

Consumer & Social-related Risks

Changes in Consumer Values

Change in risk level between 2021 and 2022:



Key Strategic Initiatives

- Focus on the Premium Skin Beauty category.
- Strengthen business portfolio combining the Company's R&D with open innovation and strategic M&A.
- Develop the inner beauty category.
- Develop cross-border marketing.

Uncertainties

- Loss of competitiveness due to delayed or inadequate response to changing consumer values relating to beauty, changing tastes related to cosmetics or inner beauty, price acceptability, and diversifying purchasing behavior including touchpoints. (Threat)
- Successful marketing strategies addressing changing consumer values may lead to higher-than-expected sales and profits. (Opportunity)

Countermeasures

- Strengthen the delivery of compelling, personalized experiences not only online but also offline (storefront) focused on consumers.
- Strengthen brand portfolio to respond to diversifying consumer values.
- Accelerate diversity of talents, especially at HQ.
- Accelerate value creation and business development through open innovation with other companies.
- Set up a department specializing in market information to obtain consumer information in a timely manner.

Speed of Digital Acceleration

Change in risk level between 2021 and 2022:



Key Strategic Initiatives

- Orchestrate foundational Group-wide shifts in strategy, people, technology and processes, focused on delivering benefits for the larger enterprise.
- Drive Global Standardizations (platforms, tools, process and aligned KPIs) for focused and effective activations and measurement in order to help reach Global targets and create cost efficiencies and decrease compliance risks.
- Obtain and analyze consumer data in compliant manner to develop more personalized marketing through digital CRM. Strengthen retention and loyalty.

Uncertainties

- Possibility of decline in market share due to lack of data and process standardization may lead to compliance risk and cost increases. (Threat)
- Offer unique value through combination of online and offline (i.e., store counter) experiences. (Opportunity)

Countermeasures

- Quarterly regional meetings between Chief Digital Officer (CDO) and digital leadership team in the HQ and Regional HQs established for audit and track global delivery based on standardized KPIs.
- Introduction of the digital workforce planning to reinforce team building, hiring, retention, and development of digital experts.
- Enhance development of beauty technology to reinforce personalized engagement with customers and improve unique digital content to analyze skin condition.
- Accelerate first-party data acquisition through service and technology offered to consumers online and at store counters.
- Promote governance by creating stage gate process, investment management model with collaboration with R&D, Corporate Strategy and Global IT companies.
- Establishment of Global and Regional Metaverse and Web 3.0 Steering Committee to pilot innovations and test, learn and stay competitive.

Pace of Cutting-Edge Innovation

Change in risk level between 2021 and 2022:



Key Strategic Initiatives

- Selection and concentration of R&D through introduction of unique R&D philosophy "DYNAMIC HARMONY."
- Strengthen R&D in the Premium Skin Beauty segment.
- Invest in R&D with ca.3% of net sales ratio target.
- Strengthen R&D and regulatory compliance activities at each Regional HQ.

Uncertainties

- New and competing technologies may make existing technologies obsolete. Cosmetics and other regulations of certain countries could result in restriction of our technologies, making it difficult to provide new value to consumers. (Threat)
- Short-term delay such as launch of new technologies, medium-to long term slowdown in basic research or formula development/alternative ingredients to boost sustainability, or delay in M&A progress and partnerships with third parties could prevent us from achieving planned synergies. This would limit our overall competitiveness and ability to meet the needs of consumers. (Threat)
- Establishing competitive superiority through the creation of new value via innovation in fields such as services, processes, and organization. (Opportunity)

Countermeasures

- Continue to expand investment and resources in R&D of cosmetics.
- Identified core technology areas for R&D and clarified short-to long-term strategies for each to achieve resource allocation with high return on investment.
- To maximize the value of innovative research results, identify the seeds for commercialization across brands, which are effectively communicated to consumers through strategic communications.
- Establishment of an Innovation Center to drive innovation in collaboration with other companies.
- Operate Nasu Factory, Osaka Ibaraki Factory and Fukuoka Kurume Factory leveraging the latest technologies.
- Conduct joint research with external organizations. Harness expertise of startup ventures. Focus on consumer trends.
- Collaborate for innovation with external parties through initiatives such as "fibona" (open innovation program involving startup companies).
- Define KPIs for measuring the return on R&D (such as R&D expenses to net sales ratio, number of researchers, sites, patent applications, academic papers, and seeds created and utilized etc.) for monitoring.
- Expanding the strategic dispatch of talents to external organizations for the development of innovative people.

