

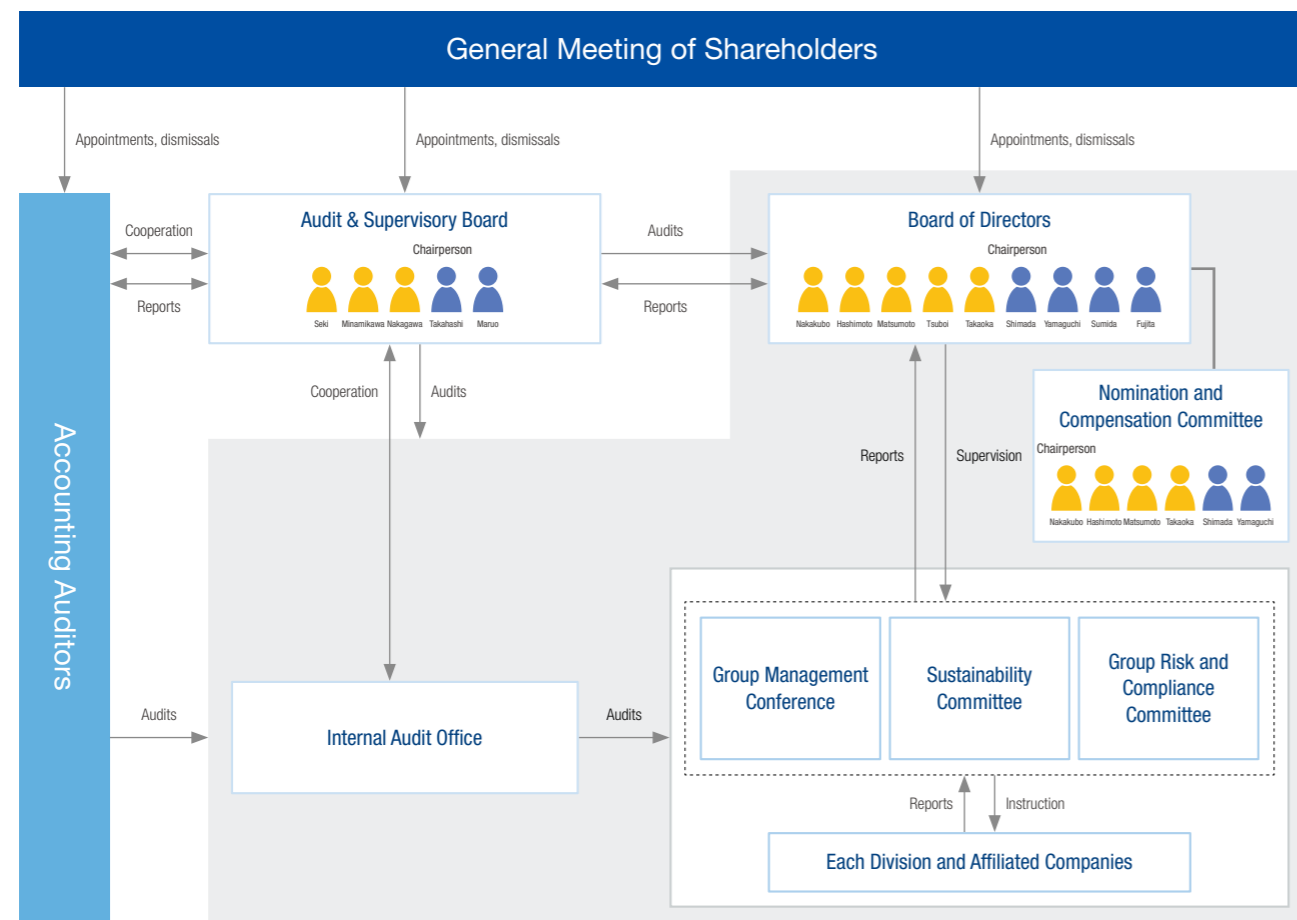
Features of FANCL's Corporate Governance

- Adopted an Audit & Supervisory Board System
- Established a Nomination and Compensation Committee
- Four of nine are independent outside directors
- Nomination and Compensation Committee chaired by an independent outside director

