



Shiseido Company, Limited

The Dialogue between Hatanaka External Director and Investors

July 4, 2024

Event Summary

[Company Name]	Shiseido Company, Limited	
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[Event Name]	The Dialogue between Hatanaka External Director and Investors	
[Date]	July 4, 2024	
[Speakers]	Yoshihiko Hatanaka	External Director
	Ayako Hirofuji	Executive Officer, Chief Financial Officer, Chief DE&I Officer
	Yuko Kato	Executive Officer, Chief Corporate Governance Officer
	Yuki Oshima	Vice President, Investor Relations Department

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Presentation

Oshima: To investors and analysts, thank you very much for taking time out of your busy schedule today to participate in a dialogue event with External Director, Mr. Hatanaka.

I would like to introduce today's attendees. This is Mr. Yoshihiko Hatanaka, External Director, Chief Corporate Governance Officer, Ms. Yuko Kato and CFO, Chief DEI Officer, Ms. Ayako Hirofuji.

Oshima: I am Oshima of the IR Department and I will be the moderator. Thank you very much for your cooperation.

Today's presentation will be given by Director Mr. Hatanaka and Ms. Kato, followed by question and answer session. First, Ms. Kato, our Chief Corporate Governance Officer, will provide a presentation. Ms. Kato, please start.

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Today's Speaker: Yoshihiko Hatanaka (External Director of Shiseido)

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- Led Astellas Pharma for 12 years as Representative Director after serving as the head of corporate planning and finance at Astellas Pharma Inc. and as a representative of U.S. subsidiaries.
- In March 2017, during his tenure at Astellas Pharma, he received Corporate Governance of the Year 2016 Prize, hosted by the Japan Association of Corporate Directors.
- Has been serving as Shiseido's External Director since March 2023, and was nominated as the Chairman of the Compensation Committee in March 2024.

Apr. 1980: Joined Fujisawa Pharmaceutical Co., Ltd. (currently Astellas Pharma Inc.)
Jun. 2005: Corporate Executive, Vice President, Corporate Planning, Corporate Strategy Division, Astellas Pharma Inc.
Apr. 2006: Corporate Executive, Astellas Pharma Inc. and President & CEO, Astellas US LLC and President & CEO, Astellas Pharma US, Inc.
Jun. 2008: Senior Corporate Executive, Astellas Pharma Inc. and President & CEO, Astellas US LLC and President & CEO, Astellas Pharma US, Inc.
Apr. 2009: Senior Corporate Executive, Chief Strategy Officer and Chief Financial Officer (CSTO & CFO), Astellas Pharma Inc.
Jun. 2011: Representative Director, President and CEO, Astellas Pharma Inc.
Apr. 2018: Representative Director, Chairman of the Board, Astellas Pharma Inc.
Jun. 2019: Outside Director, Sony Corporation (currently SONY GROUP CORPORATION) [incumbent]
Mar. 2023: External Director of Shiseido [incumbent]
Jun. 2023: Outside Director, Sekisui Chemical Co., Ltd. [incumbent]
Mar. 2024: Chair of the Compensation Committee of Shiseido [incumbent]



Kato: As introduced, my name is Kato. I would like to, first of all, introduce Mr. Hatanaka, External Board Member. Mr. Hatanaka is, as you know, the former President and Representative Director of Astellas Pharma Inc. He joined Fujisawa Pharmaceutical Co., Ltd., one of the proceeding companies of Astellas, and was in charge of corporate planning and finance and represented the US affiliate. He has led the Company's management as President and Representative Director since 2011 and the Chairman and Representative Director since 2018. He has a broad and diversified knowledge of global corporate management. He is currently an Outside Director of Sony Group Inc. and Sekisui Chemical Company and he has been an External Director of Shiseido since March 2023 and Chairman of the Compensation Committee since March 2024. Mr. Hatanaka, as an Outside Director with management experience of listed companies, he is making significant contribution to the discussion and the supervision of the Board of Directors.

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Evolution of Governance Structure to Maximize Corporate Value: Transition to a “Company with Three Statutory Committees”

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At Shiseido, we define corporate governance as “a system that provides a foundation to drive sustainable growth and corporate value over the medium to long term.”

