Shiseido Company, Limited

Dialogue Between Shiseido's External Directors and Investors

September 16, 2026

Event Summary

[Company Name]	Shiseido Company, Limited
[Company ID]	4911-QCODE
[Event Language]	JPN
[Event Name]	Dialogue Between Shiseido's External Directors and Investors
[Date]	September 16, 2026
[Venue]	Webcast

[Number of Speakers]	3	
	Yuki Oshima	Vice President, Investor Relations Department
	Yoshihiko Hatanaka	External Director / Chair, Board of Directors / Chair, Nominating Committee / Member, Compensation Committee
	Yasuhiro Nakajima	External Director / Member, Audit Committee

Presentation

Oshima: Investors and analysts, thank you very much for taking time out of your busy schedule to join us today for the dialogue event with Shiseido Company, Limited's outside directors.

I am Oshima from the IR department, and I will be serving as the moderator today. I look forward to your participation.

Agenda

1. Introduction of Yoshihiko Hatanaka, External Director and Yasuhiro Nakajima, External Director
2. Board Oversight and Evaluation of the 2030 Medium-Term Strategy and Other Key Topics
3. Q&A Session

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And here's the agenda for today's proceeding.

Now let me introduce our speakers.

1. Speaker Introduction (Yoshihiko Hatanaka, Shiseido External Director / Chair, Board of Directors)

- **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. Possesses diverse and extensive knowledge in global corporate management.**
- **Received Corporate Governance of the Year 2016 Prize in March 2017, hosted by the Japan Association of Corporate Directors.**
- **Served as External Director of Shiseido since March 2023; appointed as the Chair of the Compensation Committee in March 2024, the Chair of the Board of Directors in January 2025, and the Chair of the Nominating Committee in March 2026.**

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)
Mar. 2023	External Director of the Company [incumbent]
Jun. 2023	Outside Director, SEKISUI CHEMICAL CO., LTD [incumbent]
Mar. 2024	Member, Nominating Committee of the Company
	Chair, Compensation Committee of the Company
Jan. 2025	Chair, Board of Directors of the Company [incumbent]
Mar. 2026	Chair, Nominating Committee of the Company [incumbent]
	Member, Compensation Committee of the Company [incumbent]

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First, we have Mr. Yoshihiko Hatanaka.

In addition to his extensive experience and a track record as the Head of Global Corporation, Mr. Hatanaka possesses multifaceted and broad insights into corporate management based on his experience as the Head of Corporate Planning and Finance. He joined the Company as an outside Director in March 2023. Currently, as Chairman of the Board of Directors as well as the Chair of the Nominating Committee and a member of the Compensation Committee, Mr. Hatanaka is leading the efforts to strengthen corporate governance.

1. Speaker Introduction
(Yasuhiro Nakajima, Shiseido External Director / Member of the Audit Committee)

- **Possesses extensive experience and a proven track record in accounting audits and advisory services as a Certified Public Accountant, as well as deep insights into the management of global companies and a keen eye for identifying key issues.**
- **Appointed as External Director and Audit Committee Member of Shiseido in March 2025.**

Apr. 1984	Joined Hitachi Ltd.
Mar. 1995	Certified Public Accountant
Jul. 2007	Representative Partner, PricewaterhouseCoopers Aarata (currently PricewaterhouseCoopers Japan LLC)
Jul. 2012	Executive Officer (Leader of Quality Management), PricewaterhouseCoopers Aarata (currently PricewaterhouseCoopers Japan LLC)
Jul. 2014	General Manager, Nagoya Office, PricewaterhouseCoopers Aarata (currently PricewaterhouseCoopers Japan LLC)
Jul. 2017	Oversight Board Member, PricewaterhouseCoopers Aarata (currently PricewaterhouseCoopers Japan LLC)
Apr. 2022	Project Professor, Graduate School of Business, Osaka Metropolitan University [incumbent]
Jul. 2022	Representative, Nakajima CPA Office [incumbent]
Mar. 2023	Member of the Board as Outside Director, Bridgestone Corporation [incumbent]
Mar. 2025	External Director of the Company [incumbent] Member, Audit Committee of the Company [incumbent]

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The next speaker is Mr. Yasuhiro Nakajima.

