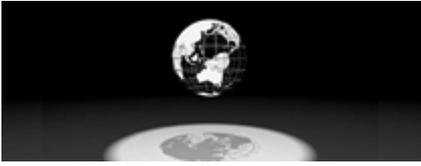


## Compliance

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### > Risk Management



Shiseido's basic policy of risk management

### > Activities to Enhance Corporate Ethics



Here are our activities to ensure an environment for employees to work with a high-level sense of ethics.

### > Information Security Management



Shiseido's activities to protect the Group's various information assets

### > Protection of Intellectual Properties



Shiseido's initiatives to ensure the protection of intellectual property and preservation of confidentiality

### > Tax Policy



Global Tax Policy and Shiseido Group's Tax Policy in the United Kingdom

## Risk Management

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The Compliance Committee fulfills its corporate governance oversight responsibilities with regard to the identification, evaluation, mitigation, and monitoring of risks. The Committee has overall responsibility for monitoring and approving the risk management framework and associated practices of the Company.

### **| Risk Management**

Starting in 2016, Shiseido has been working on risk mitigation through matching the 100 risks common to global companies against responsible departments, especially focusing on non-strategic/non-financial risks. Also, compliance programs are being prepared for the 4 important themes of "personal information protection", "bribery prevention", "cartel prevention", and "business partner risk prevention" identified in the 2014 risk assessment.

## Incident Response

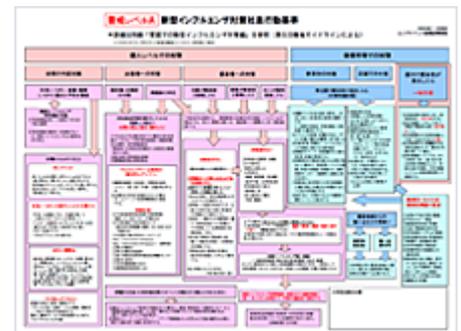
To enable swift and appropriate incident response, Shiseido has clearly defined and categorized incident types. Departments will immediately report incidents to the Risk Management Department, which acts as the Compliance Committee Secretariat. The Risk Management Department determines the gravity of each incident category, considering impact on employees, business operations, environment, etc. An appropriate taskforce will be set up accordingly, with relevant functions aggregated to minimize impact and collateral damage. The taskforce will continuously review the effectiveness of incident handling and promote countermeasures against recurrence.

## Business Continuity Plan (BCP)

Business Continuity Plan (BCP) is a subset of risk management, stipulating actions for incidents/ natural disasters which affect business continuation. Shiseido (Japan Region) has BCPs in place for major disasters which seriously affect business continuation, stipulating how important operations are resumed/ continued in a manner minimizing damages. At Shiseido, major incidents are categorized into 2 categories: (1) natural disasters/incidents with sudden and unexpected damages, and (2) natural disasters/incidents with gradual/long-term damages. 'Earthquake BCP' has been placed for sudden unexpected risks, and 'Novel Influenza (infectious disease) BCP' for gradual/long-term risks. If another type of incident should occur affecting business continuation, either of the two BCPs may be utilized, according to the nature of the incident.

The 'Earthquake BCP' stipulates action items in 4 phases: 1) Preventive Measures, 2) Emergency Response, 3) Resume Operation, and 4) Restored Operation/ Business Continuation. Once an earthquake of a certain level occurs, 'HQ emergency taskforce', led by the Executive Vice President, is activated to confirm employee safety, gather information on damages, and ensure important business operation, such as product supply. When the Great East Japan Earthquake hit in March 2011, Shiseido responded swiftly putting the BCP into action.

The 'Novel Influenza (infectious disease) BCP' categorizes influenza by 3 toxic levels. The action items for each group are shown in 4 phases: 1) Prediction stage, 2) Initial Alert stage, 3) Alert stage, and 4) Subsiding Alert stage. 'Employee Action Guidelines for Novel Influenza', a specific action guideline for employees, has been prepared based on the BCP. This Guideline is made available on the intranet for employees to familiarize themselves with the required actions.