- Today’s highly volatile external environment has a significant impact on our business
- Needs for Rebuilding our business model to be able to respond to changes with greater flexibility in an uncertain and dynamic business landscape

- The Board to achieve strategic alignment to adapt to an external environment through effective and in-depth discussion
- Ensure greater agility and flexibility in executing our diversified global business portfolio
- Establish effective governance practice by monitoring the execution of the Company’s business by corporate executive officers acting with agility

Transition to a “Company with Three Statutory Committees”

- Clearly separate the functions between management oversight and execution of the Company’s business
- Strengthen each of these functions to ensure effective implementation of our strategies in an increasingly volatile business environment

First, I would like to begin with a brief explanation on two points of our corporate governance, including the most recent system revisions. As our Ordinary General Meeting of Shareholders held in March of this year, we have changed from a Company with an Audit & Supervisory Board to a Company with Three Statutory Committees. We have always positioned corporate governance as the foundation for achieving sustainable growth and increasing corporate value over the medium to long term.

Considering the impact of the recent rapid changes in external environment on our business, we have spent much time discussing what roles and responsibility should be fulfilled by the board of directors and the execution side based on our awareness of the need to further strengthen the management foundation to enable a flexible response to the rapidly changing market environment. As a result, the company decided to change to a Company with Three Statutory Committee.

The main objective is to clearly separate the functions of business execution and supervision and strengthen each of them so that the executive side can promote business with flexibility under strong supervision, thereby enhancing the effectiveness of strategies even in an increasingly uncertain business environment.

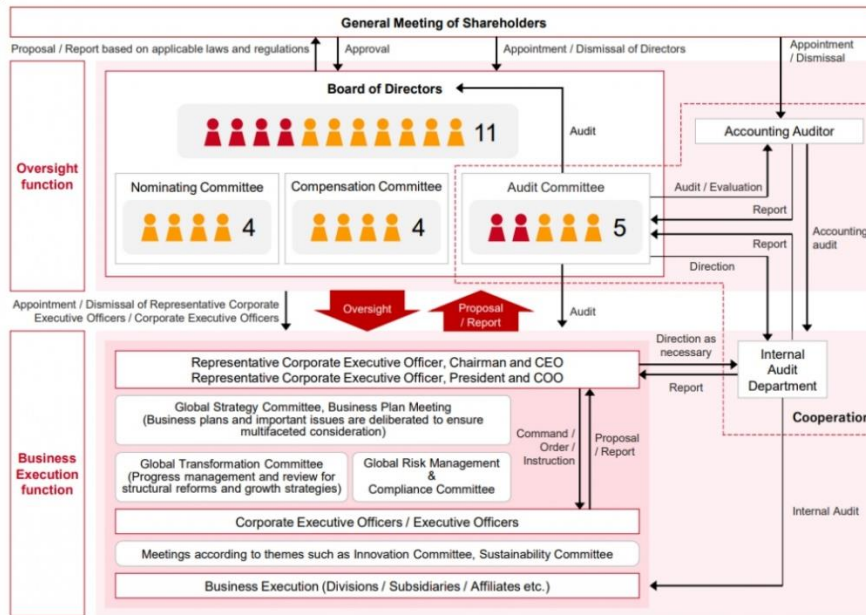
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New Corporate Governance Structure (as of March 31, 2024)



- Internal Directors ● External Directors
- Independent Directors
63.6% (7 out of 11)
- Non-executive Directors
81.8% (9 out of 11)
- Female Directors
45.4% (5 out of 11)
- Nominating Committee / Compensation Committee:
 - **Solely comprised of External Directors**
- Audit Committee:
 - **Chaired by External Director**
 - **2 full-time members are nonexecutive directors (effective liaison with the Internal Audit Dept.)**

As a result, the board members currently consist of 11 directors, 63.6% of them are independent directors, and more than 80% of whom are non-executive directors. All members of the Nominating Committee and the Compensation Committee are independent directors and the chairman and the majority of the members of the Audit Committee are independent directors.

Shiseido has always been aspired for highly effective governance and reviewed how the board meeting and the management execution should be. At this time, although it has been three months since we changed our system design and reorganized the board meeting agenda by way of transferring authority to the executives, we are also working on time allocation for matters to be discussed and further enhancement of accountability of the executives to the Board. Changing the way we run the board meeting in itself is not our objective. We shall leverage a new approach to better establish our foundation for growth and increasing corporate value. We will therefore continue with this approach for the future.

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Enhanced Disclosure of Executive Compensation System and LTI Evaluation Metrics for FY2024

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Enhanced disclosure

- The proportion of the remuneration according to the levels of executive positions, evaluation metrics and weighting for performance-based compensation, results of accomplishment measured by evaluation metrics for the prior year

Evaluation metrics for the LTI

- Reflect KPIs for DE&I (women's participation and advancement) and ESG ratings

Evaluation Item	Performance Indicators	Evaluation Weight
Economic Value	Consolidated core operating profit margin in the final fiscal year of the evaluation period	50%
	Compound average growth rate (CAGR) of consolidated net sales	30%
Social Value	Environment Status of the achievement of the CO ₂ emissions reduction target	100%
	Society Ratio of female managers/leaders in Japan and overseas at the Company, and the status of inclusion in the indices related to the promotion of women by ESG rating agencies designated by the Company	
	ESG Evaluation scores by ESG rating agencies designated by the Company	
Economic Value	Consolidated ROE	If this ends up below the threshold, the Compensation Committee will consider lowering the percentage amount of the payment attributable to the performance-linked portion.