Mr. Nakajima has spent many years engaged in accounting, audit and advisory services as a certified public accountant and possesses insights into management of global companies as well as a keen understanding of the challenges they face. Mr. Nakajima joined our company as an outside director in March 2025 and currently plays a key role as a member of the Audit Committee in ensuring the reliability of financial reporting and overseeing the risk management framework.

Mr. Hatanaka, Mr. Nakajima, it's a pleasure to have you here.

Hatanaka: It's a pleasure to be here.

Oshima: And now having gone through a period of structural reform, our company is currently in the phase of implementing our growth strategy for 2030 and generating results in sight. In light of this, the focus of the Board of Directors discussions and oversight has also shifted.

2. Board Oversight and Evaluation of the 2030 Medium-Term Strategy and Other Key Topics

■ **Oversight of Execution of the 2030 Medium-Term Strategy**

① Monitoring growth, identifying challenges after six months of execution, and supporting appropriate risk-taking and growth investments

② Review of progress and key challenges in improving profitability, ROIC, ROE, and cash flow generation

■ **Oversight of Management's Responses to Key Risks**

Oversight of management's responses to key risks, including geopolitical, supply chain, and cybersecurity risks

■ **Nomination and Remuneration Matters**

Evaluation of the Board of Directors and management structure, CEO succession planning, and updates to the executive remuneration

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This slide lists particularly important themes currently under discussion at the Board of Directors' meetings. First, I would like to ask both speakers to provide brief comments on your perspectives and assessments regarding each topic as outside director. After that, we will go to a Q&A session with the audience.

To begin regarding the oversight of the execution of the 2030 midterm management strategy, specifically growth monitoring, our understanding of challenges to date and appropriate risk taking, could Mr. Hatanaka, please offer your comments first.

Hatanaka: This is the final year of the Action Plan, and this is the first year of the midterm management strategy and a turning point for transformation. And that is this year 2026. We need a clear and consistent explanation of how to conclude the structural reform and the Action Plan and seamlessly connect them to the growth trajectory to 2030.

We need consistent explanations and also generate growth as the role of the Board of Directors. And so the aim and the goal are shown in our business plan clearly. Having said that, things do not go as planned in many cases. Therefore, we will capture the signals and also driving the business in the right direction is very important. The business environment conditions are sometimes better or worse than our assumption, and we will capture the signs of changes at an early stage to address those changes. We have seen that the profit was higher than we had expected, but not so much with the sales revenue. So how to reallocate/adjust our investments for the second half based on capturing the signs of change is something that we are pursuing.

Another point of view is the use of AI and to how to connect the use of AI to the enterprise value. It will be in the area of higher productivity and also value creation. Internally, we will have the focus program with consistent and comprehensive data to drive the effective use of AI, and we are fully aware of that in our monitoring.

Oshima: Thank you very much. For the same point of view, Mr. Nakajima, could you elaborate?

Nakajima: As Mr. Hatanaka mentioned, this fiscal year, we are on track of attaining a significant improvement in profitability. But we are still facing a visible gap with the annual goal. But at this point in time, when we look at 2030 and beyond, we need concrete measures and those measures have to be verified, whether it's workable or not.

For instance, for creating the Shiseido enterprise value, there's a Shiseido way, which is the code of conduct. And whether it is fully permeated among the employees and is actually showing a good result, we need to monitor. Also technical development and what will be the sense of speed and impact appropriate for us to attain the added value for both the customers and us Shiseido. We will work towards improvement of the way we run our business and monitor if the measures are working as expected.

Oshima: Thank you very much.

Now we would like to move on to the next agenda about the profitability, the oversight progress regarding profitability, ROIC, ROE and cash flow improvements.

Mr. Nakajima, could you deliver a comment on this?

Nakajima: it may be overlapping with what I've just said earlier. Towards 2030, we have the midterm business plan. And there's a target to be achieved in 2030. But this is only a passing point in order to generate the enterprise value; we need to have the systematic way forward for cost reduction and permeation of productive way of working, and this will result in the profitability improvement and the cash flow improvement.

For instance, one of the causes of sluggish productivity is the ambiguity in terms of the authority and responsibility between the entities within the group and within the organization. Into this year, we have revisited. In addition to the CEO and the regional CEO line, and we have added the direct reporting line from regional functional leaders to the respective Chief Officers at global headquarters. And this is something that would be healthier. Through this activity, we would like to improve the branding and also improve the capital expenditure efficiency. And we are focusing on that as well. In the Board of Directors meeting, in fact, the directors in charge are giving the interim report on the effect of changing the reporting line.