Employees action guidelines for New Strains of Influenza Countermeasures

# SHISEIDO GROUP

## Shiseido Group Compliance Initiatives

The Shiseido Group is committed to complying with laws and regulations and internal rules, as well as to pursuing fair business practices with higher ethical standards in the development of the Group's global business.

The Shiseido Group has instated the following three commitments to focus on in order to fulfil the Group's social responsibility on a higher level, and declare group-wide compliance as follows.

### 1. Safeguarding of Personal Information as per the Importance of Protecting Customer Privacy

In an environment where information spreads instantaneously along with the growth of the Internet, it has become all the more important to safeguard personal information in order to protect customer privacy. The Shiseido Group will properly manage and never improperly use personal information, including customer data.

### 2. Proper Business Conduct Based on Fair, Transparent, and Free Competition (Prevention of Bribery and Cartels)

Bribery and cartels, which can impede fair competition, are strictly restricted under the laws of each country. In order to achieve fair, transparent, and free competition, 1) the Shiseido Group will not offer or receive entertainment and gifts that are suspected to be in effort to obtain illicit gains, regardless of whether or not the business is with government officials, and 2) the Group will also not engage in any cartel activities or any activities that give the appearance of participating in a cartel when conducting business.

### 3. Cooperation in the Supply Chain (CSR Procurement)

In order to contribute to sustainable growth in society, simply working from within the company is not enough—it is critical to cooperate within the supply chain itself. The Shiseido Group will maintain equitable relationships with our business partners in the procurement of products and raw materials, and will share and promote with our business partners activities that lead to the actualization of social responsibility such as respect for human rights, legal compliance, and environmental conservation.

Furthermore, we have also established the following rules as specified rules of the declaration of the three commitments listed above in regards to matters that all must comply with and handle.

- "Information Security Policy"/"Privacy Rule"
- "Compliance Rules Regarding Prevention of Bribery"
- "Compliance Rules Regarding Prevention of Cartels"
- "Shiseido Group Supplier Code of Conduct"

We, at the Shiseido Group, persistently commit ourselves to compliance by requesting that all employees of the Group fully understand the above.

October 2015



Masahiko Uotani  
Representative Director, President and CEO

## Activities to Enhance Corporate Ethics

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To ensure an environment in which employees can work with a high-level sense of ethics, we have various training courses, a consultation desk and a whistleblower system available for employees.

### Training for Employees

#### (1) Enhancement of Corporate Ethics in Workplaces

We have assigned the Corporate Ethics Promotion Leaders in each office in Japan to be in charge of the thorough informing and promotion of corporate ethics. In the overseas regions, Risk Management Officers are responsible for promoting a culture of ethics regionally. The Risk Management Officers are supported by the Business Ethics Officers at the affiliate level. The Corporate Ethics Leaders and Risk Management Officers regularly report the results of corporate ethics activities to the Compliance Committee.

#### (2) Training for All Employees (Once a Year)

Human rights enlightenment and corporate ethics training are conducted for all employees at all business locations of the Shiseido Group in Japan with emphasis on raising awareness through employee discussions.

Various trainings are held to improve communication in various situations and create an open and free working environment.

#### (3) Position-specific Training (Once a Year)

Position-specific training is conducted according to respective positions (corporate officers, managers, new recruits) and specifics of each office in addition to training for all employees.

### Points of Contact for Employee Inquiries

In response to the Whistleblower Protection Act, which took effect in April 2006, and in order to internally resolve misconduct in the unlikely event of such occurrence and before such an issue would become more serious, Shiseido is working toward more widespread recognition of two points of contact: the in-house Shiseido Consultation Office and the telephone counseling service which is operated by the Japan Industrial Counselors Association. Relevant information is distributed in various ways such as through manager training and pamphlet distribution to all employees.

Also, a set of "Shiseido Group Consultation Office Regulations" was established to clarify paths of investigation and resolution and to prohibit prejudicial treatment of whistleblowers (as well as individuals seeking advice). Employees have been informed of these initiatives.

The Shiseido Consultation Office welcomes individuals seeking advice on a wide range of topics relating to the Company's business and operations in general, and is trying to quickly resolve employees' inquiries. In fiscal 2017, a total of 214 inquiries were received, contributing to a cumulative total of 3,030 inquiries since the establishment of facilities in April 2000.

