

Wellspring of Value Creation

Human Capital Management Initiatives

Human Resources Strategies for Achieving the Management Strategy

Under VISION2030, the FANCL Group is taking up seven challenges as part of its management strategy. Having defined one of these challenges to implement human resource development and utilization, we are engaged in this effort from three perspectives, namely developing human resources, utilizing human resources, and fostering an organizational culture.

In order to build a robust corporate constitution that can rapidly address changes in the era of VUCA*, we are developing a framework that allows employees to create new value. To do so, we are working to incorporate the acquisition of multiple fields of strength and a job rotation system into the Human Resources Development Policy.

After all, it is employees that execute value creation through business. We will therefore accelerate Diversity and Inclusion under an environment in which employees can work with enthusiasm, and execute human resources strategies that encourage employees to demonstrate their potential. And with our unique FANCL venture spirit, we will strive to create a culture in which all employees continue to take on the challenge of eliminating the "negatives."

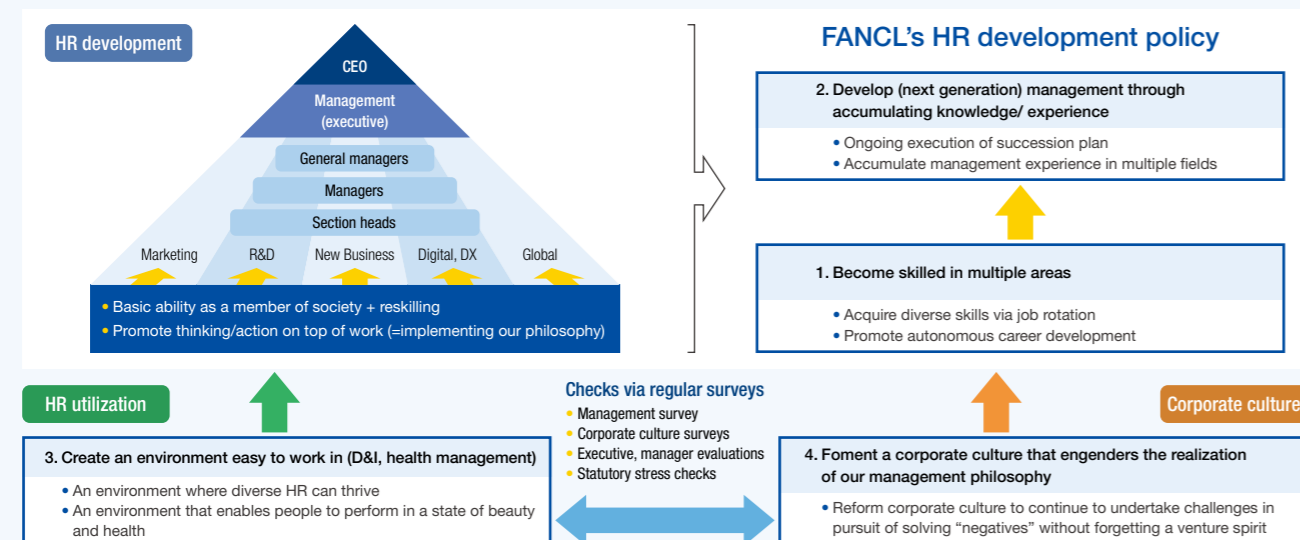


Executive Managing Director
General Manager, Administration Headquarters
Yasushi Sumida

Profile

After joining FANCL in May 2005, Yasushi Sumida has been involved in areas ranging from basic research on cosmetics to product development and other related operations. In 2008, he served as Executive Officer, General Manager of FANCL Research Institute and General Manager of Cosmetics Research Institute. From 2013, he served as Executive Director and General Manager of FANCL Research Institute. Starting in June 2020, he served as Executive Managing Director and General Manager of FANCL Research Institute. Since October 2022, he has served as Executive Managing Director, General Manager of the Administration Headquarters, and General Manager of the Health Support Office.

• HR strategy



Oversight by the Board of Directors As far as human resources strategy planning and the verification of its progress are concerned, the Sustainability Committee and the Board of Directors provide regular oversight by receiving reports on these efforts at least once per year.

• Three perspectives



Example of a Human Resources Development Initiative

• Developing the Next Generation of Managers

FANCL has constructed a systematic program for developing future generations of managers.

Organized for department managers and deputy managers, FANCL Management School invites outside lecturers for the purpose of nurturing the knowledge and perspectives required for management as well as acquiring management literacy. Specifically, this program teaches topics that include management strategy formulation, organizational reform, corporate accounting, and marketing and consumer behavior theory. During FY Mar/2023, 42 participants broke into separate teams and suggested management proposals regarding themes of their own choosing.