Corporate and Brand Reputation

Change in risk level between 2021 and 2022:



Key Strategic Initiatives

- Aggressive marketing activities including digital marketing to increase brand value.
- Proactive marketing activities to create both corporate brand and each brand images using ambassadors and social media influencers.

Uncertainties

- Rumors, whether true or unfounded, regarding our official communications or comments and actions by ambassadors and social media influencers associated with Shiseido could result in public criticism of the Group and damage our reputation. (Threat)
- Sale of counterfeit products can damage our ability to share our values with consumers, resulting in damage to our brand. (Threat)

Countermeasures

- Formulate and implement a strict social media policy and ensure familiarization among employees.
- Provide in-house training on maintaining and enhancing brand image for brand holder marketing and communications staff.
- Introduced a review system for language used in advertising and promotional materials, as well as selection of ambassadors and social media influencers, to avoid behavior/messaging leading to criticism on the grounds of ethical or social norms.
- Perform website and social media monitoring to discover and respond to negative information in an accurate and timely manner.
- Coordinate with local government authorities to combat counterfeit products.

Environment and Climate Change

Change in risk level between 2021 and 2022:



Key Strategic Initiatives

- As part of initiatives to realize a better world, execute actions while working toward greater sustainability, and enriching people's lives through an approach unique to a beauty company.
- Promote activities to achieve three commitments: "Reducing Our Environmental Footprint," "Developing Sustainable Products," and "Promoting Sustainable and Responsible procurement."

Uncertainties

- Lack of environmental measures may lead to loss of trust of consumers/society at large and a decline in shopping motivation. (Threat)
- Inadequate responses to environmental issues, particularly climate change risks, would negatively affect business, finance, and corporate value. (Threat)
- Efforts such as development of sustainable products could establish greater trust with consumers and society at large, create new social value in beauty, and rapidly increase corporate value. (Opportunity)

Countermeasures

- Regular meetings held by the Sustainability Committee for medium-to-long-term strategy development/KPI setting, deliberation/resolution on sustainability issues, and monitoring of the strategy implementation progress involving related departments of HQ and Regional HQs with responsibility for execution.
- Sustainability/SDGs-related activities by each brand.
- Promote ISO14001 certification at all factories and distribution centers by end of 2024.
- Issue Sustainability Report reflecting corporate policies, initiatives, and KPIs.
- Promote efforts to contribute to the reduction of environmental impact together with customers through adopting eco-friendly packaging.
- Promote switch to certified palm oil and paper.
- Set and disclose medium-term targets for major environmental load reduction items (CO₂, palm oil, paper, water, waste) and work toward achieving them.
- Support the Task Force on Climate-related Financial Disclosures (TCFD). Prepare and disclose a scenario based on quantitative/qualitative analysis of climate change impact on business, estimated financial impact and specific actions to be taken, in line with TCFD recommendations.

Diversity & Inclusion

Change in risk level between 2021 and 2022:



Key Strategic Initiatives

- To achieve the three commitments of "Women's Empowerment," "Empowering people through the Power of Beauty," and "Promoting Respect for Human Rights," actions taken by HQ/Regional HQs/brands in collaboration with external international organizations and NGOs.
- Particularly in Japan, where empowerment of women lags behind, Shiseido to provide information to employees as well as external companies, thereby driving transformation of Japanese companies and Japanese society as a whole.

Uncertainties

- Possibility of losing the trust of society at large and consumers due to insufficient efforts in Diversity & Inclusion effort, which is a strength of Shiseido. (Threat)
- Our efforts to promote Diversity & Inclusion may create new social values, building trust with consumers and society at large. (Opportunity)
- Organizational culture rooted in diversity and inclusion may lead to recruitment/retainment of diverse and talented people, promoting innovation and dramatically increasing our corporate value. (Opportunity)

Countermeasures

- Medium-to-long-term strategy development, setting KPIs, and monitoring of the strategy implementation progress, involving related departments of HQ and Regional HQs.
 - Activities by each brand for sustainability and SDGs realization.
 - Issuance of sustainability report containing corporate policy, initiatives, and KPIs.
 - Participation in "30% Club Japan" which aims to raise the percentage of women officers in Japanese companies, with our CEO acting as chair to lead the activities of TOPIX Presidents' Association.
 - Expand opportunities to experience "power of makeup" through "SLQM (Shiseido Life Quality Makeup)" and "Lavender Ring Makeup & Photos with Smiles" programs, supporting QOL improvement of cancer survivors.
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Natural and Human-Made Disasters

Change in risk level between 2021 and 2022:



Key Strategic Initiatives

- Reinforce people and management infrastructure to rebuild our foundation for growth on a global scale.

