

An overview of FANCL's basic policy regarding internal control systems and the operation of these systems

(As of March 31, 2023)

(1) Systems for ensuring appropriate business operations

The following is an overview of systems to ensure that Directors execute their duties in compliance with laws, regulations, and the Articles of Incorporation. In Section (2) we discuss systems to ensure the appropriateness of the operations of a company and a corporate group consisting of a company and its subsidiaries.

① **Basic policy**

As the basis for management, our Company is striving to establish and maintain internal control based on the following philosophies:

- We can always achieve more
- FANCL Group comprises people-loving corporations striving to eliminate negatives in today's world, who pursue gentleness, safety, and product assurance
- We always see things from the customer's perspective and make pleasing the customer the basis of everything we do

② **Matters concerning the storage and management of information regarding Directors' execution of duties**

Our Company makes paper or electronic records of important documents such as a) records of the proceedings of important meetings where the Directors are present, such as the General Shareholders' Meeting, meetings of the Board of Directors, and the Group Management Conferences; and b) *ringi* (approval system) documents approved by Directors. The departments responsible store and manage them under our Document / Record Management Rules.

If necessary, Directors or Audit & Supervisory Board Members may read through the documents or electronic media that are stored and managed based on our Document / Record Management Rules.

We have established the IT Security Working Group to ensure the continuous inspection and reform of our information management.

③ **Rules and other systems concerning FANCL Group's management**

of the risk of loss

We have implemented the following systems to manage FANCL Group risks.

- The Group Risk and Compliance Committee, the Sustainability Committee, and the Group Management Conference manage the risks of FANCL Group's businesses and report their analysis of the Group's risks and response measures to the Board of Directors.
- With regard to business partners, we request that they abide by our policies/guidelines and manage risks through our transactions with them.
- We have created Crisis Management Procedures for FANCL Group, and in the event of unexpected risks, the President & CEO and executive officers who are designated as the overall responsible persons in accordance with regulations, will promptly appoint a person in charge and establish a response measures committee to take prompt action and prevent the spread of damages.
- By basing the auditing activities of the Internal Audit Office on the concepts of risk management, we are strengthening our systems for discovering risk and/or taking corrective action ahead of time, making our risk management a more integrated process.

④ Systems to ensure that FANCL Group Directors, etc., perform their duties efficiently

FANCL Group holds meetings of its Board of Directors regularly to enhance the effectiveness of management through the vigorous exchange of opinions and prompt decision-making. The distribution of authority and decision making of each group, and the specific work of each department, are carried out under the Rules of the Board of Directors, Rules of Administrative Authority, Approval Standard Rules, Rules of Division of Duties, and Affiliated Company Management Rules, to ensure efficiency.

Furthermore, we are enhancing our IT environment and are striving to enhance the efficiency of the performance of duties.

⑤ Systems for ensuring that execution of the duties of directors, etc., and employees of FANCL Group comply with laws and regulations and the Articles of Incorporation

FANCL Group strives to establish a compliance system to ensure thorough compliance with laws and regulations, as follows.

- We have established and operate a Group Risk and Compliance Committee to create a cross-organizational compliance system.
- We established a system able to appropriately monitor operations at

subsidiaries, with, in principle, the appointment of our Company's executives, etc., to key positions at subsidiaries.

- We stipulate and enforce the FANCL Group Compliance Standards for all Directors and employees.
- We carry out compliance awareness training for all FANCL Group Directors and employees so that they can become familiar with the FANCL Group Compliance Standards.
- We operate a helpline to enable early detection and correction of actions that violate laws, regulations and FANCL Group rules.
- We have set out our Disclosure Policy to promote investor trust, information transparency and appropriate public disclosure. We disclose information appropriately, based on this policy.

⑥ Systems related to reporting the execution of duties of Directors, etc., and systems to ensure the appropriateness of other operations

We have established and enforce the following rules to ensure the appropriateness of operations in FANCL Group.

- We have established Approval Standard Rules, specifying that important matters be approved by or reported to the Board of Directors. The Approval Standard Rules also specify that important matters at subsidiaries be approved by or reported to our Company.
- The Group Risk and Compliance Committee, the Sustainability Committee, and the Group Management Conference manage the risks of FANCL Group, and by reporting to the Board of Directors, maintain a system that ensures the appropriateness of FANCL Group's operations.
- The Internal Audit Office conducts internal audits of FANCL Group.

