

Mitsubishi UFJ Morgan Stanley Securities RED Seminar
Major Questions and Answers (Summary)

Our Attendee: Shinsaku Iwahara, External Director

Q) How do you make use of your own areas of expertise as listed in the skill matrix in board discussions?

A) I specialize in corporate law and strive to ensure that the Board of Directors operates in line with the monitoring model concept outlined in Japan's Corporate Governance Code. In addition to actively providing opinions on internal controls and risk management, I have also contributed to institutional design related to governance, such as the definition of independent directors, the transition to an executive officer management system, and the remuneration policy for directors, audit & supervisory board members and executive officers.

I have also offered opinions on matters to be considered in the Companies Act regarding company splits in connection with the business transfers as part of our structural reform initiatives, the pros and cons of financing methods, and financial balance.

Q) Regarding directors' remuneration policy, it is difficult to understand the content of performance-linked personal evaluations. I think the content should be publicized to the extent possible, but what do you think of it as an external director?

A) We disclose what KPIs are used to determine the performance-linked remuneration as much as possible. The Notice of Convocation of General Meeting of Shareholders should give you a better idea of the contents and the ratios of KPIs.

I believe it is important to continue enhancing our remuneration policy disclosure.

Q) What do you think about incorporating TSR and stock price performances against domestic and overseas competitors into the KPIs to ensure directors' interest are aligned with shareholders?

A) We recognize that the extent to which we should disclose information to investors, and the extent to which we place importance on it as a KPI are topics to be discussed in the future.

Q) What specific discussions are underway on CEO's succession plan, which is an important topic for the Company? What are the qualities required of the successor and can you share the image of a successor sought by the committee at the moment?

A) The CEO succession is no doubt the biggest topic for Shiseido and for the external directors. We have spent extensive time to examine and discuss this matter. This already has been under consideration since 2019, when Mr. Uotani was reappointed as the CEO, and since then we have held numerous discussions at the Nomination & Remuneration Advisory Committee, and have exchanged views at offsite meetings among external directors, etc. We have been examining what are the requirements for

our next CEO and who are potential candidates that meet those requirements.

In terms of specific qualities, given our highly global nature of our Company operations, and the level of diversity among directors and audit & supervisory board members, the candidate would need to demonstrate strong global leadership skills, including effective communication skills. Trustworthiness and reliability is of course paramount, while we also seek for an attractive personality in order to lead a truly global company.

Q) What do you think are the areas in Shiseido's corporate management where the external directors in particular are expected to play a significant role? We assume that the independent external directors played an important role with respect to the business transfer decisions.

A) The most important issue we need to tackle now is how to improve the Company's profitability, in light of the dynamic changes in the market and our consumers in Japan and China, our largest markets. As for the structural reforms, the project is brought to the Board of Directors from an early stage in the process, and we have exhaustive discussions over time, in some cases including offsite unofficial meetings, before proceeding to the next step. We make efforts to carefully deliberate and analyze the risks thoroughly before reaching the final decision and also to ensure the decision fully reflects what we have discussed.

Recently, we announced the transfer and the set up of a JV of Personal Care business, and also the transfer of the manufacturing business of Personal Care products. In part because they were unprecedentedly large-scale transactions, we thoroughly discussed the pros and cons of the transfer and its strategic rationales. We eventually confirmed it is best for the Company to focus on prestige and premium areas and that the transfer of the Personal Care business would be more desirable for the further growth and the development of each business. We also had thorough discussion on the selection of the buyer. Many opinions were expressed on securing employment for employees and on the prospects after the transfer. I also offered my opinions regarding the explanations to employees, etc.

Q) What issues, if any, can you identify to improve the effectiveness of the Board of Directors?

A) Although we are already well informed through a variety of channels, it is crucial that external directors have access to information coming from outside the Company too. I personally make efforts to gather such information, but it is important to ensure a variety of information from outside the Company is absorbed by the external directors in a systematic way.