Uncertainties

- Recent natural disasters (such as earthquakes, flood damages, and tornadoes) and other events around the world (such as terrorism and riots) threatening employee safety and/or causing property damage, resulting in negative impact on supply network and business. (Threat)

Countermeasures

- Execute employee safety training and formulate business continuity plans (BCPs) for HQ and major regional sites. Hold regular and consistent training at each site.
 - Strengthen and leverage our global supply network to allow flexible and continuous supply during a crisis, such as establishment of a new factory.
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Infectious Disease

Change in risk level between 2021 and 2022:



Key Strategic Initiatives

- Reinforce people and management infrastructure to rebuild our foundation for growth on a global scale.
- Build a digitally driven business model and organization.

Uncertainties

- Re-emergence of COVID-19 or outbreak of similar pandemics may lead to decline in consumption, sales, and profits. (Threat)
- Possibility to secure a competitive advantage in the market by quickly and flexibly addressing the changes in consumer values and needs. (Opportunity)

Countermeasures

- Putting the safety and security of employees first, taskforce established at HQ and Regional HQs in response to COVID-19.
 - BCP for infectious diseases established and response system continuously strengthened.
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Geopolitical Tensions

Change in risk level between 2021 and 2022:



Key Strategic Initiatives

- Focus investments on the areas of growth drivers.
- Rebuild the business foundation to boost profitability.

Uncertainties

- Possibility of boycott on our products due to increased anti-Japan sentiments in the countries and regions where we operate. (Threat)
- Deterioration of business environment due to political instability in the countries and regions where we operate. (Threat)
- Our profitability may deteriorate if the increased cost of raw materials caused by global price inflation leads to an increase in the price of goods/services, as consumers may be less motivated to purchase our products. (Threat)
- Unstable political conditions and strained diplomatic relationships of the countries and regions where we operate could deteriorate our business environment and lead to negative impacts on production, supply, and sales of our products. (Threat)

Countermeasures

- Further develop our Premium Skin Beauty category.
 - Optimize balance of sales across regions.
 - Strengthen and leverage the scale of our global supply network to allow flexibility at a time of crisis, without interrupting supply.
 - Identify and examine items to be addressed Group-wide assuming a crisis situation.
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Operation & Fundamental Risks

Corporate Culture and Acquisition/ Securing Outstanding Human Capital

Change in risk level between 2021 and 2022:



Key Strategic Initiatives

- Under the "PEOPLE FIRST" core management principle, acquire/develop people that realize innovation and create new value.
- Established eight working principles for all Shiseido employees to follow, as OUR PRINCIPLES (TRUST 8).

Uncertainties

- Inability to acquire and retain the best talent may lead to talent shortages in realizing our business targets. (Threat)
- Possibility of securing a competitive advantage in the global market by acquiring and retaining the best talent. (Opportunity)
- Possible increase in productivity of the entire Group through work style reforms tailored to each task. (Opportunity)

Countermeasures

- Continue to reinforce a strong culture of transparent leadership and governance globally and reinforce the culture through employee communications and town halls.
- Promote a workplace with flexibility and diversity, and improve, such as a workstyle combining office and remote work to achieve maximum results (Shiseido hybrid work style) and permitting part-time jobs. Improve employee wellbeing.
- Introduce the global HR database and unify employee performance management to put the right people in the right positions.
- Introduce the job-grade-based HR System and a remuneration system commensurate with individual contributions to ensure transparency in personnel evaluation and improve employee motivation.
- Accelerate shift to a digital-driven business model and reinforce IT/digital capability through Shiseido Interactive Beauty (SIB).
- Strengthen retention of people by offering total rewards¹, including global leadership programs, women's leadership development programs, global mobility² and competitive compensation systems.

