Last updated on January 6, 2020

FANCL Corporation
Kazuyuki Shimada, President & CEO, Representative Director
Contact: Group Support Center, General Affairs Department
Tel: +81-45-226-1200
TSE Code: 4921 https://www.fancl.jp/en/

I. Basic Views on Corporate Governance, Capital Structure, Corporate Profile and Other Basic Information

1. Basic Views

FANCL positions full and proper corporate governance as an important management issue to enable us to become a corporation that our shareholders and all our stakeholders can rely upon. While closely following corporate ethics and the law, our basic policy calls for the enhancement of our internal control systems (which include risk management), the efficiency of management and the maintenance of transparency.

In addition, based on the principles below, we will work to develop and improve internal control based on this philosophy.

・ “Can achieve more”

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

Reasons for Non-compliance with the Principles of the Corporate Governance Code

The Company has implemented all principles of the Corporate Governance Code.

Disclosure Based on the Principles of the Corporate Governance Code [Updated]

(Principle 1.4) Cross-shareholdings
The Company does not have any cross-shareholdings. Furthermore, it is our basic policy not to have any cross-shareholdings unless the significance of such holdings is recognized. We will exercise the voting rights of the shares that we are deemed to hold appropriately, after examining the content of the agenda items to be voted upon and judging whether such items contributes to the improvement of shareholder value.

(Principle 1.7) Related Party Transactions
When the Company is to conduct transactions with Directors and/or major shareholders, the Board of Directors first deliberates on important matters such as the transaction conditions and makes its decisions based on our board meeting criteria.

(Principle 2.6) Roles of Corporate Pension Funds as Asset Owners
The Company has prepared basic policies and operational guidelines to ensure the safe and effective management of our reserve funds. After we grant permission to the trustees who will manage these, we periodically monitor their operations. In addition, by individually delegating to each investment management institution the selection of investees and the exercising of voting rights, there is no conflict of interest between the beneficiaries of our corporate pension and the Company. We have appointed our Human Resources Department to be the department in charge of our Group's corporate pension fund. The Department has acquired the necessary business knowledge by attending various seminars held by the investment institutions.

(Principle 3.1) Full Disclosure
(1) Please see "1.1 Basic Views" in this report for information about our management philosophy.
For information about our Medium-Term Management Plan, please visit our website.
(https://www.fancl.jp/en/ir/management/plan/index.html)

(2) Please see "1.1 Basic Views" for information about our basic policy concerning corporate governance.
(3) Please see "2.1 Director Remuneration" for information about our policies for deciding the remuneration, etc., of Directors and Audit & Supervisory Board Members.

(4) In the appointment of our Senior Management and in the nomination of Directors and Audit & Supervisory Board Members, we do not discriminate on the grounds of gender, age or nationality. We carefully consider the personal qualities and business insights of each person, and it is our policy to appoint people who properly understand and practice our Group's founding philosophy of "Eliminating the 'negatives' with a sense of justice" and our management philosophy of "Can achieve more" and can fulfill their duties and responsibilities. Candidates are considered and discussed by the Nomination and Compensation Committee (of which the majority of Committee members are Outside Directors) which then refers the nominees to the Board of Directors for final decision-making. With regard to outside members, we appoint people who possess a high level of insight and specialized expertise, and who

can supervise and advise on management from an objective standpoint based on a wealth of experience.

The process of dismissal of Senior Management is as follows. If the qualities stipulated in the appointment policy are found to be lacking, then following the advice and recommendations of the Nomination and Compensation Committee, the person is dismissed following comprehensive judgment by the Board of Directors.

(5) The reasons for the nomination of Director and Audit & Supervisory Board Member candidates are published in our Convocation Notice.

(Supplementary Principle 4.1.1) Scope of delegation to Management
We have established the Board of Directors' meeting criteria, clarified the matters to be resolved at the meetings of the Board, and have delegated other decisions to Management. Management carries out their duties based on their authority to make decisions, depending on the size and nature of the transactions and operations concerned.

(Principle 4.9) Independence Standards and Qualifications for Independent Outside Directors
On the premise that the independence of our Outside Directors is able to satisfy the requirement of the Tokyo Stock Exchange's requirements for independence, we appoint people to the position of Outside Director who have a high level of expertise and abundant experience, and who can actively come up with proposals in response to the management issues of the Company, and who can provide management oversight functions in their position.

(Supplementary Principle 4.11.1) Stance on Balance among Knowledge, Experience, and Skills, and on Diversity and Size of the Board of Directors
Our Articles of Incorporation permit us to appoint up to 15 Directors and up to 4 Audit & Supervisory Board Members.
We currently have 7 Directors, of which 3 are Outside Directors. We appoint Directors who have various forms of knowledge, experience and abilities for the execution of their duties, and who can function effectively in meetings of the Board of Directors.
In the appointment of our Directors, we do not discriminate on the grounds of gender, age or nationality. We carefully consider the personal qualities and business insights of each person, and it is our policy to appoint people who properly understand and practice our Group's founding philosophy of "Eliminating 'Negatives' with a sense of justice" and our management philosophy of "Can achieve more" and can fulfill their duties and responsibilities. Candidates are considered and discussed by the Nomination and Compensation Committee (of which the majority of Committee members are Outside Directors) which then refers the names to a meeting of the Board of Directors for final decision-making. With regard to Outside Directors, we appoint people who possess a high level of insight and specialized expertise, and who can supervise and advise on management from an objective standpoint based on a wealth of experience.

(Supplementary Principle 4.11.2) Concurrent Positions of Directors
Important concurrent positions of Directors and Audit & Supervisory Board Members are published in our Convocation Notice.

(Supplementary Principle 4.11.3) Summary of the Results of Evaluation of the Effectiveness of the Board of Directors
Beginning in FY Mar/2016, we introduced a system whereby each Director and Audit & Supervisory Board Member conducts a self-evaluation of meetings of the Board of Directors, so that we can gain a better understanding of the state of the Board and enable it to operate more effectively.
The evaluation is conducted by sending a questionnaire survey to each Director and Audit & Supervisory Board Member that asks them about general matters relating to the Directors, such as the structure of the Board and its state of operation, and the role and activities of the Outside Directors. The results of the questionnaire are assessed.
In the Board evaluations of FY Mar/2019, we determined that overall, the Board of Directors is operating appropriately and that the effectiveness of the Board is being maintained. At the same time, there were requests that support be continued and further enhanced to help Directors acquire further knowledge. In the evaluation in the previous fiscal year, the same points were raised as ongoing challenges, and this year it has been confirmed that progress has been made in the support given to Directors to help them gain knowledge. On the other hand, in the opinion of some, there are issues with the number of Directors and the proportion of them who are Outside Directors. These issues were raised at the Ordinary General Meeting of Shareholders held on June 22, 2019. It was decided to reduce the number of Directors, and to increase the proportion of Outside Directors, so that management decision-making could be sped up and the management oversight function of the Board be enhanced.
Based on the results of this evaluation, we will strive to ensure and improve the function and effectiveness of the Board of Directors.

(Supplementary Principle 4.14.2) Measures for Training of Directors and Audit & Supervisory Board Members
When newly appointed Outside Directors or Outside Audit & Supervisory Board Members take their positions, in addition to explaining to them our management philosophy, business details, management strategy, the business environment and issues surrounding our operations, we use outside training courses to enhance their knowledge of their legal roles and duties.
In addition to this training, we make efforts annually to ensure that all Directors and Audit & Supervisory Board Members acquire necessary knowledge and we promote the understanding of their roles and responsibilities. This is done through holding study sessions run by lawyers who cover the Companies Act and the latest situations. We also provide appropriate information about corporate governance and other areas that is necessary, and we endeavor to promote their acquisition of required knowledge and understanding of their roles.
In addition, for the training of the next generation of managers we run the 2-year *Ikemori Leadership Training Program* that deepens understanding of our founding philosophy and business philosophy, where trainees study the viewpoints of management.