*The evaluation in 2024 is based on the MSCI ESG Rating

Second, I would like to talk about executive compensation. The Company's executive compensation system consists of base compensation, which is fixed compensation and annual bonuses, and long-term incentive compensation, which is performance-linked compensation.

The Company is working on enhancing the disclosure of information on the composition of these types of compensation, performance-linked compensation, evaluation indicators, and their respective weights and the status of achievement, performance evaluation indicators in the previous fiscal year annual securities reports, business reports, and other documents.

LTI remuneration is a stock-based remuneration, and we have certain valuation items and weights shown below as evaluation indicators. In addition to economic value indicators, social value indicators are also incorporated into the evaluation items, including indicators related to DE&I such as women's activities as well as ESG evaluation scores of ESG rating agencies. The Company previously referred to the evaluation score of DJSI's ESG scores. But from 2024, the score will be changed to that of the MSCI. The Compensation Committee has been discussed in the future of executive compensation as one of the main agendas, and we recognize that the issue will be discussed on an ongoing basis.

Thank you for waiting. Now, we would like to have Mr. Hatanaka, the External Director of the Company, to talk about topics around Shiseido's governance and some recognized challenges from an external director's perspective. Mr. Hatanaka, please.

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- Evaluation of the effectiveness of Shiseido's corporate governance
- Key challenges and opportunities related to the Company's profitability, evaluations of our strategic initiatives
- The role and responsibilities assumed by Hatanaka External Director who has an extensive experience in corporate management



Hatanaka: Hello, everybody. My name is Hatanaka, the External Director of Shiseido. I am very happy that we have an opportunity like this for me to speak to all of you today. From these perspectives, shown on this slide, I would like to talk about my views, the evaluation of Shiseido's current governance as the first topic.

From my perspective, along with the constructive discussions for enhancement of corporate value, we are monitoring with high awareness, the validity of robustness of the business execution structure for potential operational risk. As Kato-san has mentioned earlier, from April of this year, we have changed the governance structure to a company with Three Statutory Committees. Currently, the Company is shifting to a better-balanced growth away from high dependency on China business, which is recognized as Shiseido's challenge as well as the execution of structural innovation to drastically improve the profitability of the Japan Business.

As a result of the change, we feel that the effective execution of the business side is , and the perspectives of board oversight has become more clear with agility and flexibility in business management improving. There is no absolute solution to governance. Therefore, we will continue to pursue enhancing corporate governance most appropriate for Shiseido in order to continue delivering Company values based on Shiseido's purpose and vision. These are my thoughts.

For the second point here, this is for the evaluation of profitability challenge, recognition, and execution. The change in the business environment is shared amongst the business management team and the Board that we are able to hold effective discussions and board meetings based on appropriate initiatives and proposals of the business side. Specifically, as the China market environment is drastically changing, the growth of Japan, US, EMEA, and Asia Pacific markets, enhancing the strength of Shiseido in science, R&D, and expansion of profit in new areas, including effective use of M&A. These are some of the recognized important challenges for the Company. Therefore, we are increasing the opportunity to oversee the progress and situation of these initiatives.

Furthermore, as the environment continues to change drastically, as you are all aware of, the accurate and flexible adaptability in business execution, following the basic principles and policy is essential. On the other hand, in order to actually execute these initiatives and to build the future, we have confirmed in board

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meetings the thoughts around human capital management based on a people-first mindset. For example, the early retirement that was executed as part of the Japan structural reform, we have had serious discussions for the messages we deliver as well as what we expect with employees that apply as well as those that decide to continue to stay with Shiseido. We highly evaluate that these ongoing initiatives are in solid progress to achieve the vision that has been shared in SHIFT 2025 and beyond. In Q1 earnings call, we saw the growth of Japan's business, and the profit improvement in China, and the growth in the US and EMEA. We can see that through the business results, as you have heard in the Q1 earnings call.