¹ Total rewards combining monetary and non-monetary rewards

² Initiatives to strategically transfer and assign talent from around the world beyond countries and regions from a long-term perspective to attain both business growth and professional development.

Business Structure Transformation

Change in risk level between 2021 and 2022:



Key Strategic Initiatives

- Promote structural reforms by divesting or withdrawing from unprofitable and non-core businesses and improve profitability through reduction of COGs and SG&A expenses.

Uncertainties

- Business plan achievement may be negatively affected if regional/divisional business restructuring does not progress as targeted and profitability and cash flow is not improved. (Threat)
- Possibility that the timing of market recovery may be delayed beyond expectations due to the impact of the Covid-19 and other factors may result in changed in consumer purchasing behavior, negatively affecting the management plans. (Threat)
- Growth in the cosmetics market may fall below expectations with slowdown of economic growth in China or the Americas, affecting management plans. (Threat)
- Possibility of competitive advantage in the global market by improving profitability in EMEA and the Americas, rebuilding the foundation around local business in Japan, and establishing a strong growth foundation in China. (Opportunity)

Countermeasures

- Establish and promote the Global Transformation Committee led by the CEO to establish, implement, manage, and expedite decision-making for corporate strategy and to formulate/implement reform proposals for each regional structure or division.

Operating Infrastructure

Change in risk level between 2021 and 2022:



Key Strategic Initiatives

- Globally improve effectiveness of information systems, business management systems, and core business processes related to procurement/production/sales.

Uncertainties

- If IT system reconstruction/transition at our local offices do not proceed as planned, or faces issues hindering smooth operation after introduction, the initiative to improve global business base may be hindered and management plans negatively affected. (Threat)
- Updating global IT systems contributes to a stronger business foundation and improved competitiveness. (Opportunity)

Countermeasures

- Establishment of the specialized department at HQ and dedication to standardizing and updating IT systems and business processes globally, in line with the overall objectives of the FOCUS project.
- Proceed the system implementation based upon the robust methodology to ensure business, system, and people readiness.
- Implement a high-availability global Cloud IT infrastructure to ensure resilience.
- Activate the Business Contingency Plan, when required, to avoid any operational impact.

Supply Network

Change in risk level between 2021 and 2022:



Key Strategic Initiatives

- Establishment of domestic factories and a supply chain base to enable stable production over the medium-to-long-term.
- Improve our global supply chain management.
- Continuous process improvement and state of the art technology investments in manufacturing and distribution.
- Focus on safety and sustainability.

Uncertainties

- Possible delays and inability to produce stable products due to price hikes, increased demand for raw materials, business withdrawals, natural disasters, cyber damage to suppliers, and other factors caused by economic factors such as yen depreciation and international inflation affecting the supply chain. (Threat)
- Leverage Japan's high-quality manufacturing strengths to increase consumer value, at our factories in Japan. (Opportunity)

Countermeasures

- Reinforce supply structure of important ingredients by using multiple suppliers, securing emergency stocks, and creating strategic alliances with suppliers.
 - Strengthen our monitoring capabilities to ensure compliance with the Shiseido Group Supplier Code of Conduct.
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Compliance

Change in risk level between 2021 and 2022:



Key Strategic Initiatives

- Strengthen global legal compliance structure as we rebuild business foundation through new business models such as digital and beauty tech, wellness, new M&A, etc.

Uncertainties

- Shiseido is subject to laws and regulations in countries in which we operate around the world relating to product safety, ingredients and labeling, employee health and safety, intellectual property, antitrust and competition, data privacy, environment, employment and labor, taxes, product claims, corporate governance, Tokyo Stock Exchange (TSE) listing and disclosure. Unexpected changes to these laws and regulations could have a material impact on the cost of doing business. Failure to comply with these laws and regulations could expose the Company to civil and/or criminal fines, penalties and sanctions impacting our corporate reputation. (Threat)

Countermeasures

- Appointed a Chief Legal Officer (CLO) who works in conjunction with regional legal leaders to reinforce global compliance with the Standards and with laws and regulations. Response teams are activated in any affected Regions or markets to ensure timely and effective actions in protecting the safety of our consumers and our employees.
 - Foster an ethical culture and a framework of our ways of working that set out our non-negotiable standards embodied in our Shiseido Code of Conduct and Ethics expected from all employees. We also provide training and awareness of compliance areas such as anti-corruption, anti-trust, anti-harassment and anti-discrimination and privacy, in addition to developing areas concerning the use of consumer data.
 - Provide an anonymous employee reporting system via phone or online, to report and respond to alleged violations of standards.
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Regulatory

Change in risk level between 2021 and 2022:



Key Strategic Initiatives

- HQ leads in collecting information and analyzing risks related to new environmental laws, regulations, and social trends, sharing information with related departments including overseas regions, thereby strengthening the system for the smooth launch of innovative products and services.