(Principle 5.1) Policy for Constructive Dialog with Shareholders
The systems we have put in place and the initiatives we have taken to encourage constructive dialog with shareholders are as

follows.

・ In our dialogue with individual shareholders, we place the highest priority on the General Shareholder Meeting. By holding the Meeting on Saturdays or Sundays it is easier for shareholders to attend, so many can be present. At the Meeting, we carefully explain our future business strategies and business prospects, using videos for ease of understanding, and the Director in charge or the Chairman can answer questions from the shareholders.

・ Business Management Division Directors and Executive Officers engage in dialogs with analysts, institutional investors and others.

・ Individual discussions with analysts and institutional investors are held, and the details are reported to our Directors and Executive Officers.

・ We hold financial results briefings for analysts and institutional investors (4 times a year) in which the Representative Director explains the outcomes.

・ Each of our divisions (IR, Corporate Planning, General Affairs, Accounting, and Legal) collaborate in the release of financial results and in the General Shareholder Meeting and other events, and strive to deliver accurate information.

2. Capital Structure

Foreign Shareholding Ratio:	At least 10% but less than 20%

Status of Major Shareholders [Updated]

Name/Company name	Number of Shares	Percentage (%)
Kirin Holdings Company Limited	39,540,400	32.93
Japan Trustee Services Bank, Ltd. (Trust account)	8,638,900	7.19
The Master Trust Bank of Japan, Ltd. (Trust account)	8,395,900	6.99
Japan Trustee Services Bank, Ltd. (Trust account 5)	1,683,100	1.40
STATE STREET LONDON CARE OF STATE STREET BANK AND TRUST, BOSTON SSBTC A/C UK LONDON BRANCH CLIENTS-UNITED KINGDOM	1,604,400	1.34
SSBTC CLIENT OMNIBUS ACCOUNT	1,539,322	1.28
Japan Trustee Services Bank, Ltd. (Trust account 1)	1,169,000	0.97
FANCL employees' stock ownership	1,142,652	0.95
JPMorgan Chase Bank 385151	1,111,463	0.93
Trust & Custody Services Bank, Ltd. (Securities Investment Trust)	1,056,200	0.88

Controlling Shareholders (except for Parent Company)	None
Parent Company	None

Supplementary Explanations [Updated]

- The Status of Major Shareholders is as of September 30, 2019.
- In addition to the above, the Company holds 10,278,188 treasury shares.
- A large shareholding report submitted by Sumitomo Mitsui Trust Bank, Limited on September 20, 2019 stated that Sumitomo Mitsui Trust Asset Management Co., Ltd. and Nikko Asset Management Co., Ltd. each own shares of the Company as shown below as of September 13, 2019. However, as it is not possible for the Company to confirm the actual number of shares held as of September 30, 2019, the above Status of Major Shareholders has been stated based on the content of the shareholder registry. The content of the large holdings report is as follows.

  Sumitomo Mitsui Trust Asset Management Co., Ltd.; Number of shares: 4,042,700 shares; Ratio of shareholding: 3.10%
  Nikko Asset Management Co., Ltd.; Number of shares: 2,623,000 shares; Ratio of shareholding: 2.01%

3. Corporate Attributes

Listed Stock Market and Market Section	Tokyo Stock Exchange, First Section
Fiscal Year-end	March
Type of Business	Chemicals
Number of Employees (consolidated) as of the End of the Previous Fiscal Year	More than 1,000
Sales (consolidated) as of the End of the Previous Fiscal Year	More than ¥100 billion but less than ¥1 trillion
Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year	Less than 10

4. Policy on Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholder

None

5. Other Special Circumstances which may have Material Impact on Corporate Governance

None

II. Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management

1. Organizational Composition and Operation

Organizational form	Company with Audit & Supervisory Board Members

Directors

Maximum Number of Directors Stipulated in Articles of Incorporation	15
Term of Office of Directors Stipulated in Articles of Incorporation	1 year
Chairperson of the Board	President
Number of Directors [Updated]	7
Appointment of Outside Directors	Appointed
Number of Outside Directors	3
Number of Outside Directors who are designated as Independent Directors	3

Outside Directors' Relationship with the Company (1)

Name	Attributes	Relationship with the Company (%)										
		a	b	c	d	e	f	g	h	i	j	k
Norito Ikeda	From another company								○			
Katsunori Koseki	Tax accountant											
Mitsuaki Nakakubo	Lawyer											

*** Categories for "Relationship with the Company"**

*** "○" when the Director presently falls or has recently fallen under the category;**
"△" when the Director fell under the category in the past.
"●" when a close relative of the Director presently falls or has recently fallen under the category;
"▲" when a close relative of the Director fell under the category in the past.

a. Executive of the Company or its subsidiaries.
b. Non-executive Director or Executive of the parent company of the Company.
c. Executive of a fellow subsidiary of the Company.
d. A party whose major client or supplier is the Company or an Executive thereof.
e. Major client or supplier of the Company or an Executive thereof.
f. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as a Director.
g. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)
h. Executive of a client or supplier company of the Company (which does not correspond to any of d, e, or f) (the director himself/herself only)
i. Executive of a company, between which and the Company outside directors/Audit & Supervisory Board Members are mutually appointed (the director himself/herself only)
j. Executive or a company or organization that receives a donation from the Company (the director himself/herself only)
k. Other

Outside Directors' Relationship with the Company (2)

Name	Designation as an Independent Director	Supplementary Explanation of the Relationship	Reasons for Appointment
Norito Ikeda	○	Mr. Norito Ikeda is both a Director and the President and Representative Executive Officer of JAPAN POST BANK Co., Ltd. Our Company has a trading relationship with this bank.	Mr. Norito Ikeda has served as a director of financial institutions for many years. By using his extensive experience and insight as a manager in management oversight by the Board of Directors, he can properly fulfill his duties as an Outside Director. Moreover, he satisfies the Tokyo Stock Exchange's requirements for independence. We have decided that there is no risk of a conflict of interest with our general shareholders.
Katsunori Koseki	○	—	Mr. Katsunori Koseki, as a tax accountant, has a wealth of specialized knowledge in the field of accounting. Moreover, by using the auditing experience he gained during his term as an Outside Audit & Supervisory Board Member of this Company in management oversight by the Board of Directors, he can properly fulfill his duties as an Outside Director. Moreover, he satisfies the Tokyo Stock Exchange's requirements for independence. We have decided that there is no risk of a conflict of interest with our general shareholders.
Mitsuaki Nakakubo	○	—	Mr. Mitsuaki Nakakubo, as a lawyer, has extensive knowledge and experience of the legal field. We deem that using his expert viewpoint he can properly fulfill his duties as an Outside Director. Moreover, he satisfies the Tokyo Stock Exchange's requirements for independence. We have decided that there is no risk of a conflict of interest with our general shareholders.

Voluntary Establishment of Committee(s) Corresponding to Nomination Committee or Remuneration Committee	Established

Committee's Name, Composition, and Attributes of Chairperson

	Committee's Name	All Committee Members (No. of people)	Full-time Members (No. of people)	Inside Directors (No. of people)	Outside Directors (No. of people)	Outside Experts (No. of people)	Other	Chairperson
Committee Corresponding to Nomination Committee	Nomination and Compensation Committee	5	0	2	3	0	0	Inside Directors
Committee Corresponding to the Compensation Committee	Nomination and Compensation Committee	5	0	2	3	0	0	Inside Directors

Supplementary Explanation

・ The Nomination and Compensation Committee is a committee that bears the functions of both the Nomination Committee and the Remuneration Committee.

・ Independent Outside Directors are proactively involved in the nomination of Officer candidates and in the setting of Officer remuneration. To ensure the fairness, transparency and objectivity of procedures, the Nomination and Compensation Committee was established in June 2018 to be an advisory body to the President & CEO, Representative Director. The majority of the members of the Committee are Independent Outside Directors. In addition to matters relating to the nomination of our Directors, Executive Officers and special officers such as Consultants and Advisors, and the nomination of the Representative Directors of our consolidated subsidiaries, the Committee designs remuneration systems for Officers and others, considers the amount of

remuneration for individual Officers and expresses its opinions to the President & CEO, Representative Director.

