.3%.

Cash and cash equivalents ("funds") as of March 31, 2021 were ¥25,487 million, ¥2,503 million lower than at the end of the previous fiscal year.

The main contributing factors to cash flows during the fiscal year ended March 31, 2021 were as follows:

Cash Flows from Operating Activities

Net cash provided by operating activities during the fiscal year under review was ¥10,011 million, compared with ¥14,380 million in the

previous fiscal year. Factors increasing operating cash flow included income before income taxes of ¥11,235 million and depreciation of ¥3,665 million. Factors decreasing operating cash flow included an increase in accounts receivable of ¥1,526 million and income taxes paid of ¥3,564 million.

Cash Flows from Investing Activities

Net cash used in investing activities during the fiscal period under review was ¥8,135 million, compared with ¥11,309 million in the previous fiscal year. This was primarily due to outlays of ¥7,395 million for acquisitions of tangible fixed assets, and ¥812 million for acquisitions of intangible fixed assets.

Cash Flows from Financing Activities

Net cash used on financing activities during the fiscal year under review was ¥4,170 million, compared with net cash provided by financing activities of ¥6,292 million in the previous fiscal year. This turnaround was primarily due to such factors as the outlay of ¥4,096 million for cash dividends paid.

Free cash flow, which is the sum of cash flow from operating activities and cash flow from investing activities came to ¥1,875 million in FY Mar/2021.

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 to finance capital investments in April 2019.

Consolidated Financial Statements

Consolidated Balance Sheet

(¥ million)	As of March 31, 2021	As of March 31, 2020
ASSETS		
I. Current assets		
Cash and cash equivalents	25,487	27,991
Notes and accounts receivable	13,590	12,114
Merchandise and products	5,805	5,602
Raw materials and supplies	5,848	6,579
Others	1,506	1,274
Allowance for doubtful accounts	(216)	(264)
Total current assets	52,022	53,296
II. Fixed assets		
Tangible fixed assets		
Buildings and structures	31,670	30,380
Accumulated depreciation and accumulated impairment loss	(17,768)	(16,983)
Buildings and structures (net)	13,901	13,396
Machinery and transport equipment	11,699	11,503
Accumulated depreciation and accumulated impairment loss	(8,730)	(7,863)
Machinery and transport equipment (net)	2,969	3,639
Furniture, tools and fixtures	9,299	8,886
Accumulated depreciation and accumulated impairment loss	(8,032)	(7,509)
Furniture, tools and fixtures (net)	1,267	1,377
Land	14,214	14,143
Lease assets	258	294
Accumulated depreciation and accumulated impairment loss	(150)	(141)
Lease assets (net)	108	152
Construction in progress	7,180	2,616
Total tangible fixed assets	39,642	35,324
Intangible fixed assets		
Other intangible fixed assets	2,253	2,246
Total intangible fixed assets	2,253	2,246
Investments and other assets		
Investment securities	199	226
Long-term loans	100	—
Deferred tax assets	1,885	1,965
Others	1,456	1,443
Allowance for doubtful accounts	(25)	(26)
Total investments and other assets	3,615	3,609
Total fixed assets	45,511	41,181
Total assets	97,533	94,478

(¥ million)	As of March 31, 2021	As of March 31, 2020
LIABILITIES		
I. Current liabilities		
Accounts payable	2,770	2,918
Lease obligations	53	62
Accrued liabilities	5,392	5,476
Accrued income taxes	1,943	2,387
Provision for bonuses	1,293	1,306
Provision for points	2,014	1,918
Asset retirement obligations	7	4
Provision for directors' bonuses	—	116
Others	1,322	1,545
Total current liabilities	14,798	15,735
II. Long-term liabilities		
Convertible bonds with stock acquisition	10,150	10,200
Lease obligations	63	101
Retirement benefit liabilities	783	777
Asset retirement obligations	427	434
Others	94	90
Total long-term liabilities	11,519	11,604
Total liabilities	26,318	27,339

NET ASSETS		
Shareholders' equity		
Common stock	10,795	10,795
Capital reserve	11,706	11,706
Retained earnings	68,050	64,260
Treasury stock	(19,726)	(19,938)
Total shareholders' equity	70,825	66,823
Other comprehensive income		
Foreign currency translation adjustment	(19)	52
Total adjustments related to retirement benefits	(251)	(329)
Total other comprehensive income	(270)	(277)
Warrants	660	592
Total net assets	71,215	67,138
Total Liabilities and Net Assets	97,533	94,478