⑦ Systems for employees when an Audit & Supervisory Board Member requests that an employee be assigned to assist them, and systems to ensure the independence of these assisting employees from our Directors and ensure the effectiveness of instructions given to these employees

If an Audit & Supervisory Board Member requests someone to assist them in the administrative affairs of the Audit & Supervisory Board and other duties, an employee will be appointed in consultation with the Audit & Supervisory Board Member.

The employee who is to assist the Audit & Supervisory Board Member will belong to the Audit & Supervisory Board and will not submit to the orders of Directors. The Audit & Supervisory Board Member will hold the authority to direct the activities of this employee.

In addition, the Audit & Supervisory Board Member will assess the employee. Matters relating to treatment, personnel changes, disciplinary action, etc., will be decided with the consent of the Audit & Supervisory Board Member.

⑧ Systems for reporting to Company Audit & Supervisory Board Members and for ensuring that the person reporting will not be treated unfavorably for making the report

(Systems for FANCL Group Directors and employees to report to Company Audit & Supervisory Board Members)

- All Directors and employees will report to the Audit & Supervisory Board Members any of the following: matters causing (or with the potential to cause) significant damage to FANCL Group or its subsidiaries; serious deficiencies and problems that could seriously damage credibility, internal control systems, and procedures, etc.; violations of laws and regulations, or serious misconduct, etc.
- We have a process in place to ensure that the information gathered by the Internal Audit Office in its internal audits of the Company and its subsidiaries is shared among the Audit & Supervisory Board Members.
- We have systems to enable the Audit & Supervisory Board Members to attend Group Management Conferences and other meetings and receive timely reports of important information.
- We have a system that enables information relating to compliance and other matters throughout the Group as a whole (gained from the establishment of the Compliance Helpline) is centrally managed and Directors can confirm it directly.

(System for ensuring that people who make a report are not treated unfavorably for that reason)

- Based on the FANCL Group Helpline Operational Rules, we have a process in line with the purpose of the Whistleblower Protection Act. We make it clear that persons reporting under these Rules or otherwise reporting to our Audit & Supervisory Board Members will not be treated unfavorably for making the report.

⑨ Policy matters regarding the prepayment or reimbursement of expenses incurred by our Audit & Supervisory Board Members in the carrying out of their duties, or the treatment of expenses or debts arising from the performance of other duties

We have a process by which the expenses and debts incurred by an Audit & Supervisory Board Member in the performance of their duties are processed smoothly without any restrictions unless it is deemed that these expenses

and debts have not been necessary to enable the Audit & Supervisory Board Member to perform their duties.

⑩ Other systems to ensure effective auditing by the Company Audit & Supervisory Board Members

We make it clear that in addition to audits by the Audit & Supervisory Board Members, audits by the Internal Audit Office based on the Internal Audit Regulations will be carried out in conjunction and with cooperation, and that the results of audits and the results of the improvement (based on the improvement report) will be reported to the Audit & Supervisory Board Members.

• **Systems to ensure the reliability of financial reports**

We use an internal control reporting system for financial reporting (based on the Financial Instruments and Exchange Act), establish systems of Company-wide internal control, and assess their operation and improve them. In addition, we select important business bases for our Company. We establish business process and IT general control, and assess and improve the operation of these systems.

In addition, both our Internal Audit Office and the departments that manage our subsidiaries audit and visit our subsidiaries. They are working to ensure that necessary corrections are made and that internal control systems are also established at our subsidiaries.

(2) Overview of the operation of systems for ensuring appropriate business operations

In the current consolidated period under review, we carried out operations according to these systems to ensure the appropriateness of operations. These are outlined as follows.

① Basic policy

Based on our founding philosophy and management philosophy, we strive to thoroughly disseminate the understanding of these philosophies through training of each level of our managers and employees.

② Matters concerning the storage and management of information regarding Directors' execution of duties

Information relating to our Directors' execution of their duties is properly

stored and managed by each department responsible, based on our Document / Record Management Rules under the jurisdiction of our General Affairs Department.

③ Regulations and other systems concerning the management of the risk of loss at FANCL Group

The Group Risk and Compliance Committee, the Sustainability Committee, and the Group Management Conference manage the risks of FANCL Group, and by reporting to the Board of Directors maintain a system that ensures the appropriateness of FANCL Group's operations.