The third point, the role and responsibility assumed by myself as an External Director. In terms of the role that is expected for myself, I believe that our role is to understand the vision of Shiseido there in the Company's value of realizing sustainable society for people's happiness, beauty innovation for a better world, and provide oversight and support to ensure the management team is most effectively driving the business to realize such vision with the best practice as well as earning the trust of its stakeholders. This is what I believe is my role as an External Director. We need to know, is there a structure that can have transparency? And if there is any difference to what we expect to the reality, can the Company move with agility, and do we have the best talent allocation for the best performance? There are various things that we must look at for maximizing the business. In order to do so, we work to understand each of the stakeholders' expectations to Shiseido through numerous opportunities. We also continue to increase constructive and transparent discussions and dialogues with the business management and board members, even outside of the board meetings and the committee meetings. For myself, that is it for now. Thank you.

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Question & Answer

Q & A Session

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To reflect shared interests of all participants, the following topics are selected from the questions we received in advance.

1. What changes do you recognize after the transition to a “Company with Three Statutory Committees”?
2. Shiseido’s compensation levels appears to be lower than the global standard. Is there any plan to review KPIs for executive compensation to improve the Company’s business performance? What do you think about the idea of increasing the ratio of stock-based compensation?

Oshima [M]: The first question is, what are the changes resulting from the transition to a Company with Three Statutory Committees. Please answer the question.

Hatanaka [A]: Thank you very much for your question. As Ms. Kato also explained earlier, Shiseido, since before, has been reorganizing relationships between management oversight and business execution, and we are aiming for monitoring board-type system of governance. I believe that this transition to the new structure is going quite smoothly. The Nominating Committee and Compensation Committee are comprised only of the independent directors, and they are engaged in open and transparent discussions. Also, with the transfer of authority to representative corporate executive officers and executive officers, the number of agendas submitted for board approval has decreased and the meeting can be spent more time on practical discussions for business growth and issues that need to be addressed. Also, from this perspective, the roles and responsibilities of the Board of Directors in management oversight are much clearer now which leads to more effective discussions than ever before.

Oshima [M]: Thank you. The second question is about the compensation structure as to whether the Shiseido's compensation level is low compared to global standards. Are there any plan to review KPIs for incentives for executive and senior management to enhance company performance? Do you think the Company will be able to increase the proportion of stock-based compensation? Please provide the answer to this question.

Hatanaka [A]: Thank you very much. As you are aware, the Shiseido's executive compensation is based on the fundamental policy consisted of six criteria, including talent acquisition and sustainable remuneration levels within the context of global talent marketplace. Depending on the roles and job sizing of our officers, we design compensation structure by referring to our global peers.

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However, I also recognize that there are matters that should continue to be monitored in light of the fundamental philosophy, such as the level of the compensation and the proportion of fixed and performance-based compensation and the KPI setting for performance-based compensation, there are areas that we do need to continue considering,

As the Chairman of the Compensation Committee, we do share these issues and concerns within the Committee and committed to conducting appropriate reviews and revisions. At the same time, I have also requested that the executive side closely examine the linkage between executive compensation and employee remuneration.

Oshima [M]: Now, we would like to invite questions from those who are joining us live. From JP Morgan Securities, Ms. Kuwahara please ask a question.

Kuwahara [Q]: Thank you. My name is Kuwahara from JP Morgan. Mr. Hatanaka, thank you very much for your valuable comments.

Now, in light of the issues raised, I am particularly interested to hear more about the details of the discussion you mentioned earlier, about the system for managing risks. At the same time, there are significant changes occurring not only in China but globally, with various changes happening rapidly. Within this context, I would like to inquire, within the possible scope, more about how the system for managing risk are being discussed.

At the same time, when we look at the Integrated Report, the growth beyond the structural reform is something that you need to pay full attention to. I think it is about accelerating so the system to manage the risk and also the accelerating for the future growth beyond the structure reform. About these two points, what are the discussions that are held at the board meetings? Please share that with me as much as possible.

Hatanaka [A]: Thank you for your question. As you pointed out, I understand that your question is about how we manage risks amidst rapidly changing landscape.

First, Shiseido is a company engaged in skincare business including cosmetics. For instance, the Company is primarily concerned with managing fundamental risks such as quality issues and compliance matters that are in question for other companies in general. Therefore, we focus on whether the mechanisms for managing and preventing these risks are adequately established.

Based on that, board members engage in thorough discussions about the overall risks faced by Shiseido, including a set of risks for the business operation, including geopolitical risks. We compile them into materiality and address how we should deal with these risks and who should be monitoring the progress.

As far as I am concerned, these are certainly risks on one hand, but on the other, I am particularly interested in the fact that these are also opportunities for Shiseido to grow. In addition to addressing risks, I always question as to whether we are engaging in discussion with the execution side to a sufficient degree about our strategies so as to promptly overcome these challenges by identifying risks ahead of our competitors. That's all from me.