・ The Committee met 3 times in FY Mar/2019. All members of the Committee were present at all meetings. The Committee looked into the evaluation of the Officer system and individual Officers, the amounts of remuneration, the details of stock-option remuneration add how many shares to grant to each individual, and ways to enhance our corporate governance. As a cornerstone of the governance of our Company, the Nomination and Compensation Committee makes a considerable contribution to the enhancement of our governance functions.

Audit & Supervisory Board Members

Establishment of Audit & Supervisory Board	Established
Maximum Number of Audit & Supervisory Board Members Stipulated in Articles of Incorporation	4
Number of Audit & Supervisory Board Members	4

Cooperation amount Audit & Supervisory Board Members, Accounting Auditors and Internal Audit Departments

・ Audit & Supervisory Board Members and Accounting Auditors hold reporting meetings each quarter, at year-end or whenever necessary. They collaborate with each other to share opinions on important accounting issues at any time, to enhance the efficiency of audits and the effectiveness of corporate governance.

・ The Internal Audit Office periodically reports audit plans and audit results to the Audit & Supervisory Board Members and meetings of the Audit & Supervisory Board. In addition, we have a system that encourages collaboration. When necessary, the Audit & Supervisory Board Members and Accounting Auditors may request investigations.

Appointment of Outside Audit & Supervisory Board Members	Appointed
Number of Outside Audit & Supervisory Board Members	3
Number of Independent Audit & Supervisory Board Members	3

Outside Audit & Supervisory Board Members' Relationship with the Company (1)

Name	Attributes	Relationship with the Company (%)												
		a	b	c	d	e	f	g	h	i	j	k	l	m
Toshio Takano	Lawyer													
Tsuneyoshi Seki	Certified Public Accountant										△			
Hideki Minamikawa	Other													

* Categories for "Relationship with the Company"
* "○" when the Audit & Supervisory Board Member presently falls or has recently fallen under the category;
"△" when the Audit & Supervisory Board Member fell under the category in the past.
* "●" when a close relative of the Director presently falls or has recently fallen under the category;
"▲" when a close relative of the Director fell under the category in the past.
a. Executive of the Company or its subsidiaries.
b. Non-executive Director or Accounting Advisor of the Company or its subsidiaries.
c. Non-executive Director or Executive of a parent company of the Company.
d. An Audit & Supervisory Board Member of a parent company of the Company
e. Executive of a fellow subsidiary company of the Company.
f. A party whose major client or supplier is the Company or an Executive thereof.
g. Major client or supplier of the Company or an Executive thereof.
h. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as an Audit & Supervisory Board Member.
i. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)
j. Executive of a client or supplier company of the Company (which does not correspond to any of d, e, or f) (the Audit &

Supervisory Board Member himself/herself only)
k. Executive of a company, between which and the Company outside directors/Audit & Supervisory Board Members are mutually appointed (the Audit & Supervisory Board Member himself/herself only)
l. Executive or a company or organization that receives a donation from the Company (the Audit & Supervisory Board Member himself/herself only)
m. Other

Outside Audit & Supervisory Board Members' Relationship with the Company (2)

Name	Designation as an Independent Director	Supplementary Explanation of the Relationship	Reasons for Appointment
Toshio Takano	○	—	Mr. Toshio Takano, as a prosecutor and a lawyer, has a wealth of specialized knowledge and experience in the legal field that he can use in his auditing duties. As such, he can properly fulfill his duties as an Outside Audit & Supervisory Board Member. Moreover, he satisfies the Tokyo Stock Exchange's requirements for independence. We have decided that there is no risk of a conflict of interest with our general shareholders.
Tsuneyoshi Seki	○	Mr. Tsuneyoshi Seki was a Partner in Deloitte Touche Tohmatsu LLC until June 2014. Our Company has a business relationship with Deloitte Touche Tohmatsu in areas such as accounting consulting.	Mr. Tsuneyoshi Seki is qualified as a certified public accountant. He has a wealth of experience and knowledge in the accounting field as a result of having worked for an audit firm for many years, which he can use in his auditing duties to properly fulfill his role as an Outside Audit & Supervisory Board Member. Moreover, he satisfies the Tokyo Stock Exchange's requirements for independence. We have decided that there is no risk of a conflict of interest with our general shareholders.
Hideki Minamikawa	○	—	Mr. Hideki Minamikawa, in addition to his wealth of specialized knowledge and experience in the environmental field, has extensive experience with government agencies. From his specialized perspective, he can properly fulfill his duties as an Outside Audit & Supervisory Board Member. Moreover, he satisfies the Tokyo Stock Exchange's requirements for independence. We have decided that there is no risk of a conflict of interest with our general shareholders.

Independent Directors/Audit & Supervisory Board Members

Number of Independent Directors/Audit & Supervisory Board Members	6

Matters relating to Independent Directors/Audit & Supervisory Board Members

All Outside Directors/Audit & Supervisory Board Members who qualify as Independent Directors/Audit & Supervisory Board Members are designated as Independent Directors/Audit & Supervisory Board Members.

Incentives

Incentive Policies for Directors	Introduction of performance-linked compensation plan and stock-option system

Supplementary Explanation

Described in the following "Policy for Determining Remuneration Amounts and Calculation Methods" in "Director Remuneration"

Recipients of Stock Options	Inside Directors, employees, Directors of subsidiaries

Supplementary Explanation

For the purpose of ensuring transparency and profit-sharing between Directors and shareholders, the Company abolished its retirement benefit program at the 26th Ordinary General Meeting of Shareholders in June 2006 and granted stock options to its Directors, Executive Officers and Directors of its subsidiaries as a replacement long-term remuneration incentive.

Director Remuneration

Disclosure of Individual Director's Remuneration	Individual Director's remuneration is not disclosed.

Supplementary Explanation

The total amount for each Director and Audit & Supervisory Board Member is described in the securities report and in the convocation notice.

Total amount of remuneration, etc. in FY Mar/2019 for Directors and Audit & Supervisory Board Members

	Monthly remuneration	Stock-option remuneration	Phantom stock	Total amount
Directors (14 people)	¥347 million	¥130 million	¥44 million	¥522 million
Of which 2 are Outside Directors	¥19 million	—	—	¥19 million
Audit & Supervisory Board Members (4 people)	¥39 million	—	—	¥39 million
Of which 3 are Outside Audit & Supervisory Board Members	¥21 million	—	—	¥21 million

(Notes)

1. The above figures include remuneration granted to two Directors who retired at the conclusion of the 38th Ordinary General Meeting of Shareholders held on June 23, 2018.
2. "Stock-option remuneration" calculates the fair value of rights to new shares and states the amount to be paid in the current fiscal year.
3. "Phantom stock" states the amount to be paid in the current fiscal year. Phantom Stock is based on the percentage achieved against consolidated sales and operating income targets for the fiscal year ending March 31, 2021, which is the final year of the second Medium-Term Management Plan (FY Mar/2019 – FY Mar/2021). The payment rate varies from 0% to 200%, and the payment amount is determined in conjunction with the value of our common stock. Payment is made within three months after the end of the fiscal year ending March 31, 2021.

Policy for Determining Remuneration Amounts and Calculation Methods	Established

Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods

Matters Concerning Policy on Determining Remuneration Amounts, etc. of Officers, and Calculation Methods

1) Policy details

The remuneration, etc. (the compensation, bonuses and other property benefits received from the Company as compensation for the execution of their duties; hereafter the same), of Officers in the Company is comprised of monthly remuneration that is a fixed monthly amount, stock options that are a long-term incentive, and a performance-linked stock price-based compensation plan (hereafter "phantom stock") that is a medium-term incentive. Monthly compensation can be divided into basic compensation and variable compensation. Note however that Outside Directors are only paid basic compensation.

