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FANCL Corporation

Companies' approach

□ Background and purpose of accounting

[Background] We need to clarify the following points to establish long-term goals: How we can help the world maintain a sufficient level of energy resources for a population of 9 billion in 2050, what business we should pursue, and what action is currently required.

[Purpose] To utilize the accounting results in formulating a long-term business strategy for 2030 (VISION 2030)

- To identify suppliers, products, and services that are consuming a significant amount of energy
- To use the accounting results as a basis for investment decisions
- To utilize the accounting results as materials used to develop talented individuals who are able to keep abreast of changes in society and raise environmental awareness among employees

□ Utilization of accounting results

The accounting results are utilized to:

- clarify what we should invest in and in which direction we should take the company to help realize a sustainable society;
- develop products, services, and technologies that will contribute to creating a low-carbon society;
- achieve sustainable procurement (establishment of policies, goals, and standards); and
- provide more efficient promotion.

□ Benefits of accounting

The accounting enables us to:

- provide quantitative data used as a basis for management and investment decisions;
- give investors more confidence to invest in the company;
- share common goals with suppliers (point vectors in the same direction); and
- learn about carbon-free practices adopted by other companies leading the way on carbon management.

□ Internal system for accounting

- The data compiled and managed at the head office, laboratories, and factories are gathered and calculated by the Corporate Social Responsibility Promotion Office.

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FANCL Corporation

Companies' approach

□ Efforts to reduce supply chain emissions

- We will announce a long-term plan and goals and develop an environment that facilitates collaboration among internal and external organizations. We will also announce a sustainable procurement policy in February 2018 and ask major suppliers to take on specific efforts toward sustainability.
- CO₂ emissions from Category 1 (Purchased goods and services), Category 11 (Use of sold products), and Category 4 (Transportation and delivery) account for more than 80% of our total Scope 3 emissions.
- To reduce emissions from the procurement of raw materials, we are promoting the size reduction of products, weight saving of containers and packing materials, adoption of bio-raw materials, and wider use of refills. We are also optimizing our investment in paper media such as catalogs and electronic media such as websites to increase our advertising efficiency.
- To reduce emissions from the use of products, we are developing and offering water-saving products that remove makeup easily and other products that contribute to curbing our environmental impact.
- To reduce emissions from transportation, we are working to reduce re-delivery by offering a service that allows customers to designate where they want their product to be left when delivered, as well as to introduce compact packages that can be placed inside mailboxes.

□ Issues in supply chain emissions accounting

- We performed calculations using the industry's average values and standard scenarios, but there is a need to improve the accuracy in calculation for categories and suppliers with high emissions.
- We need closer collaboration with suppliers to obtain their emissions data in order to bring the accounting results closer to the actual status.
- We need to listen more closely to customers' comments and opinions to bring scenarios in the product use stage closer to the actual status.
- We need to build internal and external awareness regarding the emissions accounting and develop accounting experts.

□ Other

- Going forward, we will endeavor to monitor not just our CO₂ emissions but also our environmental impact on water resources and natural capital.

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Category	Accounting methods	
	Activity data	Emission factor
Category 1: Purchased goods and services	<ul style="list-style-type: none"> Weight and value of raw materials, materials, and services purchased 	<ul style="list-style-type: none"> CFP Basic Database, Supply chain emissions unit values database
Category 2: Capital goods	<ul style="list-style-type: none"> Value of capital investment 	<ul style="list-style-type: none"> Supply chain emissions unit values database
Category 3: Fuel and energy related activities not included in Scope 1 or 2	<ul style="list-style-type: none"> Energy consumption 	<ul style="list-style-type: none"> Supply chain emissions unit values database
Category 4: Transportation and delivery (upstream)	<ul style="list-style-type: none"> Weight transported × distance transported (ton-kilometers transported) 	<ul style="list-style-type: none"> CFP Basic Database
Category 5: Waste generated in operations	<ul style="list-style-type: none"> Amount of waste generated by type 	<ul style="list-style-type: none"> Supply chain emissions unit values database
Category 6: Business travel	<ul style="list-style-type: none"> Number of employees 	<ul style="list-style-type: none"> Supply chain emissions unit values database
Category 7: Employee commuting	<ul style="list-style-type: none"> Number of employees by office and factory 	<ul style="list-style-type: none"> Supply chain emissions unit values database
Category 8: Leased assets (upstream)	<ul style="list-style-type: none"> Included in Scopes 1 and 2 	<ul style="list-style-type: none">
Category 9: Transportation and delivery (downstream)	<ul style="list-style-type: none"> Estimated from product transportation data in Category 4 	<ul style="list-style-type: none"> CFP Basic Database
Category 10: Processing of sold products	<ul style="list-style-type: none"> No or insignificant amount of emissions generated due to the nature of our business 	<ul style="list-style-type: none">
Category 11: Use of sold products	<ul style="list-style-type: none"> Energy consumption based on assumption that products were used in a standard manner for face and hair washing and cooking 	<ul style="list-style-type: none"> CFP Basic Database
Category 12: End-of-life treatment of sold products	<ul style="list-style-type: none"> Amount of containers and packing materials left after the use of products, estimated from the sales quantity 	<ul style="list-style-type: none"> Supply chain emissions unit values database
Category 13: Leased assets (downstream)	<ul style="list-style-type: none"> No or insignificant amount of emissions generated due to the nature of our business 	<ul style="list-style-type: none">
Category 14: Franchises	<ul style="list-style-type: none"> No or insignificant amount of emissions generated due to the nature of our business 	<ul style="list-style-type: none">
Category 15: Investments	<ul style="list-style-type: none"> No or insignificant amount of emissions generated due to the nature of our business 	<ul style="list-style-type: none">
Other	<ul style="list-style-type: none"> 	<ul style="list-style-type: none">

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Accounting results

- Supply chain emissions