Furthermore, the Company distributed an Ethics Card to each employee, including employees dispatched from employment agencies. The Ethics Card features various information including contacts for the aforementioned work-related consultation inside and outside the Company, as well as internal "Mental Health Consultation" and external "Shiseido Health Support Dial 24" for advice related to mental and physical concerns.

## Whistleblower System

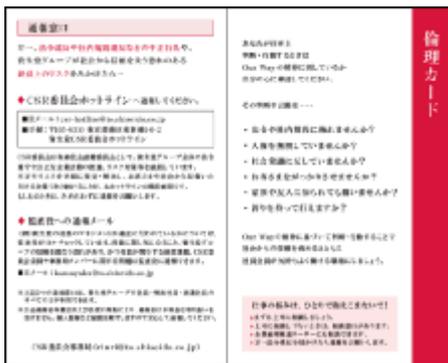
As the social environment continues to change, companies are required to make swift responses according to such changes. To ensure that any acts in violation of the law, employment regulations, or internal rules found in the Company are resolved internally before they become serious, the Company has established an entity for reporting (counseling) ethics concerns: the in-house Shiseido Consultation Office to receive inquiries and reports covering a wide range of topics regarding the workplace. Furthermore, the Company has also established the “Compliance Committee Hotline”, which specializes in reported cases, and “Report Mail to Auditors”, which receives reports concerning corporate officers.

The Company has also created and publicized through Ethics Card distribution, posters, intranet, etc., to employees a set of regulations setting forth an impartial means of investigating and resolving complaints and clearly prohibiting prejudicial treatment of whistleblowers (as well as individuals seeking advice) for each of the above entities, along with the means to receive inquiries, etc.

The above entities welcome individuals seeking advice on a wide range of topics, and received and quickly resolved 220 inquiries in Japan in 2017.

Approximately 70% of the inquiries received in 2017 were regarding relationships in the workplace as well as regarding labor management. Necessary measures were taken, such as internal investigations, etc., to resolve all of such inquiries. Furthermore, the Company aims to thoroughly prevent recurrence of those that must be regarded as issues for the overall workplace by calling attention throughout the Company by incorporating such issues in the management training, etc.

Overseas, the Company has established the “hotline” system, which is a Whistleblower system, as well as an entity to receive reports in each major affiliate. In addition, the Company has also established the “Shiseido Group Global Hotline” at the HQ to directly receive reports from employees of overseas affiliates.



Ethics Card

## Information Security Management

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### Policy Related to Information Security

Shiseido establishes the “Information Security Policy” for all people working in the Shiseido Group to protect and maintain various essential information assets owned by business sites of the Group by setting robust information security. Under the group-wide basic policy, we strive to manage and operate various information assets. Employees receive continuous education on information security, such as annual training through e-learning.

### Policy Related to the Protection of Personal Information

Shiseido deeply recognizes the importance of personal information acquired through business and other relevant activities and considers it a social responsibility to thoroughly protect such information. Therefore, we have established the “Shiseido Group Privacy Rules” to which all employees of the Shiseido Group should adhere. All companies in the Shiseido Group endeavor to ensure the protection of personal information.

Details of Shiseido’s policy on the protection of personal information are available in its Privacy Policy.

## Protection of Intellectual Properties

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Shiseido Group invests in R&D and marketing to develop innovative technologies and increase our brands’ value. Therefore, enhancing our Intellectual Property (IP) value is a crucial activity for our sustainable growth. IP includes intangible assets such as patents, trademarks, copyrights, industrial designs, trade secrets, etc. We protect our inventions, brands, marketing ideas and other IP outcomes properly, as these assets play key roles in our future success. We also respect third parties’ IP rights and provide internal trainings for our employees to raise the awareness.

Note : Intellectual properties refer to intellectual property rights (patent rights, trademark, design rights, copyrights, etc.) and business confidentiality (know-how, etc.).