The basic compensation is decided considering the gravity of the role and responsibility, regardless of the results or evaluation of performance. Variable compensation is determined each year based on the achievement rate of the fiscal year plan (consolidated operating income) in the previous fiscal year and the evaluation of personal performance in the previous fiscal year. The purpose of stock options is to incentivize the enhancement of the Company's stock price throughout the term of the executive officer. The exercise price of the option is ¥1 per share. Stock acquisition rights are granted that can only be exercised collectively within 10 days of resignation. This exercise period is limited to the time of retirement to provide an incentive to the executive to increase shareholder value throughout their tenure. The number of shares granted in each fiscal year is calculated based on a ratio of around 15 to 30% of the annual total of monthly remuneration for each Director (and varies, depending on the job title).

Phantom stock is a monetary remuneration whose payment amount is determined according to the stock price on a certain date. In order to provide an incentive to achieve the Medium-Term Management Plan in addition to stock price performance, the phantom stock payment amount is linked to the degree of achievement of the performance targets set out in the Medium-Term Management Plan (consolidated sales and operating income). The number share granted in ach fiscal year is determined so that the amount accounted for in each fiscal year is a ratio of around 10 to 20% of the annual total of monthly remuneration for each Director (and varies, depending on the job title). Please refer to the 39th Securities Report for details about specific phantom stock.

2) Method for Determining Remuneration, etc.

To ensure that the Independent Outside Directors are proactively involved in the nomination of Officer candidates and in the setting of Officer remuneration and to ensure the fairness, transparency and objectivity of procedures, the Company established the Nomination and Compensation Committee to be an advisory body to the President & CEO, Representative Director.

Remuneration, etc., for Executive Officers is decided as follows. The Nomination and Compensation Committee discusses remuneration and passes its opinion to the President & CEO, Representative Director. The President & CEO, Representative Director then prepares a proposal with respect to this opinion and submits it to the Board of Directors for deliberation and final decision. The majority of the members of the Nomination and Compensation Committee are Independent Outside Directors. In addition to matters relating to the nomination of our Directors, Executive Officers, special officers and the representative directors of our consolidated subsidiaries (hereafter, "Directors, etc.") the Committee considers policy relating to remuneration, etc. for Directors, etc., considers the amount of remuneration for individual Directors, etc., and passes its opinions on to the President & CEO, Representative Director.

The President & CEO, Representative Director respects the opinion of the Nomination and Compensation Committee and determines the amount of remuneration, etc., for individual Directors, etc. within the scope set by the resolutions of the General Meeting of Shareholders and the Board of Directors. Furthermore, at the 38th Ordinary General Meeting of Shareholders held on June 23, 2018 the limit to remuneration, etc. for Directors was set to within an annual limit of ¥830 million (for a maximum of 15 Directors).

Based on the policy decided in June 2018, the remuneration, etc., of Directors for FY Mar/2019 was determined by the President & CEO, Representative Director who has been granted discretion to do so by the Board of Directors. The President & CEO, Representative Director made this determination following consultation with the Nomination and Compensation Committee. The Nomination and Compensation Committee looks into the evaluation of the Officer system and individual Officers, the amounts of remuneration, the details of stock-option remuneration add how many shares to grant to each individual, and ways to enhance our corporate governance, and relays its opinions on to the President & CEO, Representative Director.

Remuneration, etc., for Audit & Supervisory Board Members is within the scope set by the resolutions of the General Meeting of Shareholders and is determined through consultation with Audit & Supervisory Board Members. Furthermore, at the 26th Ordinary General Meeting of Shareholders held on June 17, 2006 the limit to remuneration, etc. for Audit & Supervisory Board Members was set to within an annual limit of ¥60 million (for a maximum of 4 Audit & Supervisory Board Members).

Supporting System for Outside Directors and Outside Audit & Supervisory Board Members

- Outside Directors use the secretarial office as a point of contact and for the sharing of information.
- Outside Audit & Supervisory Board Members communicate information through the Full-time Auditors at the monthly meetings of the Audit & Supervisory Board. In addition, there is one staff member in the Auditing Office dedicated to this function.

Status of Persons who have Retired from the Position of Representative Director and President, etc.

Name of Consultants, Advisors, etc. who have Retired from the Position of Representative Director and President, etc. [Updated]

Name	Title/Position	Description of Tasks	Form and Condition of Services (Full-time, Part-Timer, Paid or Unpaid, etc.)	Date of Retirement from President, etc.	Term
Yoshifumi Narimatsu	Advisor	Industry group activities (non-involvement in management)	Part-time Remunerated	March 31, 2013	1-year
Kenji Ikemori	Honorary Senior Advisor, Founder	Succession of Founding philosophy and Corporate philosophy	Part-time Unpaid	December 31, 2019	1-year
Kazuyoshi Miyajima	Senior Advisor	Support for external relations	Part-time Unpaid	December 31, 2019	1-year

Total number of Consultants, Advisors, etc. who have retired from Representative Director and President, etc. [Updated]	3

Other matters

・ The process of appointment of a Consultant or Advisor involves discussion by the Nomination and Compensation Committee of the role to be expected and how it will be handled. The final decision is made by a resolution of the Board of Directors.

2. Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Remuneration Decisions (Overview of Current Corporate Governance System)

An executive officer system was introduced in June 1999 to separate the functions of management supervision and business execution. In June 2004 the positions of president, senior managing director, managing director and other executive director positions were abolished and those titles were assigned to Executive Officers. In June 2005 the term of Directors was shortened from 2 years to 1 year to enable the Company to organically build the optimal management team to respond to changes in the business environment. Furthermore, it was decided from June 2019 to reduce the number of Directors, and to increase the proportion of Outside Directors, so that management decision-making could be sped up and the management oversight function of the Board be enhanced.

Board of Directors
Meetings of the Board of Directors are held at least once a month. The Board is composed of 7 Directors (of which 3 are Outside Directors). The Board makes important business decisions and decides other statutory matters. It also receives reports about the state of management of the Company's subsidiaries and supervises their management. In addition, the Company appoints Outside Directors. From their standpoint of independence, the Outside Directors attend meetings of the Board of Directors, and overse e its management from their diverse range of perspectives and a wealth of experience and insight.
In FY Mar/2019 a total of 16 meetings of the Board were held, with all members present for at least 15 of those meetings.

Management Conference
The Management Conference is comprised of Directors, Executive Officers and Full-time auditors. The Conference deliberates matters before they are decided upon by the Board of Directors and also deliberates important matters of management within th e scope of the authority delegated to it by the Board of Directors.

Nomination and Compensation Committee
This Committee is comprised of 5 members: 2 Inside Directors (the President & CEO, Representative Director, and Representative Director, Senior Managing Director) and 3 Outside Directors.
Independent Outside Directors are proactively involved in the nomination of Officer candidates and in the setting of their remuneration. To ensure the fairness, transparency and objectivity of procedures, the Nomination and Compensation Committee was established in June 2018 to be an advisory body to the President & CEO, Repres entative Director. The majority of the members of the Nomination and Compensation Committee are Independent Outside Directors. In addition to matters relating to the nomination of our Directors, Executive Officers, special officers and the representative directors of our consolidated subsidiaries (hereafter, "Directors, etc.") the Committee designs remuneration systems for Officers, etc., considers the amount of remuner ation for individual Officers, etc., and passes its opinions on to the President & CEO, Representative Director.
The President & CEO, Representative Director respects the opinion of the Nomination and Compensation Committee and determines the amount of remuneration, etc., for individual Officers, etc. within the scope set by the resolutions of the General

Meeting of Shareholders and the Board of Directors.

Audit & Supervisory Board
The Company has an Audit & Supervisory Board. Of the 4 members of the Audit & Supervisory Board, 3 are Outside Audit & Supervisory Board Members. To improve the effectiveness of audits on management decision-making, the members of the Audit & Supervisory Board attend meetings of the Board of Directors and other important meetings where they give their opinions. The Audit & Supervisory Board also exchanges opinions with top management to ensure a fair system of corporate management. In addition, Outside Audit & Supervisory Board Member Toshio Takano is a qualified lawyer, while member Tsuneyoshi Seki is a certified public accountant. See the Audit & Supervisory Board Members column for information about our initiatives to enhance the Board's auditing and supervisory functions. In FY Mar/2019 the Board met 11 times, with all members present at every meeting.