Consolidated Statement of Income

(¥ million)	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2020
Net sales	114,909	126,810
Cost of sales	33,798	36,266
Gross profit	81,110	90,543
Selling, general and administrative expenses		
Sales promotion expenses	15,668	14,542
Packing and transport expenses	5,881	5,375
Advertising expenses	11,850	15,402
Sales commission fee	6,819	9,315
Communications expenses	1,895	1,934
Directors remuneration	522	677
Salaries and bonuses	10,813	12,089
Provision for accrued bonuses	958	1,057
Retirement benefit expenses	469	316
Compulsory welfare expenses	1,792	1,829
Welfare expenses	300	371
Depreciation	2,160	2,062
Research and development expenses	1,003	1,229
Rent expenses	1,148	1,545
Provisions for allowance for bad debt	38	93
Other	8,210	8,574
Total selling, general and administrative expenses	69,534	76,417
Operating income	11,576	14,125
Non-operating income	366	272
Non-operating expenses	158	85
Ordinary income	11,784	14,313
Extraordinary income	483	36
Extraordinary expenses	1,033	162
Income before income taxes	11,235	14,187
Income taxes	3,175	3,874
Adjustment for income taxes	42	328
Total income before income taxes	3,218	4,202
Income before minority interests	8,016	9,985
Net income	8,016	9,985

Consolidated Statement of Comprehensive Income

(¥ million)	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2020
Income before minority interests	8,016	9,985
Other comprehensive income		
Foreign currency translation adjustment	(71)	(15)
Adjustments related to retirement benefits	77	(67)
Total other comprehensive income	6	(83)
Comprehensive income	8,023	9,901
(Breakdown)		
Comprehensive income attributable to owners of the parent company	8,023	9,901
Comprehensive income attributable to minor interests	—	—

Consolidated Financial Statements

Changes in Shareholders' Equity during the Period

(¥ 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

(¥ million)

	April 1, 2019 to March 31, 2020				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	10,795	11,706	58,902	(21,160)	60,243
Changes of items during period					
Dividends of surplus	—	—	(3,840)	—	(3,840)
Net income attributable to owners of the parent company	—	—	9,985	—	9,985
Purchase of treasury shares	—	—	—	(1)	(1)
Disposal of treasury shares	—	—	(786)	1,223	437
Net changes of items other than shareholders' equity	—	—	—	—	—
Total changes of items during period	—	—	5,358	1,221	6,580
Balance at end of current period	10,795	11,706	64,260	(19,938)	66,823
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	67	(261)	(193)	866	60,916
Changes of items during period					
Dividends of surplus	—	—	—	—	(3,840)
Net income attributable to owners of the parent company	—	—	—	—	9,985
Purchase of treasury shares	—	—	—	—	(1)
Disposal of treasury shares	—	—	—	—	437
Net changes of items other than shareholders' equity	(15)	(67)	(83)	(274)	(358)
Total changes of items during period	(15)	(67)	(83)	(274)	6,221
Balance at end of current period	52	(329)	(277)	592	67,138