As a newly offered course this year, FANCL Management School Basic allows participants to study leadership and organizational management, management strategy and innovation, marketing, accounting, and overall foundational knowledge on management for



six months as a preliminary program for the FANCL Management School. To date, 58 group managers have participated.

Moreover, we also began a training program as part of the succession plan. In addition to providing hands-on experience, in order to develop candidates for the next generation of managers, we also offer programs that present the required knowledge (multi-stakeholder perspectives, IR, financial accounting, legal affairs, human resources affairs, etc.) for directors, as well as programs that provide a cross-cultural understanding and English language skills.

Next Generation Manager Development Curriculum



Example of a Human Resources Utilization Initiative

• Accelerating a Unique FANCL Approach to D&I

As a "corporation that truly cares for people," the FANCL Group has adopted the key phrase "Embrace differences," under which we have raised the goal of continuing to create 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.

To this end, we have engaged in various efforts to create environments and mechanisms that serve to increase the diversity of the organization, and to evolve the Company into one in which each individual can fully demonstrate his or her capabilities and excel. This all takes place in an environment that allows those of different ages, genders, disabilities, sexual orientation and gender identity, nationality, race, religion, value systems, ways of thinking, and workstyles to respect each other, and to shine and thrive.

We have also implemented various measures in order to reveal subconscious prejudices, including Unconscious Bias Training and the Women's Leadership Program, which helps women to be themselves at work.

The diverse human resources team that works at FANCL will continue to promote transformation and value creation. At the same time, we will pursue the realization of the long-term vision by building an organizational culture that allows them to express their diverse personalities and capabilities.



Executive Officer
General Manager, Sustainability Management Division
Maho Yamamoto

Profile

After entering FANCL, Maho Yamamoto has been involved in areas ranging from preparing advertising materials with a focus on online and catalogue sales to sales strategies, sales planning, CRM, EC site management, and other areas. After serving as manager of the department in charge of these tasks, she was appointed General Manager of the Promotion Office of SDGs in March 2020 (currently, General Manager of the Promotion Office of Sustainability after its renaming in October 2022). She has served as executive officer since June 2022.

Wellspring of Value Creation

Research and Development

Transforming the Research Institute into the Launch Site for Creating the Future of FANCL

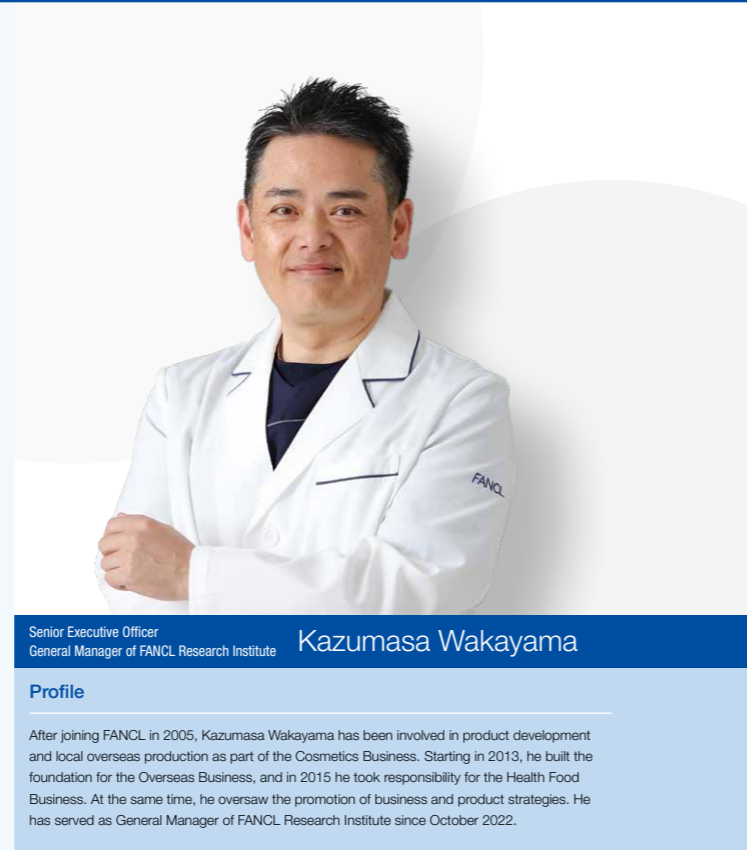
At the time I was appointed in October 2022, I raised my own goal for what I hoped to achieve as Transforming the Research Institute into the Launch Site for Creating the Future of FANCL. We are currently undertaking two themes in order to realize this goal. The first is planning and executing medium- to long-term research strategies. The second is developing and strengthening research personnel.