Kuwahara [M]: Thank you very much. If possible, could you briefly provide any specific examples of your strategies that risks have been turned into opportunities for growth? I apologize for my lack of imagination.

Hatanaka [A]: I hope it would be better if specific examples will be provided by Hirofujii-san and other executive members. Having said that, I believe that these risks, including geopolitical risks, are faced not only by Shiseido, but also by other competitors.

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In this context, the key question is how Shiseido can manage risks and tactically navigate the situation. If we only follow suit of what other companies do, then we will eventually lag behind, and that means losing the market share and losing the customers, so we always pay attention to this point in addressing the risks.

Kuwahara [Q]: Thank you very much.

Oshima [M]: We would like to move on to the next question. Mr. Hyogo from Mitsubishi UFJ, please raise your question.

Hyogo [Q]: This is Hyogo, I am a fund manager from Mitsubishi UFJ Trust Bank. Mr. Hatanaka, long time no see.

Looking at Shiseido, I believe that one of the factors that the Company is unable to improve its performance significantly is that verification on the return of investment has not been conducted sufficiently. From that perspective and considering Mr. Hatanaka's career during your time at Astellas where you executed operational excellence, I wonder if Shiseido recognizes that the verification on the return on investment is conducted sufficiently. What is your view on that? While this question may overlap with the previous one, given Mr. Hatanaka's strict approach to returns in the pharmaceutical industry, I would appreciate it if you could share how it appears to you from that viewpoint.

Hatanaka [A]: Thank you, Mr. Hyogo. Your question is about verifying the return on investment in business. In fact, at Shiseido, we have very disciplined benchmarking for investment. I'm not sure if it's appropriate to be compared with pharmaceutical companies, but there may be cases where we have different timing of investment and return as they come in different time horizons. At what point do we measure the return could also differ as well, so it is hard for me to compare apple to apple, that kind of return on investment from my past experience to what the Company, Shiseido is doing.

But if I may repeat myself, we are very disciplined in terms of verifying the return on investment. For instance, we are executing acquisitions as is the case of Dr. Dennis Gross Skincare. In that respect, continuous discussions have been done and it has been monitored at every board meeting to verify whether we are progressing on track with the plan, or whether there is any opportunities arising from that to expand our business. I would not say that Shiseido is not stringent enough in verifying the return on investment.

Hyogo [Q]: Thank you very much. In that sense, return on investment is strictly verified and being managed, is that correct?

Hatanaka [A]: Yes, at least from my own experience, there is no doubt that the Company is strictly managing its investment returns and additional measures are being taken for further growth.

Hyogo [Q]: Mr. Hatanaka, please allow me to ask one more question based on your experience. What do you think is the appropriate length of tenure for CEO? I believe Uotani-san has been CEO for about 10 years now. But from your perspective, what do you think is the appropriate tenure for a CEO? That is all.

Hatanaka [A]: Thank you for your question about the tenure for CEO. To deliver results as a CEO, a certain number of years would be necessary. But if a CEO to stay too long, that could also pose challenges as the organization needs to continuously evolve. It is all about taking the balance in general, in my opinion.

I believe that each company has their own different perspectives and it also varies significantly by industry. Furthermore, the business environment and challenges faced by the company at that time are also relevant, so there is no single answer.

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At Shiseido, the succession plan is currently underway. Once the successor CEO is officially determined, the next succession will immediately be considered, and the development of candidates will also commence. This is regarded as the healthy approach to CEO succession. I think that should be regarded as healthy approach to succession planning.

Hyogo [M]: Thank you very much. Mr. Hatanaka, you have not been an External Director for Shiseido for so long, but we are very appreciative that you are here to speak to us. We all hope that you achieve operational excellence at Shiseido. Thank you.

Oshima [M]: Next question from Daiwa Securities, Mr. Hirozumi. Please ask your question.

Hirozumi [Q]: Thank you. Hirozumi from Daiwa Securities. Thank you very much for this opportunity. I am very appreciative of this opportunity. My question is that while it is impossible to visualize everything, I would like to know the roles of external directors as well as the monitoring board-type governance, how is it working and how effective is it? If that can be quantified, that will be appreciated.

As for the operation of the monitoring board-type system, for instance, how much it has been possible to speed up, or the extent to which deeper deliberations have been conducted. In the case of Mr. Hatanaka, as you come from Astellas and is currently serving as an external director at companies like Sony and Sekisui Chemical, could you provide us with some figures to demonstrate how much work is being done compared to these companies? That is all.