Accounting Audits
We commission the auditing firm of Ernst & Young ShinNihon LLC to audit our accounts from an independent position, and receive their opinions regarding accounting matters. The certified public accountants who audited our accounts in the previous fiscal period (April 1, 2018 to March 31, 2019) are Nobuhiro Watanabe and Tomoka Nemoto. The employees engaged in the audits were assisted by 4 certified public accountants and 13 certified accountant examiners are involved in accounting audits for FY Mar/2019.

3. Reasons for Adoption of the Current Corporate Governance System

The Company has adopted the system of having an Audit & Supervisory Board. By appointing 3 Outside Directors and 3 Outside Audit & Supervisory Board Members, we ensure that our management takes into account opinions and suggestions from a wide range of perspectives outside the Company. In addition, the Audit & Supervisory Board and the Internal Audit Office cooperate to strengthen and reinforce our auditing system. As a result, our current auditing system enhances the effectiveness of our corporate governance and we consider this to be the optimal system for us.

III. Implementation of Measures for Shareholders and Other Stakeholders

1. Measures to Vitalize the General Shareholder Meetings and Ensure the Smooth Exercise of Voting Rights

	Supplementary Explanations
Early Notification of General Shareholder Meetings	We are striving to issue notification before the statutory deadline. Notice of the 39th Ordinary General Meeting of Shareholders of 2019 was issued on June 4 (Tuesday), 3 days before the statutory deadline. From 2015, to give our shareholders ample time to consider the meeting agenda, we began posting the convocation notice at the stock exchange and on our website, prior to the dispatching of the printed convocation notice.
Setting a Date for our General Shareholder Meetings that Avoids Dates when Many Other Companies Hold Theirs	We want as many shareholders as possible to attend our General Meeting of Shareholders and to better understand our Company, and so from 2000 we have chosen a weekend date for this meeting to avoid dates when many companies hold their general shareholders meetings. In addition, we also hold a social gathering to give shareholders the opportunity to speak with our Officers and gain a better understanding of our Company. Our 39th Ordinary General Meeting of Shareholders of 2019 was held on Saturday, June 22.
Allowing Electronic Exercise of Voting Rights	From 2005 we have enabled shareholders to exercise their voting rights by electronic means (via the Internet).
Participation in the Electronic Voting Platform and Other Activities to Improve the Environment for Institutional Investors to Exercise their Voting Rights	From 2007, we have used an electronic voting platform and we have worked to improve the environment in which shareholders exercise their voting rights.
Providing Convocation Notice in English	We participate in an electronic voting platform operated by ICJ, Inc. In addition, we post an English language version of our convocation notice on the Tokyo Stock Exchange website and in the English version of our website.
Other	To help shareholders who attend our Ordinary General Meeting of Shareholders to better understand our Company, we present videos of our business reports at the meeting and hold a social gathering afterwards. We also present attendees with our Company's products as gifts. From the 37th Ordinary General Meeting of Shareholders of 2017 we have had an interpreter for the hearing-impaired present. This creates a meeting environment that makes it easier for shareholders with hearing disabilities to attend.

2. IR Activities

	Supplementary Explanations	Explanation by Representative(s) of the Company
Preparation and Publication of Disclosure Policy	1. Basic Policy We disclose information in accordance with the Financial Instruments and Exchange Act and the Timely Disclosure Rules stipulated by the Tokyo Stock Exchange (hereafter "Timely Disclosure Rules"). Moreover, we actively disclose information even if it is not subject to Timely Disclosure Rules, if we consider that our shareholders and investors need to know about it, regardless of whether it is positive or negative. We strive to ensure fair and timely information disclosure by avoiding selective disclosure of important information to any particular institution or individual. 2. Method of Information Disclosure We disclose information that is subject to Timely Disclosure Rules through the Tokyo Stock Exchange's Timely Disclosure network (TDnet). To ensure fairness, the information we disclose on TDnet is also published on our website. However, owing to the need to prepare PDF files or other tools, please be aware that there are instances in	

	which the appearance of the information is delayed. 3. Future Outlook The information we disclose may contain "forward-looking statements." These are based on uncertainties created by the management of the Company that is carried out based on certain assumptions. The actual outcomes may differ significantly, depending on the economic situation and changes in the market environment. Therefore, when reviewing the Company's business performance, corporate value, and other aspects, please refrain from over-reliance on these "forward-looking statements." Period of voluntary IR restraint To ensure fairness and prevent the leaking of earnings information, the period from the day after the end of the fiscal year until the date of publication of our financial results is a "period of voluntary IR restraint" in which we refrain from investor relations activities. During this period, we do not make any comments about nor do we answer any questions about our financial results. However, during this quiet period, in the event that there is a possibility that a performance forecast will be significantly inaccurate, we will make an appropriate announcement in accordance with the Timely Disclosure Rules.	
Holding of Regular Meetings for Analysts and Institutional Investors	We hold financial results briefings for analysts and institutional investors quarterly in which the Representative Director explains the outcomes.	Yes
Posting of IR materials on our Website	Our website has a Shareholders/ Investor Relations page. Here, we post our annual securities report, quarterly reports, financial results, presentation materials at financial results briefings, shareholders' reports, the FANCL Report, notices of convocation of shareholders' meetings, notifications of resolutions, shareholder incentives and other information. We also post videos of our financial results briefings. Company IR page URL: https://www.fancl.jp/en/ir/index.html	
Departments and/or Managers in Charge of IR	(Department in change of IR) The Office of the President, Investor Relations Group (Department head) Kouichi Matsumoto, General Manager of the Office of the President (Department responsible for timely disclosure) The Office of the President, Public Relations Group	

3. Measures to Ensure Due Respect for Stakeholders

	Supplementary Explanations
Internal Rules for Respecting the Position of Stakeholders	We have set out our FANCL Group Compliance Standards that stipulates our relationship with each stakeholder, and our obligations of care and respect. We have prescribed our Insider Trading Management Rules and are striving to prevent insider trading. We have set up a helpline and are working to prevent fraud, based on our FANCL Group Helpline Operation Rules.
Activities to Protect the Natural Environment, and CSR	In June 2018 we formulated the Sustainable Declaration: Building a Bright Future Together document and established four important themes (Protecting the environment, Living healthily, Respecting diversity, and Reinforcement of governance). By carrying out our Sustainable Declaration, we are contributing to a sustainable society. Since 2008 we have been actively involved in measures to combat global warming as a Group overall. In FY Mar/2019 we received numerous awards, including an Excellence Award in the First Eco-Pro Awards. We were awarded a Grand Prize in the 19th Green Purchasing Award program, and an Excellence Award in the Environmental Leader Development Awards 2018 program. We also carefully consider the natural environment through our products and services. Our development of plant-based plastic containers has been praised. In the Japan Packaging Contest 2018 run by the Japan Packaging Institute, we received an Award of the Director-General of the Industrial Science and Technology Policy and Environment Bureau. We have formulated a policy of interaction with local communities and the disabled, in our contributions to society, to which we are actively