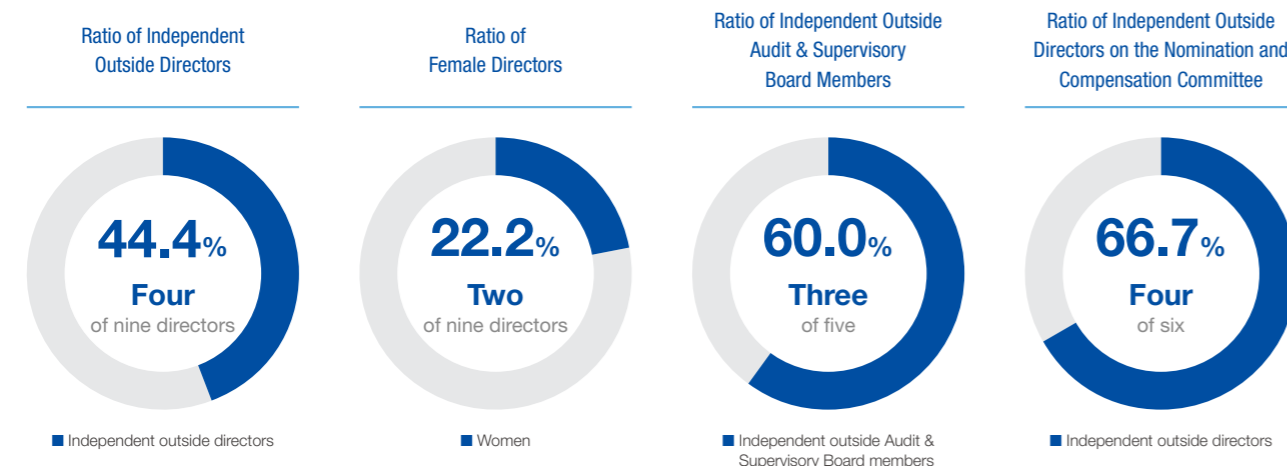
Corporate Governance Structure

(As of June 24, 2023)

Outside Inside



Composition of the Board of Directors, Audit & Supervisory Board, and the Nomination and Compensation Committee



Sustainability Governance

• Sustainability Management Structure

In October 2021, we established the Sustainability Committee with the aim of placing sustainability at the core of our management and improving our corporate value over the medium to long term by achieving the goals we have set for our priority issues. Chaired by the President & CEO, Representative Director, the Committee is composed of executive directors and executive officers, meets quarterly, and reports to the Board Directors twice a year. In addition to prior deliberation on the policies and strategies to be resolved at Board of Directors' meetings to enable the Board of

Directors to fulfill its supervisory and monitoring functions, the Committee manages and evaluates the progress made toward goals and conducts deliberations on measures.

In FY Mar/2023, steps were taken to manage and evaluate the Group's progress in enhancing information disclosure based on the TCFD recommendations, reducing CO₂ emissions (introducing carbon neutral gas and improving the accuracy of Scope 3 calculations), expanding container collection and recycling to reduce plastic use, adopting certified palm oil, and engaging in sustainable procurement. Details of progress was then reported to the Board of Directors.



Sustainability Committee Specific Deliberation Items

About the Conduct of Business Partner Questionnaire Surveys on Sustainable Procurement

The Sustainability Promotion Office reported that a Business Partner Questionnaire Survey was posted online to ascertain the degree of compliance with the Supplier Guidelines. Of the approximate 450 business partners targeted under the questionnaire survey, responses were received from 304 business partners.

While around 70% of our business partners have formulated sustainable procurement policies, the status of their efforts differs depending on the size of each company and type of industry. Based on the responses received, explanations were provided, including the conduct of interviews on an individual business partner basis.

In light of these explanations, directors commented on the need to check the status of initiatives of business partners that have not yet responded as well as the importance of moving forward step by step, taking into consideration business partners beyond primary suppliers.

Based on the results of these discussions, the Sustainability Promotion Office decided to select business partners to be interviewed based on the questionnaire survey results and transaction details, as well as to take actions targeting those that have not yet responded. Going forward, we plan to strengthen our efforts to identify and address supply chain risks aimed at introducing management tools.

Looking to mutually exist and prosper with our business partners, we will face social issues together with the aim of realizing sustainable procurement.



Protection of Minority Shareholders in Transactions with Controlling Shareholders, etc.

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

Kirin Holdings Company, Limited currently holds 32.64% (39,540,000 shares) of FANCL's voting rights, and the Company is an equity-method affiliate of Kirin Holdings Company, Limited. In its transactions with Kirin Holdings Company, Limited, the Board of Directors deliberates and resolves that the terms and conditions of each transaction are not unfair compared to those with other third parties from the perspective of protecting minority shareholders.