Hatanaka [A]: Thank you for your question. As for the monitoring board-type system, I believe your mentioned that whether we could demonstrate its effectiveness in terms of speed or quality in numeric data. However, it is not realistic and extremely difficult to quantify its effect.

This comes down to the financial outcomes, and we believe the best way to measure this is by comparing the progress of our ongoing SHIFT 2025 and Beyond with what you have been expecting. I think would not be of any help even if I provide any numbers, so I would appreciate it if you could judge based on the actual results. We would appreciate it if you would assess whether the relationship between the board of directors and execution side is working effectively. Additionally, I would be very grateful if you could see how quickly we have been able to make adjustments is we are not on track with our medium-term plan as expected, as that will ultimately be reflected in the results.

Hirozumi [Q]: I have two questions to ask, although I am aware that you may not be able to answer. In that regard, are there any examples where, for instance, Shiseido was heading in the negative direction, however the Board was able to take the right action to get back on the right track and as a result, things have turned out to be successful?

Hatanaka [A]: Well, while I would prefer not to provide specific examples, but for instance, last year, when significant changes occurred, the Board spent considerable amount of time and had numerous discussions to find the right strategy to adjust the overall plan. As I mentioned earlier, this kind of agility in our action has become prominent between January and March or in Q1 this year.

Hirozumi [Q]: Understood. Additionally, given your experience at Astellas, and your tenure at Sony and Sekisui Chemical, if you could share any insights on the effectiveness and characteristics of Shiseido's Board of Directors as compared to those companies, we would appreciate your perspective. How does that sound?

Hatanaka [A]: At least from my experience, companies that your mentioned earlier are all composed of directors with diverse backgrounds and there is a high level of transparency in their discussions. Also, the information provided by the executive side is also very transparent.

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Since Shiseido also has a similar tendency to a significant extent, my focus has always been on agility in their actions and the quality of results delivered in the areas where we delegated the authority from the Board to the execution side. That is what I always focus on when I engage in dialogue with them.

Hirozumi [Q]: Understood. We would also like to monitor such initiatives, so we would be grateful if you could continue to hold this kind of meetings. That is all. Thank you.

Hatanaka [A]: Thank you.

Oshima [M]: Next is Mitsui Sumitomo Trust Asset Management, Mr. Koguchi, please go ahead.

Koguchi [Q]: Mitsui Sumitomo Trust Asset Management, Koguchi. Long time no see. I would have never imagined to be able to see you at a Shiseido meeting. I am very happy to see you today.

For myself, I have a question regarding corporate culture. In the latest Integrated Report, you have mentioned in the interview that the Company needs create more positive energy and employees should be more positive and with more energetic.

From what we understand, when I see people at Shiseido people whom we have regular interactions, it appears to me that they are very positive and energetic. So, I would like to know where did this idea come from? I thought it was a unique perspective reflecting the views of an external director. I would very much like to hear more about it. Thank you.

Hatanaka [A]: Thank you very much. I believe your question is about Shiseido's corporate culture as to where my comment in the integrated report is coming from.

As for myself, it has been a little over one year as an External Director of the Company. Aside from the board or committee meetings, I have had the opportunities to engage in discussions with key management on the execution side. I have had numerous opportunities for dialogue. This past year has been, I would say, a difficult year for Shiseido which is still continuing now. The challenge is that the people face, how does the Company overcome that? That is where a lot of the discussions that I participate tend to focus on.

Firstly, as I have mentioned earlier, and yes, that is also true, the reason for undertaking such actions now is to invest in the future after overcoming that point. I am contemplating whether the connection here might still be slightly lacking.

Everyone enjoys hearing about positive investment opportunities; however, there has been a necessary focus on addressing immediate challenges while ensuring a stable foundation over the past year. This has been my personal perception.

This is not necessarily a bad thing, and it seems to me the result of the discussions required at that time, in my impression.

Koguchi [Q]: Understood. Do you think mean that adverse business conditions is inviting such an impression?

Hatanaka [A]: Yes. While I am not directly involved or engaged in various discussions with the execution side, I have been advocating that they should feel more free to express their opinions, and such a view is also shared by the top management. This aspect, unfortunately, remains invisible to me as an external director. However, I believe that this will become more visible in the future by having more discussions.

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Koguchi [Q]: You talked about employees, but what is your perspective on those who are in the execution side, including Mr. Uotani or Mr. Fujiwara?