With regard to business partners, we request that they abide by our policies/guidelines.

In the event of unexpected risks, we will take prompt action in accordance with the Crisis Management Procedures.

We have established the Internal Audit Office to conduct internal audits of our Company, and it conducts such audits of each group in accordance with our audit plan to ascertain their operational achievements. In creating, executing and reporting the results of audit plans, the Internal Audit Office works in collaboration with representative directors, executive officers of divisions subject to audits, and Audit & Supervisory Board Members. Furthermore, it also reports to the Board of Directors, etc., and works in collaboration with outside officers.

④ Systems for ensuring efficiency of the performance of the duties of FANCL Group Directors, etc.

In the current period under review, our Company's Board of Directors has met 17 times. The Board consists of 9 Directors (including 4 Outside Directors) and 5 Audit & Supervisory Board Members (including 3 Outside Audit & Supervisory Board Members). The Board is chaired by the CEO and Representative Director.

Each subsidiary also regularly holds meetings of its own board of directors. The effectiveness of the Board's decision-making and supervision is ensured through the deliberation of each agenda item, auditing the status of business execution, and actively exchanging opinions among the Board members.

⑤ Systems for ensuring that execution of the duties of Directors, etc., and employees of FANCL Group comply with laws and regulations and the Articles of Incorporation

Our Company enforces the FANCL Group Compliance Standards. The managers of departments in charge of general affairs are points of contact in

discussion and reporting relating to compliance. We are also working to establish a reporting system that uses lawyers as contact points outside the company, to further strengthen these systems.

In addition, we regularly hold training meetings to help our Directors and employees gain a thorough understanding of how to comply with laws, regulations, and other rules.

⑥ Systems related to reporting the execution of duties of Directors, etc., and systems to ensure the appropriateness of the operations of FANCL Group

We are making efforts to optimize our operations through the Group Risk and Compliance Committee, the Sustainability Committee, and the Group Management Conference managing the risks of FANCL Group's businesses and reporting their analysis of the Group's risks and response measures to the Board of Directors.

The meetings decide important FANCL Group projects and provide a forum for ample discussion of important new business and other matters. Decisions are carried out under the Rules of the Board of Directors, the Duty Authority Rules, the Business Division Rules, the Approval Standard Regulations, and the Affiliated Company Management Rules.

⑦ Systems for employees when an Audit & Supervisory Board Member requests that an employee be assigned to assist them, and systems to ensure the independence of these assisting employees from our Directors and to ensure the effectiveness of instructions given to these employees

The Audit & Supervisory Board Members appoint employees to assist them in the operations of the Audit & Supervisory Board. These employees carry out their duties under the direction of the Audit & Supervisory Board Members.

⑧ Systems for reporting to Company Audit & Supervisory Board Members and for ensuring that the person reporting will not be treated unfavorably for making the report

From time to time, at meetings of the Board of Directors at which the Company Audit & Supervisory Board Members are present, and at other important meetings, Directors and employees report on the execution of the duties they are responsible for.

Violations of laws, regulations, and other rules, or matters causing (or with the potential to cause) significant damage to our Company are immediately reported to our Directors and/or to our Audit & Supervisory Board.

The department in charge of the Company's Compliance Helpline reports the status of whistle-blowing to the Audit & Supervisory Board Members.

⑨ **Policy matters regarding the prepayment or reimbursement of expenses incurred by our Audit & Supervisory Board Members in the carrying out of their duties, or the treatment of expenses or debts arising from the performance of other duties**

Expenses and debts incurred by an Audit & Supervisory Board Member in the performance of their duties are processed smoothly without restrictions.

⑩ **Systems to ensure effective auditing by the Audit & Supervisory Board Members**

Audit & Supervisory Board Members share information about the state of audits made by our Internal Audit Office, as well as any improvements made. This enables our Audit & Supervisory Board Members to maintain the effectiveness of the audits that they carry out.

Systems to ensure the reliability of financial reports

To ensure compliance with the Financial Instruments and Exchange Act, related laws and regulations, and the rules of the Tokyo Stock Exchange in our internal controls related to financial reports, we assess and improve the operation of our business process and IT general control. We are striving to ensure the reliability of our financial reports as a group.

Our subsidiaries are periodically audited and visited, by both our Internal Audit Office and by the departments within each subsidiary that manage them. We are also establishing internal control systems within our subsidiaries.