	encouraging our employees to participate. Our "FANCL Seminar" that teaches grooming and appearance has been recognized by a school for children with special needs. In FY Mar/2019 we won a Judging Committee Award in the Large Corporation section of the 2018 Award to Companies Promoting Experiences for Youth, sponsored by the Ministry of Education, Culture, Sports, Science and Technology. We disclose information about our Sustainable Declaration and our CSR activities in both our integrated FANCL Report and on our corporate website. Company website about CSR activities URL: https://www.fancl.jp/csr/
Development of Policies on Information Provision to Stakeholders	We have established our Disclosure Policy and are striving to disclose information on a timely basis.
Other	Respect for Human Rights and the Promotion of Diversity Under the slogan "Of course everyone is different" that we formulated in November 2017, we are encouraging diversity. The coming together of different viewpoints, different opinions and different careers is our corporate culture, and has been a management strategy ever since our Company was founded. In FY Mar/2019 among our employees we counted 89 non-Japanese, 39 aged 60 years or older, and 60 with disabilities (including disabled people employed in our special subsidiary company FANCL SMILE Co., Ltd.). In April 2013 we participated in the United Nation's Global Compact and are focusing on the 4 areas of human rights, labor practices, the natural environment, and anti-corruption. Please see the following link to read about our involvement in the UN Global Compact. (https://www.fancl.jp/csr/globalcompact/) Efforts to Promote the Active Participation of Women Over half our customers are women, so we need to be able to see things from a female perspective. This is why we have developed a corporate culture that accepts the changes in women's life-stages and works together with these. Our employees use their experiences in child-raising and family living to develop products and services that are a good fit for our customers. In addition, our Representative Director has contributed widely to the movement to help women become more active in society. From 2015 he has been a member of the "*woman act.*" (a local government group in Kanagawa Prefecture that supports the advancement of women), and from 2016 he has been a member of the cabinet-supported group of "*Male Leaders Who Will Create a Society in which Women Shine*". FANCL also has a wide range of childcare support programs to ensure that employees can face the prospect of childbirth and child-raising with peace of mind, and can continue to work even after the birth of their child. These programs include maternity leave and childcare leave; spouse maternity leave and childcare leave; ad shorter working hours to assist with childcare. See this page on our website for a summary of our childcare support systems. (https://www.fancl.jp/csr/labor/worklifebalance.html) In July 2008 we were certified by Japan's Ministry of Health, Labour and Welfare as a childcare supporting company (as part of measures to offset Japan's falling birthrate) and obtained the right to use the Kurumin next-generation supporter's mark. In August 2016 we became certified as a second-stage "Eruboshi company" for our work to promotion women's participation and advancement in the workplace. As of March 31, 2019, 69.0% (702) of our full-time employees are women, and 45.8% (88) of our managers are female. We will continue to strive to promote women in our Company. Our efforts to promote the active workplace participation of women has had an impact on the corporate behavior of other listed companies have been recognized. In FY Mar/2015 we received a Corporate Behavior Award sponsored by the Tokyo Stock Exchange. In addition, we were selected by the Cabinet Office to be the FY Mar/2016 company taking the lead in the promotion women's participation and advancement in the workplace, and we received a Cabinet Office Minister of State for Special Missions (Gender Equality) Commendation In October 2016 we became certified as a Kanagawa Prefecture Child and Child Care Support Promotion Company. Work style reform/Promotion of work-life balance In August 2017 we drew up FANCL Group's Declaration of Health Management. We are working to improve the working environment and are taking initiatives that include the "full-scale roll-out of telework," "encouraging the taking of paid leave," and "mental care measures."

From April 2018 we abolished the employment categories of contracted employees working at directly-managed stores across the country and established the category of "Regional Permanent Employee" to improve the handling of employment period, bonus payment rules, and days of leave. All contracted workers and part-time employees who work at our Group's head office divisions or plant divisions, and all part-time employees of directly-managed stores have been switched to “non-fixed term contracts”.
From April 2019 we introduced a new employment category for full-time employees: the "Associate Permanent Employee." This category is for people involved with "care-giving," those having "an illness requiring long-term medical treatment,' or those with "disabilities," and lets us create a work environment where people can flexibly work the number of hours or days that they want to.

We have "No Overtime Days" three times a week, and are striving to reduce working hours and overtime hours throughout our Company so that our employees can achieve a work/life balance and enjoy a fulfilling daily life. In 2009 we introduced the Social Contribution Leave System to make it easier for employees to participate in local community activities. A total of 3 people used our Social Contribution Leave System in FY Mar/2019.

IV. Matters Related to the Internal Control System

1. Basic Views on the Internal Control System and the Progress of System Development

Our Basic Approaches to Internal Control Systems

Based on our Internal Control System Basic Policy, we are striving to enhance our internal control systems.

Internal Control System Basic Policy

The following is a summary of: a) our systems to ensure that our Directors' execution of their duties comply with laws, regulations and our Articles of Incorporation; and b) our systems to ensure the appropriate operations of our Company and our Group consisting of our Company and our subsidiaries.

1. Basic policy

Based on the principle below, we will work to establish and develop internal control based on this philosophy.

・ “Can achieve more”

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

2. Storage and management of information regarding Directors' execution of their duties

In accordance with Document and Record-keeping Regulations, the Company stores and manages documents (or their versions stored on electronic media) under the responsibility of the managers of each office. These documents are the records of important meetings that Directors attend, such as the General Meeting of Shareholders, meetings of the Board of Directors, and meetings of the Management Conference, or they are the documents decided by the Directors requesting managerial decisions.

Directors and Audit & Supervisory Board Members can view the stored and managed documents (or their versions stored on electronic media) based on the Document and Record-keeping Regulations, as necessary.

We have established the IT Security Working Group and the IT Control Working Group to continuously consider and reconfigure our information management.

3. Regulations regarding management of risk of losses and other systems

We have established our Crisis Management Regulations and have set up the following groups to ensure the risk management systems of our Company Group and to enhance risk analysis and response: the Compliance Committee, the Financial Reporting Working Group, the Corporate Ethics Working Group, the IT Security Working Group and the IT Control Working Group.

We have more robust risk-detection or correction systems when forecasts are made because risk management is the fundamental bases of both our ISO-compliant internal audits and the auditing duties of the Internal Audit Office. This integrates our risk management approaches.

We have systems to handle risks that suddenly occur. As stipulated in our Crisis Management Regulations, our general managers (our President & CEO, Representative Director and the Officers in charge) quickly determine who will be in charge, set up a task force, and take prompt action to prevent the spread of damage.

4. System for ensuring efficiency of the performance of the duties of our Directors

Our Company ensures efficiency by holding regular meetings of the Board of Directors at least once a month to improve management efficiency through the lively exchange of ideas and prompt decision-making. The distribution of authority, decision-making of each organization and the specific operation of each department is conducted in accordance with the following regulations: Board of Directors Regulations, Official Authority Rules, Business Division Rules and Decision-making Standard Rules.

We are also improving the IT environment and are promoting efficiency in job execution.

5. Systems for ensuring compliance with laws and regulations and the Articles of Incorporation in the execution of the duties of directors and employees of the Company

Based on the business philosophy described above, our Company maintains the following compliance systems and is striving to apply them in practice so that we can comply with laws and regulations.

1) We have set out and are strictly enforcing our FANCL Group Compliance Standards that addresses our Directors and all our employees.

2) We operate our helpline system for the early detection and correction of violations of laws, regulations and our Group's rules.

3) To build a compliance system that operates across our entire organization, we operate the Compliance Committee and the Corporate Ethics Working Group that are composed of several divisions, including the division responsible for legal affairs, the division responsible for quality assurance, and the division in charge of general affairs.

4) To promote investor trust and transparency and publicity of information disclosure, we have set out our Disclosure Policy, and disclose information in accordance with this.

6. Systems to ensure the appropriateness of the operations of the corporate group consisting of our Company and its subsidiaries

We promote the understanding of our business philosophy among our subsidiaries and manage their business with the objective of maximizing the corporate value of our Group.

1) System for reporting to our Company the execution of duties of the directors and other executives at our subsidiaries

We have established a group-wide Internal Control Committee that is chaired by our President & CEO, Representative Director and whose members are our Company's Directors and Executive Officers, and representatives from our subsidiaries. Beneath the Internal Control Committee there are the Financial Reporting Working Group, the Corporate Ethics Working Group, the IT Security Working Group and the IT Control Working Group. All of these groups work with each other so that we can maintain a system in which matters relating to the execution of duties of directors, etc. of our subsidiaries are promptly reported to our Company.