Hatanaka [A]: They are attempting to be agile and implementing extremely swift and effective measures. In my view, we have very effective management team. Right now, CEO is Mr. Uotani and he has created a wonderful team, and they are trying to further evolve that. I can see that they are trying to really improve and transform the management team. This is conveyed by Mr. Uotani and Mr. Fujiwara. I am confident in my role as an external director of Shiseido and believe that I can participate in events such as this.

Koguchi [M]: Thank you very much.

Oshima [M]: Thank you. Then, next question is from CLSA Securities, Mr. Oliver Matthew.

Matthew [Q]*: Nice to meet you. Thank you for taking the time. I have a question on the Compensation Committee. How radical do you think the changes need to be for you to attract the right people to deliver this huge increase in operating profit margins? The opportunity is there, but it requires some changes. To do that, you will need to bring in world-class talent globally. It does seem some significant changes need to be made to achieve these goals. Please, could you explain how radical you think changes are needed on compensation? Thank you.

Hatanaka [A]: Thank you for your question. Your question was about our approach to compensation and how we will change that. Thank you for your question.

As I mentioned earlier, we are designing in our compensation by referring to those of global competitors. On the other hand, considering the six fundamental philosophies, I still feel that there is some room for change in terms of the level of remuneration, the composition ratio of performance-linked remuneration, and the setting of KPIs related to performance-linked remuneration.

We are now in discussion with the Compensation Committee to what extent we will change our current structure. Recently, Japanese companies are beginning to look at the compensation from an entirely different viewpoint. It is not that Shiseido should follow suit of other companies. However, I do think it is essential to consider whether Shiseido is chosen by the best talent across the world or will the best talent wish to work for Shiseido. Incentives are not limited to remuneration alone, but I believe that remuneration is an extremely crucial element, so I would like to proceed with this matter while keeping an eye on it. As for specific levels, I would like to refrain from discussing them as of today.

Matthew [M]*: Thank you very much. I believe that you will have a great opportunities ahead so I hope you will make a positive change.

Hatanaka [M]: Thank you very much.

Oshima [M]: Thank you very much. We have some questions in the Chat, so let me move over to the chat.

We have a question from JP Morgan Asset Management, Mr. Osada.

There have been discussions that the changes in the governance structure have led to greater agility and flexibility. I would appreciate it if you could share the background of this understanding, based on specific examples to the extent you are able to disclose, that it has indeed improved compared to before. Thank you.

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Hatanaka [A]: Thank you very much. Yes, I mentioned that with the change of governance structure, the agility and flexibility have improved. What is happening in reality is that the execution side now has greater freedom to implement strategies, and the speed of implementation is becoming faster.

On the other hand, of course, their actions always involve accountability and report to board members, for instance, are now being made in an extremely flexible manner such as by email.

In order to add assets and capabilities required for the Company, M&A is something to be considered in the future as the Company expects to grow. However, especially in situations where there are specific counterparts or competitors, without speed and flexibility in conducting mergers and acquisitions, it is unlikely that trust will be gained from the other parties, and it may not result in favorable outcomes for Shiseido.

While I would prefer not to specify any specific cases that have occurred in the past, it is my understanding that Shiseido's competitiveness has increased by gaining more flexibility.

Oshima [M]: Next, we would like to invite question from Sumitomo Life Insurance, Mr. Hirohashi, please.

Hirohashi [Q]: I am Hirohashi from Sumitomo Life. Nice to meet you. Thank you for this opportunity. Very brief question. At this time, Shiseido has now shifted to a Company with Three Statutory Committees and the composition of the board members being of very high caliber and esteemed quality, I would like to express my admiration for having such wonderful structure.

I believe the next step is to find the way to further improve the effectiveness of the board. I have reviewed corporate governance reports of the Company, and it is often the case that we find phrases explaining that the effectiveness of the board is evaluated as it is functioning properly or other similar phrases, in general. However, I would like to know if there is any issues about improving the effectiveness of the Board as well as how various issues are discussed at the board meetings, if there are any points you could share, I would appreciate it. Thank you.

Hatanaka [A]: Thank you for your question. I understand your question is about the effectiveness of the Board. It is my understanding that basically our discussions at the board meeting, including questions and answers, is becoming more clear which I think is the most significant point.

In the past, there were things that the Board could leave to the execution team used to be discussed at the board meetings due to legal reasons. We had various issues in different magnitudes brought to the Board, faced with physical and time constraints. Now, with the shifted to a Company with Three Statutory Committees, we have thoroughly discussed last year what topics should be raised and in what manner, as well as what discussions should be had, including a detailed discussion on the process itself.

Certainly, the effectiveness evaluation comes out to be some sort of conventional expressions such as almost satisfactory. Having changed the governance structure in March, I have seen significant improvement after the transition in terms of agenda selection for the board meetings with a greater focus of discussion. In next year's effectiveness evaluation, I am sure that the effectiveness of the Board will be even more highly evaluated. Thank you very much.