1 Planning and executing medium- to long-term research strategies

Our lives were severely affected when the COVID-19 pandemic emerged in 2020. These kinds of changes in the environment coupled with an evolution in technology have thrust us into an uncertain age in which people and society are changing in ways that we cannot foresee. Which is why I believe it is important for us to clarify the future and vision we want to achieve for the coming 10 to 20 years, as well as to undertake various challenges to realize this future. In considering how the world will change into the future, what the future lifestyles of our customers will look like, and the "negatives" for our customers that will arise therefrom, I intend to clarify the themes with which FANCL must engage. Similarly, I intend to plan and promote research strategies that lead to the growth and enhancement of existing businesses, as well as the creation of new businesses, in the field of beauty and health.

2 Developing and strengthening research personnel

In order for FANCL to continue eliminating the "negatives" and achieve growth, we must without question develop the people (human resources) that can achieve these goals. I therefore intend



Senior Executive Officer
General Manager of FANCL Research Institute **Kazumasa Wakayama**

Profile

After joining FANCL in 2005, Kazumasa Wakayama has been involved in product development and local overseas production as part of the Cosmetics Business. Starting in 2013, he built the foundation for the Overseas Business, and in 2015 he took responsibility for the Health Food Business. At the same time, he oversaw the promotion of business and product strategies. He has served as General Manager of FANCL Research Institute since October 2022.

to clarify the roles expected of each and every research team member, and to create an organization in which each member can experience the joy of work, namely by experiencing his or her own growth and by sensing his or her own contribution to society through everyday work. Realizing our individual dreams and goals, and linking these to the growth of the Company, will inevitably flow through to the joy of our customers. I believe that becoming this type of organization will necessarily link to Transforming the Research Institute into the Launch Site for Creating the Future of FANCL.

Promoting Research into the Solutions for Eliminating New "Negatives"

In order to bolster the growth of cosmetics, nutritional supplements, *Hatsuga genmai* (germinated brown rice), *Kale Juice*, and other existing business products, we promote safety and functional research with a focus on peace of mind and safety through basic technological research and product development research activities. At the same time, we engage in product development based on scientific evidence.

We conduct a wide range of activities, including joint research with the R&D Division at Kirin Holdings Company and other domestic and international research institutes, and participate in industry-government-academia collaboration projects. In each case, these activities are constantly evolving as we promote efforts to establish a research institute that is capable of addressing social issues and creating new businesses.

Major Achievements in FY Mar/2023

Number of products developed	Number of patent filings Domestic: 71, Foreign: 2	Number of Researchers and Professional Qualifications * As of April 2023
FANCL Cosmetics 46	Number of academic presentations 39	Researchers 193
Nutritional Supplements 10	Number of research publications 17	Ph.Ds. 21
ATTENIR Cosmetics 31	Partners in joint research 25	Pharmacists 10
<i>Hatsuga genmai</i> , <i>Kale Juice</i> , and other food products 6	Research and development expenses ¥3,408 million	Registered dieticians and dieticians 8

Research Topics

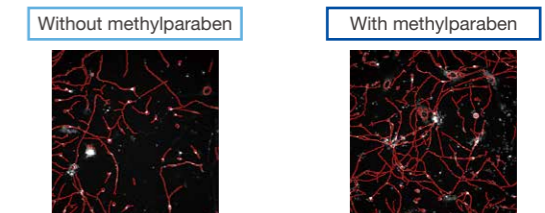
Cosmetics

• New Knowledge on Human Sensory Nerves through iPS Cell Technology

Under a unique FANCL perspective, arising out of our start from *Mutenka* cosmetics that do not contain any additives or place a burden on the skin, we conduct research into skin aging mechanisms driven by the various types of skin stress that have continued to steadily increase.

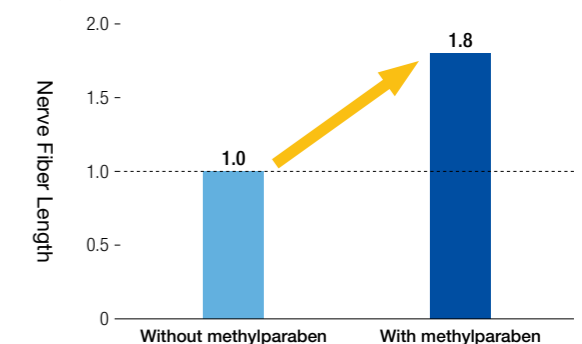
In recent years, we have seen steady growth in the numbers of both men and women complaining about sensitive skin, many of whom experience paresthesia, which makes it easy for their skin to feel tingling, prickly stimuli, and itchiness. FANCL demonstrated that paraben, one of the preservatives contained in cosmetics originally intended to beautify, was a cause of skin aging. Moreover, given our belief that the very discomfort of this stimulation and itchiness both lowered the QOL of daily life and led to skin aging, we took steps to research the impact of preservatives on sensory nerves. Using iPS cell culture technology, we successfully developed sensory nerve cells, which are difficult to remove from the body and culture, that respond to cosmetics ingredients. As a result, we discovered that preservatives and air pollutants held the potential to stimulate nerves, and thereby change sensory nerve cells from