Governance

Officer Compensation System

• Decision-Making Process for Compensation and Related Matters

The Company has in place a Nomination and Compensation Committee as an advisory body to the Board of Directors 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, deliberates on the amounts of compensation for each individual and submits its opinions to the Board of Directors.

Within the scope of his mandate, and following resolutions passed at shareholders' and Board of Directors' meetings, the President & CEO, Representative Director will respect the results of the Nomination and Compensation Committee's deliberations in determining, for example, individual compensation for directors, etc.

• Details of the Compensation System

Officer compensation consists of monthly compensation, which pays a fixed amount each month, stock-based compensation as a long-term incentive, and performance-linked, stock-based compensation as a medium-term incentive. The monthly

compensation is further divided into basic compensation, which is determined based on the weight of the officer's roles and responsibilities, and variable compensation that is determined each year on the basis of factors that include the degree to which the annual plan (operating income) in the previous fiscal year was achieved and an individual performance evaluation. In the case of outside directors, however, only basic compensation is paid.

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

The performance-linked portion is positioned as a medium-term incentive for the realization of the Group's Medium-Term Management Plan. In addition to the achievement rate of financial indicators, compensation is determined from multiple perspectives. For the purposes of strengthening relationships with various stakeholders and contributing to society in a sustainable manner, we have adopted non-financial indicators, such as CO₂ emissions, employee engagement, and business partner evaluations.

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

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

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

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

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

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

Medium-term incentive performance-linked compensation index

Evaluation items	Evaluation index	Target value	Evaluation weight
Financial indicators	Net sales	¥120.0 billion	30%
	Operating income	¥15.0 billion	50%
	ROE	12.5%	10%
Non-financial indicators (ESG indicators)	CO ₂ emissions	CO ₂ emission target achievement rate of 100% or more	
	Employee engagement	Satisfaction rate of 80% or more	10%
	Business partner evaluations	Satisfaction rate of 90% or more	

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

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

Officer Compensation, etc., in FY Mar/2023

Officer classifications	Total Compensation, etc. (¥ million)	Monthly compensation	Total compensation, etc., by type (¥ million)			Number of eligible officers
			Performance-linked stock compensation			
			Performance-linked grants		Fixed grant	
			Performance-linked compensation	Non-monetary compensation		
Directors (Of whom Outside Directors)	256 (37)	203 (37)	10 (-)	42 (-)	8 (3)	
Audit & Supervisory Board members (Of whom outside Audit & Supervisory Board members)	57 (21)	57 (21)	- (-)	- (-)	5 (3)	
Total (Of whom outside officers)	314 (58)	261 (58)	10 (-)	42 (-)	13 (6)	

(Note) The number of directors paid does not include unpaid directors (outside directors).

Improving the Effectiveness of the Board of Directors

Every year since FY Mar/2016, directors and Audit & Supervisory Board members have been conducting self-evaluations of Board of Directors' meetings to gain a better understanding of the state of the Board and enable it to operate more effectively. In this manner, directors and Audit & Supervisory Board members are committed to continuous improvement.



Status of Dealing with Issues Identified in FY Mar/2021 and FY Mar/2022 Evaluations

1 Explanations in advance of Board of Directors' meetings	Recognizing that certain agenda items for advance explanation were identified as extraordinarily detailed, we strictly classified these items according to their level of importance and took steps to ensure their handling in a more streamlined and efficient manner in FY Mar/2023.
2 Regular monitoring of important themes	In light of the stated opinion that it would be a good idea to consider regularly discussing and monitoring important themes such as overseas business, we focused on the Chinese supplement business as well as the BRANCHIC and boscia cosmetics brands and reported to the Board of Directors on other important themes, which included such items as sustainability, risk, and compliance in FY Mar/2023.
3 More active non-business discussions	Taking into consideration the stated opinion regarding the desire to have more active discussions on matters other than business, such as governance and the strengthening of organizational capabilities, the Board of Directors held discussions on human capital management and its intellectual property strategies in FY Mar/2023.

Results of FY Mar/2023 Board Effectiveness Evaluations

Analysis/Evaluation of Board of Directors' Meetings	
Management of the Board of Directors	The number of agenda items, their content, and time allotted for deliberation are appropriate. Moreover, operations have evolved over the years, including advance explanation of important agenda items as well as reporting to the Board of Directors the gist of opinions expressed at the time advance explanations are provided.
Structure of the Board of Directors	Balanced from the perspective of business execution/non-execution. Each director is also appointed in a well-balanced manner based on their expertise. Diversity in terms of gender is also being promoted.
Board of Director Discussions	There is an atmosphere in which frank opinions are welcomed, and outside directors do not hesitate to engage in extremely lively discussions. Comments from outside the Company are being appropriately reflected in the execution of business. Systems for reporting from the Sustainability Committee and the Group Risk and Compliance Committee have been put in place. It was particularly good that important risks were reported to the Board of Directors and discussed.