Also, I am a member of the Audit Committee. From the perspective of an Audit Committee, in the actual site inside and outside Japan, we would directly be involved in giving instructions. So as the daily practice will be a correct one. For instance, for the overseas entity, we give the direct instruction to conduct hearing sessions about the impact of the improvement. And we actually visit physically different sites and learn about their practices, and we are trying to capture how the business runs. And based on our understanding, the measures that is put into practice by the executive members of the Company, and we see whether they are effective and what actions are taken to improve the way we run our business, and we are keeping an eye on those activities.

Oshima: Thank you very much. Now moving on to the next topic about the geopolitical risks, supply chain risk and cybersecurity risks. Could you share your assessment of how these risks are being addressed and how the Board is overseeing them?

Nakajima-san.

Nakajima: In terms of geopolitical risks, supply chain risks and cybersecurity risks, as for these types of risks, as for the Board, we do spend a lot of time having our discussions continuously. As for geopolitical risk and supply chain risk, with the escalated tension in the Middle East, brought to the forefront procurement risks for petroleum-derived materials and other raw materials essential to cosmetics. As for that, we have done prioritization of materials and production with the necessary speed and agility. And this goes back to the changes in the report line, as I mentioned earlier. This has been one of the big keys that has contributed to the improvement in response and speed.

Looking at the R&D, the commercial team, production team, communication has been very agile and timely so that as a result, the Company has been very agile in responding to any of the changes that need to be made. However, looking at the evolution of supply chain, there are, of course, many areas to be improved. For example, shortening the lead time or the cost of procurement optimization and lowering the ratio of single-source procurement for specific materials. There are areas that can be improved in terms of assessing these risks. These challenges in order to improve the Company continues to execute on that. And as a Board, we continue to oversee the activities.

In terms of cybersecurity, of course, this is also a very important key management priority. As for the Board, we do understand the importance of this, and we recognize the progress and address cybersecurity closely. For example, in detail in the Company, global information security division has been centering on these actions to come with measures and rolling plans focused on preventing and overseeing the risks of potential cyberattacks.

And as a Board, we do oversee that, especially for cyberattacks. Of course, there's AI leveraged for cyberattacks. It's becoming increasingly sophisticated. So the quality of cyberattacks have changed. And to be able to prevent this 100% in advance is almost impossible as the cyber-attacks continue to evolve. So if in an unfortunate case, when there is a cyberattack, we have been creating the measures and structures so that we can minimize potential damage and maintain business resilience.

Again, the speed of the cyberattacks evolving is very fast and very quick. So the Company too has been very agile, quick and flexible in order to minimize any of the damage that may happen. So as the Board and as the audit members, we are closely monitoring these activities.

That is it for myself.

Oshima: Thank you very much.

Now I would like to shift over to Hatanaka-san. In addition to topics related to nomination and compensation, including enhancing Board effectiveness, CEO succession and executive compensation are also important areas of oversight.

Could you share your perspectives on this?

Hatanaka: Maybe I will start with the compensation of the executives.

First of all, the philosophy underlying executive compensation for Shiseido is about including the aim of setting compensation at levels that enable the Company to attract and retain outstanding talent in the global talent market. And we have established a six-point basic philosophy. The compensation system is designed in accordance with this philosophy. And the compensation is designed with global tiers in mind, taking into account the roles and job size of individual executives.

The compensation practice based on relevant market information and also with the job setting positions. As for the global KPI setting, we do continue to review the global compensation practice based on relevant markets, including higher levels of compensation and greater weighting of performance-based pay in setting global KPIs.

So for the executives, we want to make sure that we have a very strong incentive for the executives. And of course, for the recipient, it has to be transparent and fair as well. It also links to their execution and their activities. So we look at the compensation from those aspects.

Question & Answer

Oshima [M]: Thank you very much. Now we would like to open the floor to the Q&A session from here.

Thank you. Now we are ready. Please raise your hand if you have a question.

Thank you. From Morgan Stanley, Miyake-san.

Miyake [Q]: This is Miyake from Morgan Stanley.

I want to ask about the Board members, the kind of discussions that you have as a Board member for the future is what I would like to ask about. So as there is the midterm plan, I'm sure you are monitoring the Company to proceed that they will move forward with the midterm plan. But if you think about the further mid to longer term, are there discussions around the portfolio and in the future, I'm sure there will be a phase somewhere along the line where you would consider M&As. And if that is the case, then I'm sure there are many lessons from the past, too, in terms of M&A. So there should be some kind of a structure in place in order to execute an M&A in the future.