Uncertainties

- If we are unable to properly develop products in compliance with stricter regulations in various countries and regions, our technology and products may be subject to regulatory non-compliance, and as a result, our R&D may stagnate, or production and sales may be banned, it may lead to a significant impact on our business, causing us to lose the trust of society and consumers. (Threat)

Countermeasures

- Established a dedicated department within HQ to monitor trends of regulatory affairs in each country and formulate strategies.
 - Conduct compliance assessments of environmental and other regulations based on the ISO14001 to ensure strict compliance with laws and regulations.
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Quality Assurance

Change in risk level between 2021 and 2022:



Key Strategic Initiatives

- Offering safe products is a core Shiseido value and the foundation of our business strategies and competitive advantage; thorough measures are taken to ensure high quality throughout product design, production, and sales.

Uncertainties

- Company-wide challenges to the thorough implementation of the Group's high standard of quality assurance at various stages of product lifecycles and providing safe products to consumers. (Threat)
- Globally provide Japan-standard quality, leading to improved brand image and increase in consumers, especially outside Japan. (Opportunity)

Countermeasures

- Developed Basic Policy for Quality Assurance and Global Quality Policy and Guidance and established Shiseido's own quality and safety assurance standards. Confirm adherence to such guidelines and standards at all stages, including new product design and development, management of raw materials, production, and delivery. Established a dedicated quality assurance department.
 - Launched a project with an objective to strengthen governance/risk assessment/operating protocols.
 - Implementation of Global Quality System, a system allowing global sharing of voice of consumers collected at consumer centers.
 - Set up a consumer service desk and a dedicated internal system for reporting and responding to potential quality risks, in addition to conducting regular simulation training.
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Governance Structure

Change in risk level between 2021 and 2022:



Key Strategic Initiatives

- Creation of a matrix organization structure composed of six Regions and brand categories to allow HQ to manage the entire Group business, whilst also transferring greater authority to Regional HQs overseeing Japan, China, APAC, the Americas, EMEA, and Travel Retail. We will promote the localization of responsibilities and authority.

Uncertainties

- If Regional HQs push through decisions that do not align with the Group's overall policies, or, conversely, if authority is not appropriately delegated to Regional HQs and they are unable to effectively fulfill their responsibilities, it may become increasingly challenging to maintain efficient and legally compliant operations and damage the organization's sustainability. (Threat)
- Possibility of increased consumer loyalty in Regional HQs area of responsibility and make speedy decisions or successfully execute marketing strategies to address local market needs. (Opportunity)

Countermeasures

- Significant decisions relating to the Company's business are regularly reviewed by the Company's Executive Officers and presented to the Board of Directors.
- We create rules for responsibility and authority of HQ/ Regional HQs for each function and brand to ensure corporate governance through regular reporting and on-going global leadership meetings.
- Strengthen governance structure by establishing internal controls globally, including a Group-wide risk management system.

Information Security and Privacy

Change in risk level between 2021 and 2022:



Key Strategic Initiatives

- Strengthen digital marketing globally by utilizing data and enhancing e-commerce to match consumer needs and fierce competitive environment.
- Acquire and utilize more personal data, including sensitive information, with consumer consents to provide new curated experience/services to our consumers and co-creation.
- Shift to Shiseido Hybrid Work Style, a way of working where productivity is high regardless of place or time.
- Further collaboration and co-creation with external partners such as startups to generate innovation.