Issues	
Management of the Board of Directors	Since the explanatory materials are sometimes extraordinarily detailed, it is necessary to be aware of the important points in making management decisions and to devise ways to make them more concise.
Structure of the Board of Directors	The appointment of female directors from within the Company is an issue for consideration over the medium to long term. Following the introduction of a succession plan, it may be possible to carry this out in a systematic manner in the years to come. There is some debate about whether the ratio of outside directors should be in the majority, but at this point in time this structure is functioning, so the feeling is that there is no real benefit to be gained.
Board of Director Discussions	FANCL calls for more medium- and long-term discussions going forward. It would be even better if the important opinions voiced by internal directors at, for example, management conferences were shared at Board of Directors' meetings.

Governance

Director and Audit & Supervisory Board Member Skill Matrix

In light of FANCL's management strategies, the Nomination and Compensation Committee identifies the skills that the Company's Board of Directors and each officer should possess and, after deliberation by the Committee, selects officer candidates.

Skill Definitions

Skill	Description	Reasons for Selection of Skill Items
Understanding of Management Philosophy	Understands the FANCL Group's Founding Philosophy and Corporate Philosophy.	Since its founding, the Company has continued to embody its founding philosophy and management philosophy and grow as a "company that provide solutions to social issues." The basic principles of FANCL's corporate activities are that we turn our eyes to the "negatives" and try to eliminate them with sensitivity and originality. The Company, therefore, selects the understanding of the founding philosophy and corporate philosophy as an important requirement for the Company's management.
Corporate Management (Representative Director experience)	Possesses the experience and skills of a representative director.	The Company has a business model of an integrated manufacturing and sales and has continued to grow through the development of several businesses and multi-channel sales. In the management of a wide range of organizations, the management of businesses, and the operation of organizations, comprehensive judgement is required. The Company, therefore, selects the experience of corporate management as a required skill.
ESG, Sustainability	Possesses knowledge, experience, and skills in non-financial factors that support corporate sustainability, such as ESG issues.	In the Company's founding philosophy, ESG management perspectives are essential. With the aim of contributing to the realization of a sustainable society and the achievement of sustainable growth for the Company, the Company has identified "Environment," "Healthy Living," and "Local Communities and Employees" as key initiative themes. To solve their respective issues and achieve the goals, the Company selects experience, insight and expertise, etc., regarding ESG as a required skill. (In the event that a candidate possesses one of E, S, and G, or several of them, ○ is marked.)
Manufacturing, Technology, R&D	Possesses knowledge, experience, and skills in research and development, technology, and the pursuit of safety and security.	The Company, as a research and development manufacturer that handles every aspect of its business, from research and development to production and sales, creates products that reflect the needs and voices of its customers, and achieves "Upholding Quality." The Company selects solid knowledge and experience in fields, from research on solutions to eliminate new "Negatives," development of products that are attuned to the "Negatives" of customers, to manufacturing that provides thorough safety and security, as a required skill.
Corporate Finance	Possesses knowledge, experience, and skills in corporate finance.	Not only accurate financial information but also the establishment of robust financial base are important as is the development of financial strategies that aim to achieve the strengthening of shareholder return targeted to enhance sustainable corporate value. The Company, therefore, selects solid knowledge, experience, and skills in corporate finance field as a required skill.
Quality & Safety, Compliance, Risk Management	Possesses knowledge, experience, and skills in quality & safety, compliance, and risk management.	Based on its founding philosophy and management philosophy, the Company has responsibilities for providing products and services that earn trust and satisfaction: a key theme related to corporate survival. The Company, therefore, selects this knowledge and experience as a required skill.
Brand Strategy, Marketing, Sales	Possesses knowledge, experience, and skills in brand strategy, marketing, and sales.	The Company is committed to eliminating the "Negatives," focusing mainly on its cosmetics-related and nutritional supplements-related businesses. It has been developing multiple channel sales in tune with the times, including mail order, direct store, wholesale, and overseas. Furthermore, in terms of products, services, etc., offering added value generates customer satisfaction and improvements in sustainable corporate value. The Company, therefore, selects the knowledge and experience as a required skill.
IR (dialogue with shareholders and investors)	Possesses knowledge, experience and skills in IR activities for shareholders and investors.	To be a company that earns the trust of shareholders and investors, the Company is implementing corporate activities and information disclosure in a fair and transparent manner. In terms of IR, the Company focuses on dialogue with shareholders and investors and makes use of their opinions in management and IR activities, bringing about improvements in corporate value. The Company, therefore, selects knowledge and experience in IR as a required skill.
ICT, Digital Technology, Digital Transformation	Possesses knowledge, experience and skills in ICT, Digital Technology and Digital Transformation.	The Company engages in promoting OMO that is unique to FANCL and continuing to create strong "bonds" with customers in its CRM strategy. As that basis, IT systems are important and essential; the Company, therefore, selects knowledge, experience and skills in promotion of DX, practical use of ICT, etc. as a required skill.
Global Experience, Overseas Business Management	Possesses knowledge, experience and skills in overseas assignments or overseas business support and management.	The Company aims to help customers lead beautiful, healthy, and prosperous lives, not only in Japan, but across the world. To promote the Company's global development, the Company selects this knowledge and experience as a required skill.