On top of that, if there is to be an acquisition in the future, in the past, what your company used to look for in terms of asset, it would happen with an overseas company and there will be a shortage of the concept and you're a little bit late in the newly developed market and as a result, end up buying or acquiring the company with a bit of a higher value, a bit expensive. So instead of that, in terms of M&A, will you be looking at, instead of being market first or market-led, we need this kind of company in order for us to achieve this. And I feel that kind of planning is important, too. So how the portfolio should be and what the structure can be to create that portfolio. Is that kind of discussion being held within the Board members? And those are the areas if you can share, I would love to hear about.

Hatanaka [A]: Thank you very much for your question. For your question, I would like to answer your question. Thank you.

For the midterm planning, in terms of the discussion around the midterm plan, of course, we discuss about the market, the competitors and keep that in mind as we do our discussion. But at the same time, we also consider greatly about the strength of Shiseido. Where do we elevate the strength of Shiseido.

For example, in terms of R&D, a long-term vision of the technologies we aim to deliver—acting as an innovation map. And also, if it's in the short to midterm, then the marketing, what kind of Shiseido's technology within Shiseido can we bring to each of the brands so that we can maximize the brands across Shiseido.

So based on the assets and strength that Shiseido has, we have continued to have these discussions. And with that in mind or with that as a basis, when we look at the future, there are areas where there are possibilities and potential. For example, if it's medical derma there could be a diagnostic area. So the opportunities looking ahead, we discussed what can we do internally within Shiseido or maybe look at assets outside of the Company. And that will be the kind of order we would have the discussions.

So therefore, it's not that we are shopping around or there's something good out there, and we'll go for it. No, we are looking at what do we want to do? We want to do this and what can we do? Do we have the capability internally? Where do we have the capability and where are we short internally? And that is the kind of discussion that we have been having.

Also with the Board members for the past investments, what can we learn from the past M&As, that is something that we are doing within the Board, too. So as you have mentioned, it is true that in the past investment cases, there were cases that we have to agree that there were acquisitions that were made that were not that valuable or adding value to the Company. But when we look at the midterm to longer term and going forward, we do consider the learnings from the past as well, so we will be much smarter about our investments going forward.

I hope I have answered your question.

Miyake [M]: Thank you very much.

Oshima [M]: We would like to take a question from Koguchi-san from Sumitomo Mitsui Trust Asset Management.

Koguchi [Q]: Thank you very much for this opportunity. I am Koguchi from Sumitomo Mitsui Trust Asset Management. And now from myself, I have a question to Mr. Hatanaka.

So in the Integrated Report, the comment at the end stating 'the company's potential should be far greater than this' left the strongest impression on me, and I assume this represents the shared consensus among all members of the Board. How to unlock and manifest this potential value will be the key challenge in Shiseido's next stage of growth. While each of Shiseido's individual brands is highly refined and attractive, it doesn't seem that the attractiveness of each brand is directly translated to the attractiveness of the corporate branding for Shiseido as a whole. So how are you going to encourage the executive management to increase the enterprise value, drive share price growth and market capitalization. Would you mind explaining how you would achieve that?

Hatanaka [A]: Thank you very much for your question.

So as pointed out for your question the other day between the executive members and the other BOD have the discussion about the stories for each brand. But now as Shiseido as a whole, what will be the brand value that we would offer. And that was the question. In the midterm of this plan, we are indicating parts of our aspirations. But the overall story is really weak and the connection between the brand and the corporate brand is not so strong. The CEO is fully aware of this situation and therefore, the story making for the Shiseido as the corporate, the CEO will be fully committed in meeting that.

And also, as I mentioned earlier, we tend not to talk about things with a clear timeline in mind. And as you have seen since last year, so what will be the new technology deployed in what new technology. These are all laid out in the product calendar. And these are the things that we cannot expose from the competition perspective. But what technology will be incorporated in the work brand for monetization is something that we have been discussing amongst management. And including the timeframe for introducing new technology and new products, I'm sure that the story for the entire Shiseido will be fully communicated and you should be able to bridge the gap between investors and Shiseido.

Oshima [Q]: We have a question via chat from Moriya-san from Nippon Life Insurance Company.