## Tax Policy

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### Global Tax Policy

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Shiseido Group complies with the laws and regulations in all countries in which we run business. “Shiseido Group Standards of Business Conduct and Ethics” sets forth the code of conduct for all employees to ensure our compliance to the law. In addition, we set the global tax policy here to ensure the tax transparency. We aim to maximize the shareholder value by mitigating the tax risk globally.

### Tax Principles

#### Compliance

We comply with the international guideline established by the OECD and the laws and regulations in all countries in which we run business.

#### Governance

The discipline for the compliance and accurate tax accounting is set forth in “Shiseido Group Standards of Business Conduct and Ethics” and shared with all employees to ensure the tax transparency. We will resolve the tax issues by managing the tax risk locally by each RHQ, and sharing the tax information globally in a timely manner.

#### Responsibilities and Organization for the Tax Compliance

Tax compliance is under the responsibility of the CFO. To manage the global tax risk effectively, tax team of global headquarters manages the tax compliance of the group, and CFOs at each regional headquarters manage the tax compliance in their region. Employees with tax expertise are assigned as necessary for the smooth operation of our global tax risk management organization. We provide trainings to employees to raise awareness on the tax compliance.

#### Maximization of the Shareholder Value

In order to improve the shareholder value, we strengthen the governance and save tax by utilizing tax incentives where applicable in the ordinary course of business.

#### Transfer Pricing

Our transfer pricing policy is in accordance with the OECD Transfer Pricing Guidelines and the laws and regulations of each country in which we run business. The pricing for the intercompany transaction is determined based on the policy.

## **| Tax Havens**

We do not utilize the tax havens to solely avoid tax.

## **| Relationship with the Tax Authorities**

We cooperate with the tax authorities and build a good relationship with them.

## **Shiseido UK Tax Policy**

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SHISEIDO Group complies with the laws and regulations in all countries in which we run businesses. "Our Mission, Values and Way", our corporate philosophy, sets forth the code of conduct for all employees to ensure our compliance to the law. In addition, we set the global tax policy to ensure tax transparency.

The following document lays out the company's strategy and approach in 2019 for the United Kingdom. We publish this statement to meet our obligation under Paragraphs 19(2) and 22(2) of Schedule 19 of FA2016."

## **| Governance and Responsibilities**

The discipline for the compliance and accurate tax accounting is set forth in "Our Mission, Values and Way", our corporate philosophy, and shared with all employees to ensure tax transparency.

The Chief Financial Officer (CFO) is ultimately responsible for Shiseido's overall tax risks. We will resolve the tax issues by managing the tax risk locally by each Regional Head Quarters (RHQ) and sharing the tax information globally in a timely manner.

Tax compliance is under the responsibility of the CFO. To manage the global tax risk effectively, the tax team of Global Head Quarters (HQ) manages the tax compliance of the group, and CFOs at each RHQ manage the tax compliance in their region. Each RHQ assigns the employees with tax expertise as necessary. We provide trainings to employees to raise awareness on the tax compliance.

The Senior Accounting Officer (SAO) is responsible for the day-to-day management of the UK tax risks. In the UK, this role is performed by the UK&I Group CFO.

## **| Tax Planning**

Shiseido's tax arrangements are based on its commercial business and economic activities. Shiseido monitors and reviews its operations in the UK and elsewhere to realign its tax arrangements when necessary to be compliant with the tax rules and regulations.

Globally, we comply with the international guideline established by the Organisation for Economic Co-operation (OECD) and the laws and regulations in all countries in which we run businesses.

Our transfer pricing policy is in accordance with the OECD Transfer Pricing Guidelines and the laws and regulations of each country in which we run business. The pricing for the intercompany transaction is determined based on the policy.

We adhere to the UK Double Tax Treaties and the relevant guidance issued by the OECD for international tax matters.

## **| Tax Risk**

We aim to maximize the shareholder value by mitigating the tax risk globally.

We will resolve the tax issues by managing the tax risk locally by each RHQ and sharing the tax information globally in a timely manner.

Where there is complexity or uncertainty we may seek support from external advisors.

## **| Relationship with Her Majesty's Revenue & Customs (HMRC)**

We seek to build and sustain relationships with government and HMRC that are constructive and based on mutual respect. We work collaboratively wherever possible to resolve disputes and to achieve early agreement and certainty.