2) Regulations and other systems for managing the crisis of subsidiary losses

We have a risk management policy for each of our subsidiaries, and have developed and build risk management systems.

We have systems to handle risks that suddenly occur. As stipulated in our Crisis Management Regulations that apply to our Group, our general managers (our President & CEO, Representative Director and the Executive Officers in charge) quickly determine who will be in charge, set up a task force, and take prompt action to prevent the spread of damage.

3) Systems to ensure that the directors of our subsidiaries carry out their duties efficiently

Regular meetings of the boards of directors are held at our subsidiaries to improve management efficiency through the lively exchange of ideas and prompt decision-making. The distribution of authority, decision-making of each organization and the specific operation of each department is conducted in accordance with the following regulations: Board of Directors Regulations, Official Authority Rules, Business Division Rules Decision-making Standard Rules and Affiliated Company Management Rules. We are also improving our IT environment and are promoting efficiency in job execution.

In principle, our Company's Officers are appointed as Officers of subsidiaries in order to establish a system that can supervise the appropriateness of the operations of our subsidiaries.

4) Systems to ensure that the directors and employees of our subsidiaries carry out their duties in accordance with laws, regulations and our Articles of Incorporation

We have set out and are strictly enforcing our FANCL Group Compliance Standards that address all our Group's directors and employees.

We operate our helpline system for the early detection and correction of violations of laws, regulations and our Group's rules.

Our Internal Audit Office that is responsible for internal audits in our Company, conducts in-house audits of our subsidiaries.

7. Systems to ensure that if our Company's Audit & Supervisory Board Members request assistance, employees will be made available for the task; the independence of these employees from the Directors will be assured; and that proper instruction will be given to these employees

When Audit & Supervisory Board Members request employees be made available to assist them in the operation of the Audit & Supervisory Board or in the execution of other duties, the Audit & Supervisory Board Members will discuss the matter with the Company to make the arrangements. The employees who assist the Audit & Supervisory Board Members will be assigned to the Audit & Supervisory Board. These employees will no longer be under the control of the Directors; the Audit & Supervisory Board Members will have authority over them instead. The Audit & Supervisory Board Members will review these employees. Matters of assignment, transfer and disciplinary action of these employees will be deliberated by the Audit & Supervisory Board Members and decided.

8. Systems of reporting to our Audit & Supervisory Board Members and ensuring that the reporting person does not receive any unfair treatment from having made the report

1) Systems to enable our Directors and employees to report to our Audit & Supervisory Board Members

All Directors and employees will report to the Audit & Supervisory Board Members the following: the occurrence or fear of occurrence of serious damage to the Company or its subsidiaries; circumstances that will result in a significant loss of trust; major defects or problems related to internal control systems and procedures; violation of law or serious misconduct, etc.

2) Systems to enable our subsidiaries' directors, auditors and employees, or the people to whom these people report, to report to our Audit & Supervisory Board Members

We have setup systems to ensure that information from the Internal Audit Office about internal audits of our Company and of our subsidiaries is appropriately shared with our Audit & Supervisory Board Members.

We maintain a system in which Audit & Supervisory Board Members attend meetings and other gatherings where they receive timely reports about important information.

We maintain a helpline system so that information concerning the compliance of the Group as a whole can be centrally managed and periodically reported to our Audit & Supervisory Board Members.

Under our FANCL Group Helpline Operation Rules we maintain a system in accordance with the Whistleblower Protection Act. Under these regulations, the whistleblower or person reporting a matter to our Audit & Supervisory Board Members does not receive any unfair treatment from having made the report.

9. Matters concerning policies for handling expenses or liabilities incurred by our Audit & Supervisory Board Members in the performance of their duties, such as prepayments or redemption procedures

We have set up a system in which the prepayment or redemption of expenses or liabilities incurred by our Audit & Supervisory Board Members in the performance of their duties is smoothly made, essentially without restrictions, except in cases where the expense is not considered to be necessary for an Audit & Supervisory Board Member's performance of his or her duties.

10. Other systems to ensure effective auditing by our Audit & Supervisory Board Members

It is made clear that in addition to the audits carried out by the Audit & Supervisory Board Members, both the audits made by the

ISO Internal Auditors based on the ISO Internal Audit Regulations and the audits made by the Internal Audit Office based on the Internal Audit Regulations will be coordinated and made in cooperation, and that the outcomes of each audit as well as the recommended improvements to be made should be reported to our Audit & Supervisory Board Members.

Systems to ensure the reliability of financial reports
In the current consolidated period that is the 12th year of our application of our internal control regarding financial reporting that are based on the Financial Instruments and Exchange Act, we strove to ensure the trustworthiness of the Group's financial reports. We put in place Company-wide internal control systems, and evaluated their operation and made improvements. We selected FANCL, Attenir Corporation and FANCL B&H Corporation to be our Company's three important business bases. We set up systems for the overall control of our operational processes and IT, evaluated the operation of these and improved them.
Our Internal Audit Office and each division involved in the management of our subsidiaries periodically conducted audits in our subsidiary companies and visited them to make the necessary corrections. We also made efforts to maintain internal control systems in our subsidiaries.

2. Basic Views on Excluding Anti-Social Forces

At our Company we have set forth the following basic policies in our FANCL Group Compliance Standards that are aimed at excluding anti-social forces.

The Company always acts in a resolute manner against individuals or groups that appear to be antisocial forces, and we reject their unreasonable demands in a firm manner. We will never use anti-social forces for our own gains.
Moreover, we will not engage in any transactions, not only with anti-social forces, but also with companies and individuals associated with such forces.

Basic views on the exclusion of anti-social forces
1. Departments to control our responses
Our divisions that are responsible for general affairs and law are the ones who control our responses to anti-social forces.

2. Collaboration with outside professional institutions and the gathering and management of information concerning anti-social forces
We are building close collaborative relationships with lawyers, the police and other professional institutions and are gathering information. If necessary, we will pass on this information to the relevant departments.

3. Response manual and training activities
In preparation for any unreasonable demands from anti-social forces, we have created the Compliance Standards Handbook to provide procedural guidelines including how to respond. We have distributed copies to our Directors and employees. We are holding training sessions to raise awareness of the law and of our FANCL Group Compliance Standards and ensure that they are closely followed.

V. Other

1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures	None

Supplementary Explanation

—

2. Other Matters Concerning the Corporate Governance System

Outline of Organization for Timely Disclosure

Our Company uses the following methods to both gather important corporate information and to carefully manage data, based on our Insider Trading Management Rules. We also disclose information on a fair and timely basis.

1. Basic position on timely disclosure

Our Company discloses information in accordance with the Financial Instruments and Exchange Act and the Timely Disclosure Rules stipulated by the Tokyo Stock Exchange (hereafter "Timely Disclosure Rules"). Moreover, we actively disclose information even if it is not subject to Timely Disclosure Rules, if we consider that our shareholders and investors need to know about it, regardless of whether it is positive or negative.

We strive to ensure fair and timely information disclosure by avoiding selective disclosure of important information to any particular institution or individual.

2. Internal systems for the management and timely disclosure of information

1) Decisions by the Company

At the regular meetings of the Board of Directors (at least once a month) and at extraordinary meetings of the Board, important decisions are resolved. (The content of this information may be deliberated upon by the Management Conference prior to meetings of the Board of Directors when necessary.)

2) Financial information

Financial figures are prepared in the Corporate Planning Division/Department and are then checked by the Accounting Auditors. These are then submitted to the Board of Directors for approval.