Corporate Governance code has been revisedIn the the new corporate governance code. What will be the more progressive area of Shiseido and areas of challenge within Shiseido. And this could be from your own perspective. But would you assess Shiseido's Board members as an effective Board? Or how would you assess yourself?

Hatanaka [A]: Thank you. First of all, for Shiseido, From 2024, we have transitioned to a Company with Three Statutory Committees . And I myself have been the outside director, but I'm also the Chair of the Board. And so from that perspective, the transparency that has been brought is quite high, I would say. So as a result of the structure, I believe the transparency has been quite high.

However, when we compare that to the other overall picture, are we progressive or not? That is another area of discussion or room for discussion and everybody may have your own assessment on that. Especially for us, when we think about the midterm strategy, the allocation of the management resources. For quite some time as the Board of Directors, for example, looking at the 2025 Board of Directors meetings, about half or majority of the time has been allocated to this discussion of allocation of resource. Of course, we're not just having discussions. We have to actually show it to you with the actual company results and performance.

But I would say that, that kind of discussion done by the Board of Directors has been, I would say, quite progressive amongst the peers or in the market. And the board secretariat function, has been further strengthened as well.

Also, not just quantitatively and qualitatively in the past two years, we have changed the way we run the Board. So from that perspective as well, it would be hard to see from the outside the changes that have been made, but I myself, including my other outside experience as well, Shiseido's Board of Director, I would say, is strong with actual execution.

Nakajima [A]: As for myself, the discussion with the Board is very active. So I would like to mention about how active the discussions are within the Board of Directors. Each of the committee members, is not just asking questions, but it's often we would talk about the challenges of the Company and think deeply about the topics and challenges of the Company and give advice or perspective. And to that, the Executive team, the Shiseido management team take this very seriously and take that into consideration. And I feel that we have a very positive cycle of communication.

So when we think about the Board of Directors' assessment, that also could be somewhat superficial. However, looking at Shiseido's company's discussions, I believe that the Board really goes deep into the real challenges and discussions. And as a result of that discussion, what the management pursues within the Company could also change and alternate. So I believe that we have a very good relationship where we can speak and discuss and where it is actually portrayed into the actual company business.

Oshima [M]: Thank you very much. I would like to take questions from Osada-san from JPMorgan Asset Management.

Osada [Q]: Nice to meet you. I'm Osada.

So from the buy side, in order to make a buy-or-not- buy decision, the existence of external Board member is very important in this regard. So I would like to ask a question. So for the track record of M&A, in fact, Shiseido doesn't have a very good track record. So running this aspect of the business meaning M&A, I would like to ask about it because I heard that there's extensive discussion underway. So what is being learned? And what is the specific findings that you can share with us? And so what is your awareness about the M&A performed by Shiseido? And what will be the future key tasks?

Hatanaka [A]: Thank you very much for your question.

So to what extent I'll be able to share is something I need to be cautious about. But the most important thing is that when we acquire a company, we may put a lot of focus on acquiring the company and how we are going to grow the acquired business. So that line of discussion was not fully done in the past. And so in our series of discussions on M&A, that was the most frequently heard voice. And now once an asset becomes part of our assets, then we will be able to add more value.

And for the divestiture, the Company will be able to increase the value by way of Shiseido letting go of that company. But that was a lot of discussion in the past. And now our focus is on how to grow the business to acquire. And also in my previous role, I was involved in a number of M&A and divestiture. A single transaction doesn't solve all the problems to acquire a business and what will be the next step? Including PMI aspect, so we need to make an additional investment to drive value creation through M&A. So this type of holistic story line tended not to be covered in the past. And Shiseido simply focused on each individual M&A or divestiture project. And so that was the thing in the past.

Osada [M]: Thank you very much. I'm afraid it was a bit of a sensitive topic. So I have a few more questions, but I would like to wait for my next turn. Thank you.

Oshima [M]: Thank you very much. Next, Hirohashi-san from Sumitomo Life.

Hirohashi [Q]: Hirohashi from Sumitomo Life. Thank you very much for the opportunity today.

This may overlap with some of the questions that have already been said. But I believe that with the Board of Directors, centering around governance, the execution is strengthening. And I feel that there's a lot of hope and expectations of how the Company is turning around to growth. And now looking at the executive management team, many of the business planning and value creation story, the strategy that the Company creates, the Board of Directors discuss. Has there been cases where the Company management team has come up with a strategy brought to the Board and Board has said, no, we should do this or advise you to revise this and pushed back. I just want to check with you, is that kind of conversation done? And if there are any examples, if you could share with us, that would be great.