Consolidated Statement of Cash Flows

(¥ million)	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2020
I. Cash flows from operating activities		
Income before income taxes	11,235	14,187
Depreciation	3,665	3,307
Impairment loss	246	40
Stock compensation expense	156	161
Increase (decrease) in allowance for doubtful accounts	(43)	93
Increase (decrease) in provision for bonuses	(12)	(206)
Increase (decrease) in provision for directors' bonuses	(116)	51
Increase (decrease) in provision for points	96	242
Increase (decrease) in retirement benefit related obligation	118	(59)
Interest and dividend income	(51)	(52)
Loss (gain) from foreign exchange	191	2
Loss (gain) from sale of fixed assets	(1)	1
Loss on disposal of fixed assets	54	16
Loss on closures of stores	66	100
Bond issue expenses	—	44
Insurance proceeds	(14)	(46)
Subsidy income	(524)	—
COVID-19 related loss	617	—
Decrease (increase) in accounts receivable	(1,526)	3,462
Decrease (increase) in inventories	500	(732)
Decrease (increase) in other current assets	(335)	(121)
Decrease (increase) in other fixed assets	50	5
Decrease (increase) in accounts payable	(135)	(335)
Increase (decrease) in other current liabilities	(347)	(708)
Increase (decrease) in other fixed liabilities	(10)	(33)
Others	(227)	(11)
Sub-total	13,652	19,409
Interest and dividends received	1	2
Income taxes paid	(3,564)	(5,077)
Subsidies received	524	—
COVID-19 related loss	(617)	—
Others	14	46
Net cash provided by (used in) operating activities	10,011	14,380
II. Cash flows from investing activities		
Payment for acquisition of tangible fixed assets	(7,395)	(10,533)
Income from sale of tangible fixed assets	2	1
Payment for acquisition of intangible fixed assets	(812)	(699)
Payment for acquisition of investment securities	—	(49)
Income from loans receivable	—	100
Other payments	(210)	(209)
Other proceeds	279	81
Net cash used in investing activities	(8,135)	(11,309)
III. Cash flows from financing activities		
Proceeds from issuance of convertible bonds with stock acquisition rights	—	10,205
Proceeds from disposal of treasury stock	0	0
Payment for purchase of treasury stock	(1)	(1)
Cash dividends paid	(4,096)	(3,834)
Others	(72)	(77)
Net cash used in financing activities	(4,170)	6,292
IV. Effect of exchange rate changes on cash and cash equivalents	(208)	(8)
V. Net increase (decrease) in cash and cash equivalents	(2,503)	9,355
VI. Cash and cash equivalents at the beginning of the period	27,991	18,635
VII. Cash and cash equivalents at end of period	25,487	27,991

Stock Information

Share Data (As of March 31, 2021)

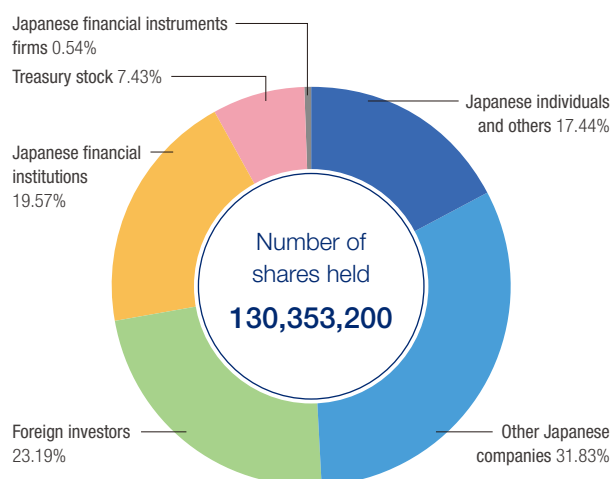
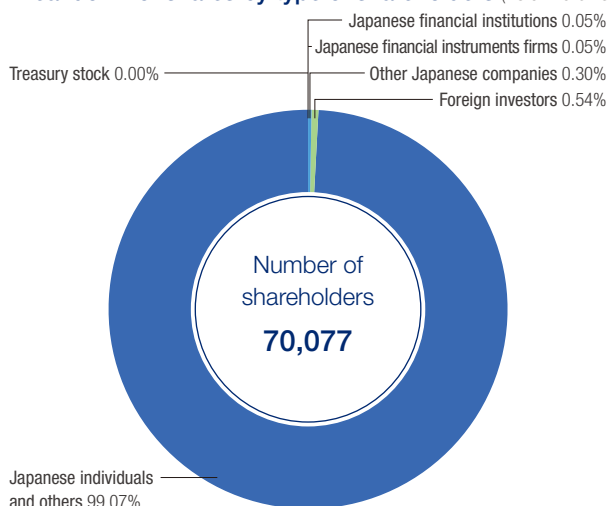
Number of shares authorized 467,676,000
 Number of shareholders 70,077

Number of shares issued 130,353,200

Name of shareholder	Number of shares held (thousands)	Shareholding ratio
Kirin Holdings Company, Limited	39,540	32.77%
The Master Trust Bank of Japan, Ltd. (Trust account)	9,463	7.84%
Custody Bank of Japan, Ltd. (Trust account)	7,173	5.95%
JP MORGAN CHASE BANK 385632	2,913	2.41%
J.P. MORGAN BANK LUXEMBOURG S.A. 381572	2,879	2.39%
The Nomura Trust and Banking Co., Ltd. (Investment trust account)	1,763	1.46%
Custody Bank of Japan, Ltd. (Trust account 5)	1,116	0.93%
THE BANK OF NEW YORK, NON-TREATY JASDEC ACCOUNT	1,100	0.91%
JPMCB USA RESIDENTS PENSION JASDEC LEND 385051	1,024	0.85%
FANCL Employees Share Holding Association	1,021	0.85%