Security analysts' opinions are very insightful, and I always make sure to listen to the questions raised at the financial results announcements. There are a lot to learn from these questions to fulfill our duties.

Q) Now that the restructuring of the business portfolio is said to be almost complete, what topics are currently being discussed at the Board of Directors?

A) With regards to the reorganization of our business portfolio, Mr. Uotani, took strong leadership in tackling the long-standing issues in an extremely short period making use of the COVID-19 pandemic. I understand that the business structure has become quite organized as a result.

However, it does not mean all issues have been resolved. For example, there is a significant gap

between Shiseido and global competitors in employee productivity. Another important issue is to improve employee motivation through effective personnel management systems. There are still many issues to be addressed and we need to make steady efforts.

Q) What kind of system is put in place for the secretariat of the Board of Directors, in order to ensure that sufficient information is provided to external directors?

A) In the Company, the Legal and Governance Department provides support to external directors while we also receive extensive support from other related departments.

In order for external directors to effectively perform their duties further, it would be ideal to enhance communication with departments related to internal controls, and to ensure we can obtain sufficient information in that area before attending the Board of Directors meetings. I think there are improvement opportunities in that respect.

Q) Regarding the remuneration of external directors, I think fixed remuneration is the majority at present. In the United States, many companies offer remuneration linked to long-term stock price performance, using restricted stocks. What do you think of this? What are Shiseido's external directors' incentives or punishments to ensure their effectiveness?

A) At present, it is an important duty of external directors to serve the best interests of the Company and its various stakeholders, so the conventional concept is that a fixed remuneration is more appropriate than a performance-linked remuneration.

Because external directors are not directly involved in business execution, our activities do not improve the company's performance at least in the short-term, and I do not think that remuneration should necessarily be linked to company financial performances. Quite the contrary, I think it will be problematic if external directors are too obsessed with financial performances. Personally, a fixed compensation is a viable option because we should also consider the interests of stakeholders other than shareholders, including public interests.

Q) In the past year, what kind of topics led to heated discussions? What were the cases which were most objected to or were most concerned about?

A) The difficult discussion was about the transfer and JV set up of the Personal Care business and the transfer of its manufacturing business which I mentioned earlier.

Other than this, we discussed initiatives to enhance productivity and profitability, whether or not it was necessary to change our business models, and the business development opportunities in new overseas markets.

The first impression that I had upon assuming the position of external director of Shiseido in 2018 was that Shiseido was such a globalized company. It goes without saying the business itself is operated globally, also the nationalities of executives are diverse, and discussions at various meetings are often held in English. How we deal with global issues, and how we can select a person who is capable to properly lead a globalized Shiseido in the CEO succession plan is among important topics for the Company.

- Q) What role does the Nomination & Remuneration Advisory Committee play in not only nominating directors, but also nominating external directors?
- A) When choosing candidates for external directors, the Company first conducts research to select a broad range of candidates, and from among them, the Nomination & Remuneration Advisory Committee and the Board of Directors narrows down the list based upon key requirements. The Chair of the Nomination & Remuneration Advisory Committee interviews the short-listed candidates before making the final decision.

Therefore, it is impossible for Shiseido to have “external directors are chosen from the friends of the CEO”, or “external director as a mere figurehead,” which are often regarded as problems.

- Q) There has been examples where activists take board member seats, and there was a specific case where the former Supreme Court judge expressed disagreement. What do you think about such cases? What would you consider if there were such requests from Shiseido's shareholders?
- A) Since activists may have potential conflict of interest in some cases, I think it is necessary to first carefully assess whether their intention is for the company's best interests and then consider whether to accept them as external directors.

From my past experience, many of our major institutional shareholders have a long-term perspective. For example, I would not assume they would demand us a share buy-back purely for the sake of their own short-term profits, but rather expect us to make decisions contributing to the long-term growth of the Company. At this point, I think it is not very likely that we would face such situation you described.

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