And sorry, this might be two questions, but for the two of you, both of you, agenda that you have requested, has that been brought to the Board for full discussion? Or are the agenda at the Board brought up from the Company side? These are the two areas I would like to know.

Hatanaka [A]: First of all, for the midterm planning, it's usually something for the plan that we would come up with a year in advance. However, there were a few discussions that were done. And as a result, was brought back and went back and forth. So in the Action Plan 2025 -2026, looking at the current profit structure to enhance the current profit structure, we have revised it, changed it. And then after that, then look at the growth for mid- to longer term based on that. So in big ways and with great meaning, we did take a lot of time for us, the Board to request to have the management team really think about.

Within that kind of discussion going back and forth, the Board of Directors side said to the executive team side, continue to consider. So we keep on telling them to consider but is this really going to create value. But because it is an important fiscal year, we, as a Board, actually pushed to go back to the executive team about certain areas.

And if we were to divest a specific business area, what would happen? That kind of simulation, we have requested the executive team to do that kind of simulation and the executive team did a great deep dive into this, and they have done a discussion and have come back to us and have that discussion. So that kind of communication is also there, too.

As to the second point of your question, my position is the Chair of the Board. So in every Board of Directors meeting, the agenda is created by the head of the management team, which is Fujiwara-san and Hirofuji-san. And the team, the office that runs the Board. They will request we would like to discuss the agenda in the

Board. So as the representative of the management team of Shiseido, they will request to us and come up with different agenda. And if we have any, we will share with them as well. But currently, it is not that the management team will raise the agenda, but rather what did the Board take notice the most at the time. And as we communicate with the shareholders, what are the areas that we want to discuss the most. So the request that the Board raises is heavily reflected in the agenda of the Board of Directors.

Hirohashi [M]: Thank you very much.

Oshima [M]: I would like to invite Mr. Michael Jacobs from T. Rowe Price. Thank you very much.

Jacobs [Q]: Thank you very much. My name is Michael. Thank you. Can you hear me?

My question is now that Shiseido has been working on structural reform and it resulted in a great effect but the effect kind of dissipated. And then there's been repetitive action for structural reform. And looking at the company from outside, there seems to be people who do not agree with the structural reform, making it difficult for Shiseido to become one team. So for both the management and the general employees to become one team and also to encourage the people who cannot agree with the reform to go away. So if you wait for the entire organization to agree, it's going to take too much time. And then even if you have a great idea for the structural reform, if there's opposition, then you cannot drive it successfully or to the fullest extent. So what do you think about that?

Hatanaka [A]: Thank you very much. And that is, I think, quite a sensitive topic. At least since Fujiwara-san took office as CEO, there’s been reforms underway and Action Plan 2025-2026 leading towards the mid-term business plan. I think, I find this mostly encouraging. But the discussions based on data and evidence, driving away ambiguity. Discussions are taking place based on evidence. That's welcome change.

Another is cross-functional initiatives are becoming more active, such as portfolio discussions, calendar-based discussions, and value chain transformation activities. So in the past, an agenda the CEO or the head of the department in charge took part in the discussions. But now multiple functions take part in the discussion. And certainly, the speed and flexibility of the business management is something that is quite visible within Shiseido currently. So from the evidence, we don't think that our reform will be just a one-off thing. And I trust that the result and the effect of the reform will be lasting.

Jacobs [M]: Thank you.

Oshima [M]: Next, from BlackRock, Kodaira-san.

Kodaira [Q]: This is Kodaira from BlackRock. Can you hear me? Thank you.

In the midterm plan, one of the important key points is leveraging technology for the growth of innovation. So looking at how you have moved forward with technology R&D, how do you assess that? And also for product development and marketing, how do you see as outside directors, what do you see as the biggest challenge in those areas?

Hatanaka [A]: Thank you very much.

Especially around R&D. So what is the future value that is created by R&D? As for the Board of BOD, it has been a bit difficult to bring that to the center of the BOD discussion and also because we would be focusing too much or I would say much of the focus of discussion is about sales and profit. But recently, I think we have been focusing more on the R&D. Shiseido has great power and Shiseido prides itself in R&D. How can we lead that into the profitability of the Company. And so we have been spending more time in those discussions within the Board. And I feel that we are at a stage where the Board can actively talk about that topic.