Hirohashi [M]: Understood very well. Thank you.

Oshima [M]: One more time, let us please try from Jefferies, Ms. Kawamoto.

Kawamoto [Q]: Hello, this is Kawamoto from Jefferies. Thank you very much for such a precious opportunity today.

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I have a question regarding the evaluation criteria for measuring social value. I have had the opportunity to review the section on page 6, showing that environmental and social ESG factors are weighted at 20% as a measure of societal value. I am interested in understanding how discussions are being held to align social value with shareholder value.

First, regarding the weight of 20% in environmental and social ESG, how is that allocated in the evaluation process? Furthermore, by setting that target, what kind of changes are happening in the Company? I believe that that CO2 emission reduction target seems a bit far away. I believe it might be hard to evaluate on an annual basis.

Aside from CO2, Could you please share your thoughts on how you are considering the situation, given the changes in legislation, such as the regulation on fluorinated organic compounds in France from 2026?

Hatanaka [A]: As for the breakdown of this, we do not disclose. I apologize that I cannot answer that. As we look at the weight, we look at this 20% and look at these metrics. Another point is about how the evaluation of ESG and social value will be reflected in corporate value, which is something we are always discussing.

Kawamoto [Q]: Thank you very much. Here is the CO2 emission reduction target in the environment. Are there any other areas about the environment?

Hatanaka [A]: This applies to the use of preservatives as well as reduction of plastic containers. At Shiseido, there is a mission to contribute to people's health as well, so we are aware of that as a board member. Therefore, anything that would give burden to the environment, we will be cautious of and try to reduce and to try to add value. That is the thing that we need to consider, and that is a continuous discussion we have as a board member regarding the environment.

To realize its own philosophy, Shiseido believes it is necessary to undertake more effective actions towards society and human capital.

For instance, in terms of human capital, there is a push for advancing investments in that area. Although Shiseido is a company where DE&I (Diversity, Equity & Inclusion) is progressing, there is a question of how to prove this progress or how further advancement can increase value. In fact, the Board of Directors has requested the Human Resources department to consider these issues thoroughly.

While it is thought that many companies are working on how the evaluation of ESG (Environmental, Social, and Governance) is linked to corporate value, as mentioned earlier, Shiseido's Board of Directors has great interest in this area and has requested further verification of execution.

Kawamoto [M]: Thank you very much.

Oshima [M]: The next question will be from Goldman Sachs Securities, Mr. Miyazaki, please ask your question.

Miyazaki [Q]: Hello, Miyazaki from Goldman Sachs. Thank you very much for this opportunity today. One question from me.

During the first half of your presentation today, there was a brief discussion regarding the acquisition of Dr. Dennis Gross. From what was explained at that time, I believe that there has been thorough verification at every board meeting following the acquisition. However, I am curious if there were any changes in the process compared to before the acquisition, or what kind of discussions were held at the board meetings to seek returns. Could you please share more about the interactions and considerations at the time of making the acquisition decision? Thank you.

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Hatanaka [A]: Thank you. Your question was about the acquisition of Dr. Dennis Gross and what were the discussions associated with this transaction.

We have a non-disclosure agreement on the specific details so I will not be able to share them with you. However, fundamentally, we must diversify our portfolio from as it has been concentrated in China, Travel Retail, and Japan to expand into Western countries or the Asia Pacific region. Within the context of this broad strategy, there is a component that involves organic growth, including our own R&D efforts to implement organic development strategy. Nevertheless, there has been a discussion about the necessity of incorporating M&A as well. In this context, various considerations are being made by the Americas regional headquarters and responsible divisions in the headquarters, to target specific objectives. These have been extensively debated in the board meetings, and we believe that our M&A activities have been successful.

Accordingly, this was not a matter of seizing an opportunistic chance, but rather, it has been conducted under a strategic plan from the beginning, with the intention of enhancing our capabilities and strengthening our portfolio. In this sense, discussions have been thoroughly conducted on how we view returns, manage PMI, and expand this further to other regions. Therefore, I currently view this acquisition as one that will undoubtedly be successful.

Miyazaki [Q]: In the course of discussion for making decisions, is my understanding correct that you have discussed not only what should be done now but also what areas should be focused on after the action is taken, and the Company has been able to engage in ongoing discussions for verification at the board meetings after the acquisition?

Hatanaka [A]: Yes, you are correct.

Miyazaki [M]: Understood very well. Thank you very much for your explanation.

[END]

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