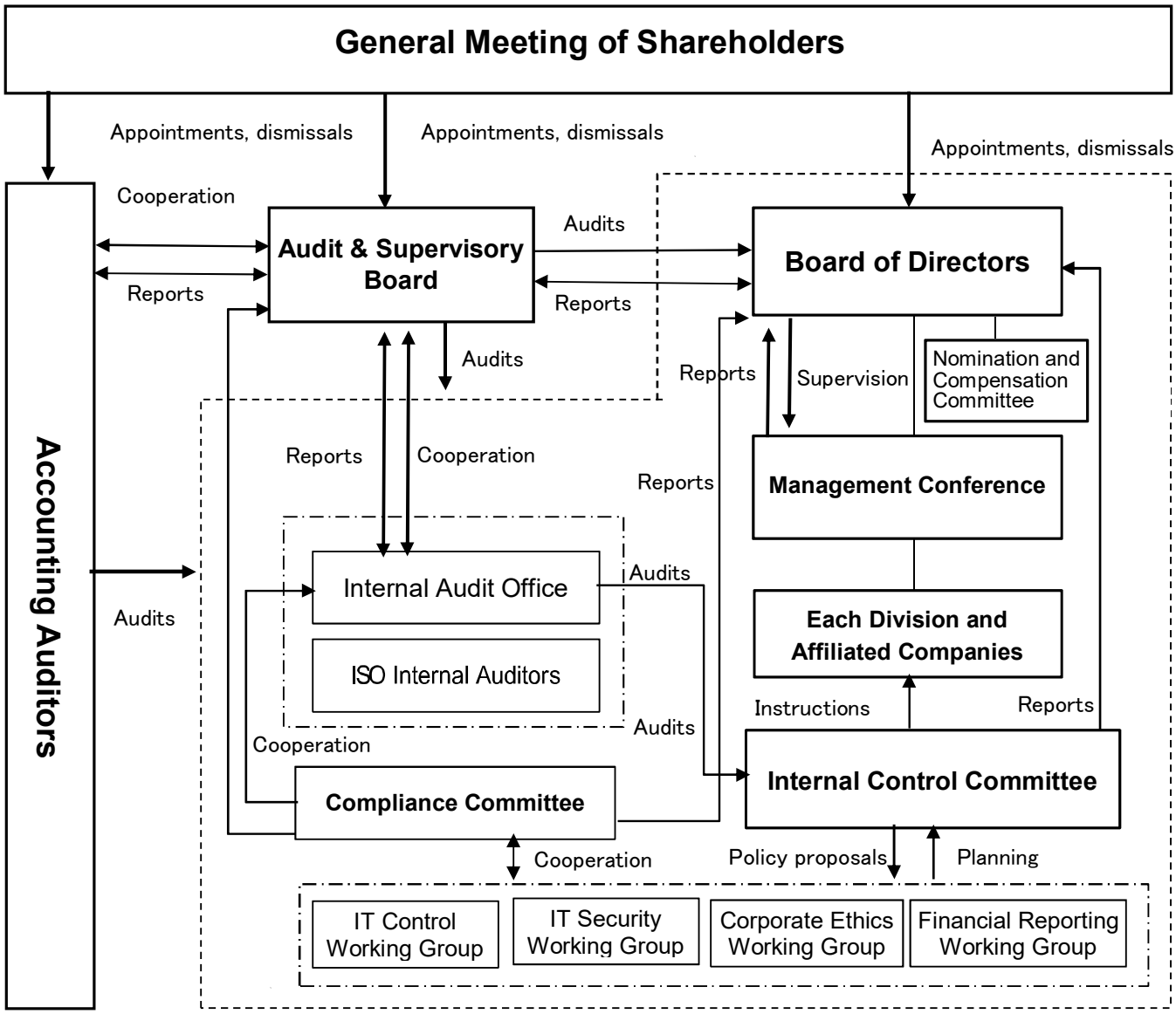
3) Occurrence of material facts

The heads of divisions immediately report any material facts relating to important corporate information to the General Affairs Department as soon as they become aware of them. The General Affairs Department discusses and considers the importance of the information in consultation with the relevant divisions and the person in charge of handling information, in light of the Timely Disclosure Rules. If the person in charge of handling information judges that its timely disclosure is necessary, he or she will first gain the approval of the President & CEO, Representative Director.

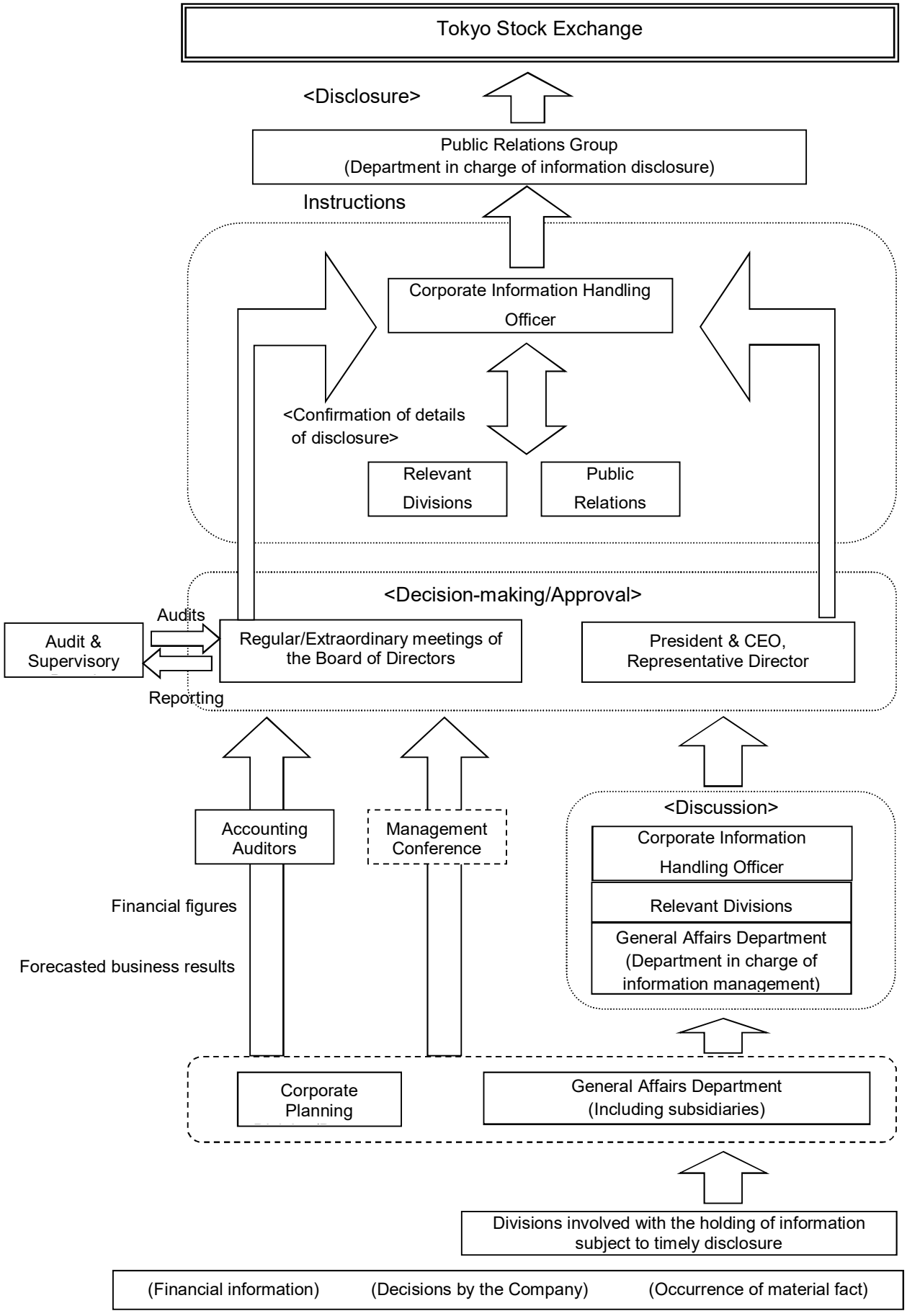
3. Timely disclosure of information

Following deliberation and approval by the Directors or the President & CEO, Representative Director, the person in charge of handling information confirms with the relevant divisions (including the Public Relations Group) the details to be disclosed and then notifies the Public Relations Group and carries out the procedure for timely disclosure without delay.

Corporate Governance Framework



Internal Framework for Timely Disclosure



-End-