Currently, looking at the R&D, looking at the theme of research, how do we select that? And right now, we have about 20 themes or have been selecting about 20 themes to do our further research. And how is that going to create value in which fiscal year? Or what timing, when can it create value? And that is the kind of discussions that have been made or that has been ongoing. So for the future, the value that will be created from R&D, are at a place where we can have a clear discussion of the value that the R&D can create in tangible ways. And I feel that we are at a position where we can do that kind of discussion now.

Kodaira [M]: Thank you very much.

Oshima [M]: Next from JPMorgan Securities, Kuwahara-san.

Kuwahara [Q]: I'm Kuwahara from JPMorgan Securities. Thank you very much for this opportunity.

And at the beginning, there was a mention on the use of AI and the connection of increasing the enterprise value. So I would like the speakers to delve into it. And AI use seems to be prolonged in terms of the time frame and costing more than the initial assumptions. So for instance, the book value of the software is reaching as high as 8%. However, in comparison with global competitors, unfortunately we cannot currently confirm evidence that significant results are being generated relative to those investments. And on the other hand, investing into the intangible asset without evidence of effect may not be so right. And so there are aspects of business that need more governance or less governance. So I would like to elaborate on that. Do you think that Shiseido is done with the reforms so we can move to the next step. So what is the situation?

Hatanaka [A]: Thank you for your question.

At this point in time, in regard to programs, the major investment, I don't know whether it has come to the end of the first cycle, but it has now settled, that's true. And as I mentioned, the data integrity, consistency and the comprehensiveness obtained from our system, we're going to bring it to the next level and associate it also with the business efficiency. And so this is something that each entity is working on. And another aspect is to connect that with the enterprise value such as maximizing the customer experience. In particular, in regard to AI what we are focusing on is whether the technology and data owned by Shiseido are AI searchable. As customer behavior around the world is changing through AI recommendations, we are monitoring whether Shiseido's proprietary assets are truly ingested into AI and effectively leveraged for recommendations and AI learning. This is the discussion we're having at the moment.

Therefore, going forward, I will not mention about all the actions. But then, for instance, the formulations of the new product already, there is something that's generated by AI, and this will then become a product and will be delivered to the consumers. And this, I hear, will happen in the short run soon in the future. So I wouldn't say that we are making the full use of AI yet, but the investment made through FOCUS program is gradually beginning to generate the return in the form that I've just explained. So we still need a sense of speed for this.

Kuwahara [M]: Thank you.

Oshima [M]: We have 10 more minutes left. From Meiji Yasuda Asset Management, Hikichi-san.

Hikichi [M]: Meiji Yasuda Asset Management, my name is Hikichi. Thank you very much for the opportunity today. Can you hear me all right?

Oshima [M]: Yes.

Hikichi [Q]: For myself, it links to Kuwahara-san's previous question. After the structural reform, the profitability improvement; there's been a lot of progress. But going forward, I think for your company, it's about how much you can grow the top line. And with that, from your explanation or looking at the midterm planning, et cetera, if there is a great new product or if there is an M&A to fill in the missing piece, then the top line will grow. Could be one way to interpret what you're saying and the midterm plan is saying. But when we think about FOCUS, so the FOCUS operation hasn't really been led to marketing after having some of the production challenges in the past. I feel like that kind of explanation has been missing. So now going forward, if you think about how you grow the top line, looking at the current structure and also as an outside board member, as a Board member, where do you see is lacking from the perspective of how to grow the top line, what is missing or what is necessary?

Hatanaka [A]: So for us, in the short to midterm, the current core 3 and next 5, these brands, we need to maximize. So we really want the executive team to really focus on those brands. And for that, we call it the core science of Shiseido, but the technology that comes from R&D of Shiseido, we want to penetrate that or bring that spread out through all of the different brands where it can be leveraged and so that we can maximize its brand value under the Shiseido Group. And that is what we think of right now.

And after that will be the possibility of growth. So areas where there is the potential for growth, R&D and marketing will both look at it, then what should we invest in to grow. And the management team will look at the accuracy or the reality of the return of these investments and the timing of the return on investments. And that has been monitored very strictly. So currently, it is true to your point that it may be interpreted as the growth of top line may feel weak from a certain perspective, but the areas where there can be growth. And as we saw in this H1, there are areas where we are holding back intentionally.