Skill Matrix

(Notes) Except for "Understanding of Management Philosophy," up to four main skills that each candidate possesses are marked with "○." Among them, the skills that possess particularly deep insight are marked with "◎."

Name	Position within the Company	Nomination and Compensation Committee ★Chairman	Understanding of Management Philosophy	Corporate Management (Representative Director experience)	ESG, Sustainability	Manufacturing, Technology, R&D	Corporate Finance	Quality & Safety, Compliance, Risk Management	Brand Strategy, Marketing, Sales	IR (dialogue with shareholders and investors)	ICT, Digital Technology, Digital Transformation	Global Experience, Overseas Business Management
Kazuyuki Shimada	President & CEO, Representative Director	☆	●	◎					○	○	○	
Tomochika Yamaguchi	Representative Director, Senior Managing Director	☆	●	○					◎		○	○
Yasushi Sumida	Executive Managing Director		●		○	◎		○				
Shinro Fujita	Executive Managing Director		●	○			○		○			◎
Mitsuaki Nakakubo	Director	★	●					◎		○		○
Keiichiro Hashimoto	Director	☆	●	◎			○				○	○
Akira Matsumoto	Director	☆	●	○			◎					○
Junko Tsuboi	Director		●	○	○				◎	○		
Mika Takaoka	Director	☆			○				◎			
Seiichiro Takahashi	Audit & Supervisory Board Member		●		○			◎				
Naoya Maruo	Audit & Supervisory Board Member		●	○			○	◎				
Tsuneyoshi Seki	Audit & Supervisory Board Member		●	○			◎	○		○		
Hideki Minamikawa	Audit & Supervisory Board Member		●	○	◎			○				○
Miyuki Nakagawa	Audit & Supervisory Board Member		●					◎				

Risk Management

Risk Management System

With the aim of ensuring the appropriateness of internal control and improving Company-wide risk and compliance management, the Compliance Committee and Internal Control Committee were integrated and the Group Risk and Compliance Committee established in May 2022. The Group Risk and Compliance Committee, the Sustainability Committee, and the Group Management Conference, which is under the control of the Corporate Planning Division are responsible for managing the risks associated with each respective committee.

Risk Identification Process

On the basis of management and business plans, at the beginning of the fiscal year these committees/meetings and related departments conduct deliberations and extract business and other risks, after which we assess the importance of each risk by analyzing impact and urgency. The identified and analyzed risks are reported to the Board of Directors, the members of which then decide on the important risks for the FANCL Group. The status of response to the determined important risks is also reported to the Board of Directors as appropriate, and the Board of Directors verifies the effectiveness of those responses. For unresolved risks, we conduct reviews of our responses to those risks by taking further action. The risks that were decided to be of importance are also reviewed as appropriate.