(Notes) 1. FANCL's holdings of treasury stock (9,690 thousand shares) are excluded from the above list of principle shareholders.
 2. Shareholding ratios are calculated after deduction of treasury stock (9,690 thousand shares).

Breakdown of shares by type of shareholders (As of March 31, 2021)



Awards & Recognition

Recognition of the Investor Relations Website



Status of Inclusion in Indexes

2021 CONSTITUENT MSCI JAPAN
 EMPOWERING WOMEN INDEX (WIN)

Corporate Information

Corporate Overview (As of March 31, 2021)

Company Name	FANCL CORPORATION	Paid-in capital	¥10,795 million
Address	89-1 Yamashita-cho, Naka-ku, Yokohama, Kanagawa-ken	Number of employees	901 * The number of employees does not include the area employees (1,229) and the average annual number of temporary workers (495).
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 26, 2021)

ATTENIR CORPORATION [Consolidated subsidiary] Providing products and services that instill a sense of happiness through quality to all women on a daily basis based on the concept of continuously taking on the challenge of offering luxury brand quality at one-third of the market price or lower. Location: Naka-ku, Yokohama, Kanagawa-ken Established: February 1989 https://www.attenir.co.jp	NEOF CORPORATION [Consolidated subsidiary] Sales of cosmetics, health foods, general merchandise, etc. Location: Naka-ku, Yokohama, Kanagawa-ken Established: April 2021	FANCL ASIA (PTE) LTD [Consolidated subsidiary] Overseas sales activities in Asia & Pacific region. Location: Singapore Established: March 2000
FANCL B&H CORPORATION [Consolidated subsidiary] Production of cosmetics, quasi-drugs, nutritional supplements and FANCL <i>Hatsuga genmai</i> (germinated brown rice). Location: Sakae-ku, Yokohama, Kanagawa-ken Established: October 2002 https://www.fanclbiken.co.jp	NICOSTAR BEAUTECH Co., Ltd. [Consolidated subsidiary] Engages in the sale and contract manufacturing of cosmetics and quasi-drugs. Location: Naka-ku, Yokohama, Kanagawa-ken Established: July 2008 http://www.nbcosme.co.jp	FANCL LAB Co., Ltd. [Consolidated subsidiary] Contract manufacturing and sale of cosmetics, quasi-drugs and nutritional supplements in Japan. Location: Naka-ku, Yokohama, Kanagawa-ken Established: January 2020 https://fancllab.co.jp
FANCL INTERNATIONAL, INC. [Consolidated subsidiary] Distributes cosmetics and nutritional supplements in the U.S.. Location: California, U.S. Established: July 1997 https://www.fancl.com	boscia, LLC [Consolidated subsidiary] Expanding cosmetics and nutritional supplements sales globally. Location: California, U.S. Established: January 2008 https://www.boscia.com	FANCL SMILE Co., Ltd. [Non-consolidated subsidiary] A special subsidiary company established to promote the employment of people with disabilities. Location: Sakae-ku, Yokohama, Kanagawa-ken Established: February 1999 https://www.fancl.co.jp/smile
FANCL Insurance Service Corp. [Non-consolidated subsidiary] Insurance agency, engaged in soliciting insurance contracts and associated operations. Location: Naka-ku, Yokohama, Kanagawa-ken Established: February 2003 https://www.fancl-hoken.co.jp	FANCL (Shanghai) Business Consulting Limited [Non-consolidated subsidiary] Engages in the registration of cosmetics and supplements in China. Location: Shanghai, China Established: March 2013	

Editorial Policy

Organizations	FANCL CORPORATION and the FANCL Group
Businesses	Cosmetics, nutritional supplements and other businesses
Applicable Period	Fiscal 2020 (from April 1, 2020 to March 31, 2021)

* Some areas include information from before March 31, 2020 and after April 1, 2021.

Reference Guidelines

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





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