Uncertainties

- Stagnation of production and sales and liability for damages to consumers and customers and loss of trust in the Company due to system failures caused by cyberattacks and leakage of consumer data. (Threat)
- With the increase in access points to important data accompanying working styles regardless of location and time, and further collaboration/ co-creation with external partners, information leakage risks may be heightened if management or operation is inadequate. (Threats)
- Violation of laws and regulations, fine payments, and loss of trust in the Company due to delayed or inappropriate response to data privacy-related laws and regulations in each country/region. (Threat)
- Loss of trust in the Company and business opportunity due to failure to understand the sensitivity of society regarding data privacy and appropriately understand the concerns/ expectations of consumers regarding data privacy. (Threat)
- By taking appropriate countermeasures to the above threats, possibility of contributing to the achievement of business goals; for example, consumers feel safe to entrust their personal data to the Company. (Opportunity)

Countermeasures

- The following measures are implemented, referencing the ISO and National Institute of Standards and Technology (NIST) frameworks.
- Dedicated information security department leading global collaboration, governance, and control.
 - Appoint a person responsible for data privacy to reestablish and strengthen global collaboration system.
 - Promote information disclosure and notification regarding protection of data privacy. Promote communication with relevant authorities.
 - Continuously revise the company's information security/data privacy regulations, considering both internal and external environmental changes.
 - Identify/securely manage personal data held by the Company. Continuously promote information security awareness among employees.
 - Reinforce medium-to-long-term response to external cyberattacks increasing in sophistication and diversification (Protect/Detect/Respond/Recover: e.g., stronger security related to filters, computer devices, and cloud use).
 - Strengthening the establishment and monitoring of the Security Operations Center (SOC) on a global scale, involving external experts, for improved management/operation of increasing amount of sensitive data and diversifying data access points.
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Other Risks

Exchange Rate Fluctuations

Change in risk level between 2021 and 2022:



Key Strategic Initiatives

- Increase our ratio of overseas sales as a global beauty company.

Uncertainties

- Significant fluctuations in exchange rates for settlements in foreign currencies, related to import/export transactions.
- When transaction figures reported in local currencies for an overseas affiliate are converted into Japanese yen at the time of preparing the consolidated financial statements, the appreciation of the Japanese yen may adversely affect business results.
- Investments in overseas affiliates could result in reduced net assets due to currency exchange adjustments and the appreciation of the Japanese yen.

Countermeasures

- Hedge exchange rate fluctuation risks with forward exchange contracts.
 - Monitor and respond to fluctuations in major global currencies.
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Business Investment

Change in risk level between 2021 and 2022:



Key Strategic Initiatives

- Promote growth investments that align with Company strategy and improve profitability and strengthen our skin beauty businesses.

Uncertainties

- If market/business conditions deteriorate at levels not anticipated at the time of investment decisions and our business plans are not successfully carried out, impairment losses on goodwill and intangible assets recorded through M&A may negatively affect company performance (Threat)

Countermeasures

- Regular performance monitoring and reporting of monitoring results to the Board.
 - Consider future directions and countermeasures to improve business performance in cooperation with relevant brands, regions, and functional departments.
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Material Litigation

Change in risk level between 2021 and 2022:



Key Strategic Initiatives

- Continuously strengthen legal compliance structure and governance with a risk mitigation focus as we rebuild business foundation and focus on growth through new business models such as digital and beauty tech, transformation initiatives and M&A, beauty wellness, etc.
- Robust management and mitigation of material litigation/claims and heightened attention on proper controls and preventative measures, including employee training and employee reporting avenues such as ethics hotlines.

Uncertainties

- With a presence across approximately 120 countries/regions globally, there is a possibility that we will face lawsuits and/or claims and/or government investigations under the different legal systems of each country. (Threat)
- Significant impact on the Group's business performance, should a major material litigation occur in the future with an unfavorable ruling for the Group; possibility of adverse effect on our financial position and business performance. (Threat)

Countermeasures

- Established legal teams at our HQ and Regional Affiliates, led by the Company's Chief Legal Officer to ensure effective strategies and defenses. Subject matter legal experts/external law firms are retained in support of all legal strategies and defenses in material matters.
- Continuously provide legal training to employees regarding legal environment and country-specific laws and regulations impacting our business in areas of legal impact to the business, such as anti-corruption, antitrust, anti-discrimination.
- Ensure all commercial agreements have clear business terms that include indemnification and other protections to reduce the threat of disputes.
- Proactively ensure all IP is protected globally to guard against infringement claims.
- Conduct due diligence on all significant commercial and business transactions.