Business and Other Risks

Degree of impact: Comprehensively judge the three items of loss, shutdown period, and loss of trust, and classify as S or A
Urgency: Categorized as high or low or the need for urgent action

Impact	Urgency	Low	High
		<ul style="list-style-type: none"> ⑥ Competition/Changes in consumer behavior, lifestyle values ⑦ Climate change/Environmental issues ⑧ Infectious diseases 	<ul style="list-style-type: none"> ① Overseas business development/Geopolitics ② Legal regulations/Compliance ③ Manufacturing, quality control ④ Personal information/Information management/System failures ⑤ Natural disasters, accidents
S			
A		<ul style="list-style-type: none"> ⑪ Exchange rate fluctuations ⑫ Securing and cultivating of talented employees 	<ul style="list-style-type: none"> ⑨ Reputational damage/Reputation ⑩ Raw material procurement/Business partners

(Main Risks and Countermeasures)

Item	Specific risks	Main countermeasures
①	<ul style="list-style-type: none"> • Impact of geopolitical issues such as US-China trade friction and Japan-China relations • Violations of laws and regulations due to inadequate governance of overseas subsidiaries 	<ul style="list-style-type: none"> • Optimized sales balance in each region by reinforcing expansion in Asia other than China, Europe, and the United States • Governance system enhancements for overseas subsidiaries
②	<ul style="list-style-type: none"> • Violation of advertising display regulations • Violation of bribery, labor, and other applicable laws and regulations 	<ul style="list-style-type: none"> • Supervision of the status of compliance by the Group Risk and Compliance Committee and regular reporting to the Board of Directors • Conducted regular compliance training for employees • Early detection and resolution of problems by receipt of internal reports
③	<ul style="list-style-type: none"> • Adverse effects on skin/physical condition due to product ingestion • Product recalls due to quality problems, suspension of operations, etc. 	<ul style="list-style-type: none"> • Manufacturing, quality control systems incorporating ISO and GMP mechanisms
④	<ul style="list-style-type: none"> • Suspension of business due to targeted attacks, etc. • Information leaks due to cyberattacks, internal fraud, etc. 	<ul style="list-style-type: none"> • Reinforced IT security measures by establishing the IT Security Working Group • Compliance with relevant laws, guidelines, etc., and internal regulations, enhancement of information management system, and thorough employee training
⑤	<ul style="list-style-type: none"> • Functional suspension of operations at the Company's head office, factories, distribution centers, etc., due to the incidence of a disaster • Shortage of germinated brown rice and kale juice raw materials due to the weather 	<ul style="list-style-type: none"> • Formulation of an all-hazard business continuity plan • Diversification of suppliers, production/distribution systems in multiple locations
⑥	<ul style="list-style-type: none"> • Insufficient response to changes in consumer values, decline in competitiveness due to the introduction of new products by competitors, etc. 	<ul style="list-style-type: none"> • Product development based on customer needs and market surveys • Creation of new businesses • Multi-channel sales
⑦	<ul style="list-style-type: none"> • Flood damage due to global warming • Tighter regulations for reducing CO₂ emissions, reduction in plastic usage, etc. • Changes in consumer needs regarding environmental issues, changes in reputation among investors 	<ul style="list-style-type: none"> • Setting of priorities for sustainability • Progress management, evaluation, deliberation of individual measures by the Sustainability Committee for priority issues, and supervision and monitoring by the Board of Directors
⑧	<ul style="list-style-type: none"> • Business suspension and store closures due to the spread of infectious diseases 	<ul style="list-style-type: none"> • Building of systems that enable business continuity • Multi-channel sales
⑨	<ul style="list-style-type: none"> • Flood of postings on official accounts as well as the Company's words/actions • Loss of brand image due to the circulation of counterfeit goods 	<ul style="list-style-type: none"> • Formulation and internal knowledge/awareness of the crisis management response manual relating to SNS operations, and employee training • Dealing with counterfeit goods through various measures including the suspension of imports in collaboration with customs
⑩	<ul style="list-style-type: none"> • Instability of raw material procurement brought about by soaring raw material prices due to the global economy or other factors, and dependence on specific suppliers • Damage to brand image due to the failure to achieve socially expected sustainable procurement 	<ul style="list-style-type: none"> • Reduction of risk from rising raw material prices through cost reductions and advance purchases, etc. • Multi-supplier (multiple purchasing), multi-hub (multiple manufacturing bases), switching between two distribution bases • Confirmation of working environments, etc., at suppliers through questionnaire surveys and interviews • Procurement that shows consideration for the environment, such as the active adoption of sustainable palm oil
⑪	<ul style="list-style-type: none"> • Impact of exchange rate fluctuations on foreign currency-denominated transactions and the conversion of financial statements of foreign subsidiaries into Japanese yen 	<ul style="list-style-type: none"> • Appropriate forward exchange contracts, etc.
⑫	<ul style="list-style-type: none"> • Shortage of human resources due to changes in the hiring environment, stagnation of business activities due to inadequacies in training 	<ul style="list-style-type: none"> • Creation of comfortable working environments • Systematic human resource development