For example, a product brand like ANESSA, when its product value is currently impaired, we won't push for it at that timing. We will hold back intentionally and look at the brand and work on initiatives that would not lose the brand value overall. So the mix and timing of all that is actually reflected in the current top line. And for us, we do not have the stance that as long as we have good products, I believe that that's and that if we continue doing that, that will not be for the future. So for the executive team, we call it the consumers, our consumers, what kind of things do the consumers in their everyday lives need? What kind of value story do they have and can we fill in their value and needs. And those are the areas of focus when we think about product and brand strategy.

Those are the things that as a Board, we have been telling and sharing with the executive team and monitoring. So that for the future, looking ahead to the future, for the midterm plan, 2% to 5% growth, yes, you may feel that is still low in terms of growth. However, looking at a market that is so complex, I don't think that it makes sense to be overly optimistic without a basis. When we look at this complex market, I believe it makes sense to be more realistic in terms of the growth story of what can be really achieved. And that's what we, as a Board member, focus on as well.

Hikichi [Q]: I'm sorry to make it long, but just following up, Americas, how do you see the sales of Americas? So sales of Americas is struggling a little bit, but do you think that too is the timing of persistence and holding back?

Hatanaka [A]: For the Americas market, there are several topics to be covered. One of the top challenges is Americas, the cosmetics market is one of the biggest markets within Shiseido, but the profits there in the Americas is finally turning into the positive. And that is not something that can be accepted. It is not acceptable. That should be actually a market where it leads the overall company. Otherwise, the future outlook does not look very positive. And that's how severely we look at the situation. And unfortunately, some of the brands, especially the brands that have been acquired through M&A, we do see some challenges. And so from many of the stakeholders, we do get many concerns around that.

However, for Americas, looking towards the future, the current core 3 and next 5 brands, then where do we focus on for the midterm? Where do we invest in, whether it's fragrance or sun care? Including fragrance or sun care area, we look at each of the categories in detail to make sure that we can secure growth. And these are the activities that we are working on and the executive team is working on. And true to your point, the Americas, even after the six months has passed, we do have concerns around this market. But the reason for the concern is very clear, and we know it's been clarified what will be the next growth story going forward.

So as for myself, I believe that this is an area where it needs to have growth. And that within Shiseido too, it's where it can be an area where it could have a lot of potential for high sales and high profit within the Shiseido Group as well. And that's what we hope for, and that's what we try to push from the Board side.

Hikichi [M]: Thank you very much. The investors, I believe, keep on looking at Americas and what countermeasures you have. And I feel like to the investors, some of the countermeasures are unclear. So we look forward to further clarity on information around Americas as well. Thank you very much.

Oshima [M]: We're running out of time; we'll take the next question as the last one. Mr. Miyazaki from Goldman Sachs Securities.

Miyazaki [Q]: My name is Miyazaki. Nice to talk to you. So my question is about top line also.

When we look at the current status in H1 at the beginning of the fiscal year, there was the goal and the progress doesn't seem to be very strong. And to be specific, what is the discussion that has taken place in the past six months. And so in H2, we hear that there will be many new products launched. And so the under achievement in H1, how is it going to be recovered in H2? What is the discussion amongst the Board members?

Hatanaka [A]: So about the top line growth is something that BOD discusses taking a long time. And as you mentioned, the new product calendar is something that we base our discussion on. And there are some products that was better than expected, something that is as expected and there are some products that did not go as expected. So these are the core or the center of discussion. And to answer your question, so for instance, the ANESSA in China, this type of product, this is a period where we need to exercise patience. So as we will deliver the true value of the brand until the market begins to appreciate it or we will also monitor what our competitors are doing and assess the true value of our products. The Board is rigorously discussing product valuation, including whether current market prices are appropriate and whether price increases may be warranted in certain areas

So individual brands, region and products that is launched. As Board members, we discussed and we have the results analyzed and we have been able to discuss what we will do in H2. So the market is shifting and the market trend is also shifting. So I would say that everything that we have in mind will go successfully, but we have already embarked upon the actions that we think is the best measures that is thinkable at this moment.

Miyazaki [M]: Thank you very much.

Oshima [M]: Now we would like to conclude the Q&A. With this, I like to finish the event today. Thank you in advance for your cooperation.

Thank you very much for joining us in this event out of your very busy schedule. Thank you.

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