a normal state to a hypersensitive state. The results of this research were presented as research findings at the International Federation of Societies of Cosmetic Chemists Congress.



Sensory nerves elongate due to the preservative paraben

Elongated Sensory Nerve Caused by Paraben



Supplements

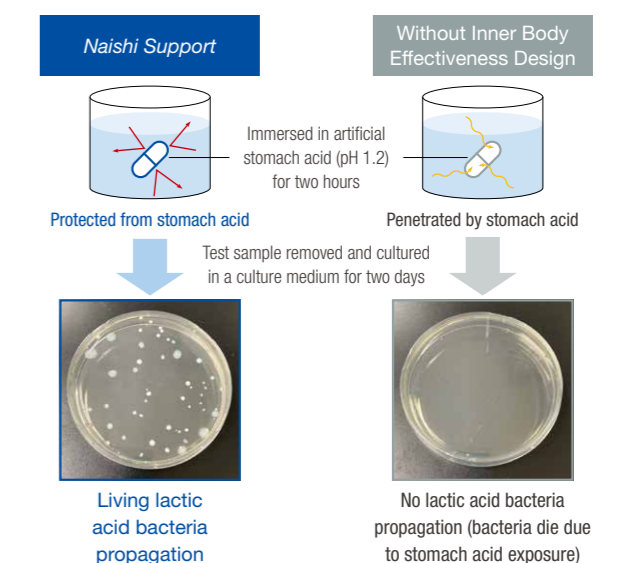
• Evolving Technology to Improve Product Efficacy in Our Body

Since launching the Health Food Business in 1994, FANCL has tirelessly worked to demonstrate technologies based on evidence. Moving forward, we have engaged in research and development under the motto of creating products whose effects can be experienced by our customers.

FANCL possesses a proprietary technology to improve product efficacy in our body. This technology ensures that active ingredients fully express their function within the body. Specifically, this technology seeks to discover the properties and workings of functional ingredients, and to make adjustments so that their capabilities are demonstrated to the greatest extent within the body. In this instance, we have engaged in countless related efforts as part of our research, including searching for highly functional ingredients and making ingredients more easily absorbed by the body.

In this vein, the barrier and release production method we developed and adopted for *Naishi Support* (Weight and body fat care) is a technology that protects lactic acid bacteria from stomach acids in order to release black ginger extract at the necessary location in the body, all while making the ingredients more easily absorbed. This technology allows us to formulate the ingredients that we want to dissolve quickly together with those that we want to protect from stomach acids in a single product, thereby designing products that match the workings

Test Results



Naishi Support protects living lactic acid bacteria from stomach acids using inner body effectiveness design

of the respective ingredients.

Likewise, we continuously pursue greater functionality through technologies that not only mix and solidify effective ingredients for the body, but that also address the various component characteristics within a small capsule that considers the ease of swallowing.

Wellspring of Value Creation

Supply Chain (Manufacturing, Logistics, Sales)

FANCL produces both cosmetics and health foods under a management framework that complies with GMP standards. The Company's domestic network comprised of six production bases pursues "Upholding Quality" under a strict standard unique to FANCL and under our stated mission of delivering products that provide customers with safety and reliability. Likewise, we sell our products through a wide range of channels that include online and catalogue sales, as well as directly managed store and wholesale sales. Moreover, by using IT to integrate the strengths of each channel, we are evolving our ties with our customers and seeking to maximize the customer's value experience.

Manufacturing

Standards for Production Bases

Bases and Major Products	Standards	GMP*1 Standards	FSSC 22000*2	Facility
				Clean Room
Chiba Factory	Cosmetics, supplements	●	—	●
Shiga Factory	Cosmetics	●	—	●
Yokohama Factory	Supplements	●	—	●
Gunma Factory	Cosmetics	●	—	●
Nagano Factory	Germinated brown rice, supplements	—	●	●
Mishima Factory	Supplements	●	●	●

*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

• [Cosmetics Factories] Toward Labor Savings and Higher Efficiency

We have sold one unit of *MILD CLEANSING OIL* every three seconds in Japan and abroad since launching this product in 1997. With an eye to the future, we therefore built a dedicated factory in Nagareyama, Chiba, that can efficiently mass-produce *MILD CLEANSING OIL* in March 2020. Along with shifting from a three-factory framework to a centralized approach, the new factory realized labor savings and greater efficiency to enable production of 12 million units per year, approximately 1.3 times that of the previous framework.

Meanwhile, specialized in small-lot production of multiple products, the Gunma Factory is able to produce 75 L to 2,000 L batches mainly using its seven vacuum emulsification systems as part of the bulk production process. Equipped with 14 filling machines as part of the filling process, the factory fills products ranging in volume from 0.5 mL to 1,000 mL with liquids of low to high viscosity. In addition, its refill spout pouch filling machines also help reduce plastic use and establish a manufacturing environment that can address "Upholding Quality" for various needs.



New *MILD CLEANSING OIL* Factory



• [Supplement Factory] Addressing Global Demand

Having gone into operations in April 2021, the Mishima Factory is equipped with eight tableting machines that form the tablets for *Calolimit® for the Mature Aged* and other products, two hard capsule filling machines for *Naishi Support* (Weight and body fat care) and other products, and six advanced automatic sorting machines. The factory also inspects every tablet, capsule, and pill for cracks and chips at high speed. For *Age bracket-based supplements* in which a single package contains multiple supplements, we began operating four high-speed packaging units developed jointly with a machine manufacturer in order to address demand from China and the rest of the world in June 2023. Moreover, we continue to manufacture for the Kirin Group on a contract basis in an effort that began in April 2021, and are exhibiting synergies through this collaboration.

Meanwhile, our Yokohama Factory produces *Personal ONE* custom-made supplements. The fully-automated tablet packaging machines used for *Personal ONE* rapidly package each dose of different types of tablets to deliver safe, reliable products to our customers.



Mishima Factory



Personal ONE fully-automated tablet packaging machine

Logistics

• Inventory Allocation through a Two-Site Framework. Reducing Lead Times and Shipping Costs

The FANCL Group logistics centers are based on a two-site framework consisting of the Kanto Logistics Center in Kashiwa, Chiba, and the Kansai Logistics Center in Kadoma, Osaka, to which the products manufactured at each of our factories are delivered the same day. Except for the first two days of the year and the closing inventory day, our logistics centers operate non-stop to rapidly deliver freshly-made products to our customers 362 days a year.

The Kanto Logistics Center is stocked with every FANCL product, which it delivers to customers throughout Japan. Moreover, the Kansai Logistics Center is stocked with approximately 300 of FANCL's mainstay products. In addition to delivering products to customers in western Japan, it also delivers every ATTENIR product to customers throughout the country. We stock both logistics centers with the appropriate volume of



FANCL Kansai Logistics Center

inventory in order to more quickly and more accurately deliver products to our customers, while both managing each item based on the production date and best-by-date. Both centers also help to reduce CO₂ emissions by optimizing distances during shipping.

Having raised the goal of delivering high-quality products to our customers when and where they want, we seek to further improve quality and productivity.



FANCL Kanto Logistics Center



Sales

• Enhancing Customer Experience Value: The FIT3 Core IT System

FANCL delivers products to our customers through a multi-channel approach centered on online and catalogue sales, as well as on directly managed store and wholesale sales. At the same time, we work to build ties with our customers through the use of IT to integrate the strengths of each channel.

We released FIT*3 in 2022 as our core IT system for promoting OMO initiatives and for realizing the best individual approach for each customer. Developed under the concept of a database for better understanding our customers, we use the system to deepen

our knowledge of customers as part of a positive data cycle that returns beneficial information.

By deploying the FANCL Members App, which integrates online, catalogue, and store information in one location, as a customer communications platform, we maintain the convenience of online and catalogue shopping while enabling face-to-face interaction at stores and online counseling



LIVE SHOPPING

reservations. Moreover, customers can now use this one app accordingly across a wide range of situations. We also use the app to stream live shopping and online events that build strong ties with our customers, where this initiative as a whole encourages cross-use of online and catalogue shopping with in-store purchases.

Currently, we are working to enhance planning while aiming for a high level of quality that emphasizes compassion for brand value. At the same time, we will engage in OMO strategies that deepen our ties with our customers while leveraging the respective channel characteristics together with IT.

* FANCL Information Technology

Trends in LIVE SHOPPING Viewership and Sales Trends

