

**SUSTAINABILITY-LINKED BOND FRAMEWORK**

**Shiseido Company, Limited**

**November 2022**

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## **Introduction**

Since the foundation of Shiseido in 1872, we have respected nature, the global environment, and society, and have worked to create social value through our core business. In line with our corporate mission of BEAUTY INNOVATIONS FOR A BETTER WORLD, we are committed to the realization of a sustainable world where everyone can enjoy a lifetime of happiness through the power of beauty by solving social issues in a way unique to a beauty company.

OUR MISSION IS

# BEAUTY INNOVATIONS FOR A BETTER WORLD

## **1. Sustainability in Our Management Strategies; Strategic Actions for the Environment and Society**

Our vision for 2030 is the creation of a sustainable world where everyone can enjoy a lifetime of happiness through the power of beauty. We aim to become a “Personal Beauty Wellness Company.” We believe that Shiseido’s value creation is rooted in leveraging the power of beauty to generate economic and social value. Through the provision of innovative cosmetic products and services, we aim to enrich life and realize the healthy beauty of each and every consumer. We dream of a diverse society in which everyone can live life to the fullest, and a sustainable environment where people live in harmony with the planet.

In 2022, Chief Strategy Officer was assigned responsibilities of establishing and promoting the broader sustainability strategy for the entire Shiseido Group, in view of making sustainability a more integral part of our corporate strategy than ever before and promoting the creation of social value and resolution of environmental and social issues through our core business.

In terms of the environment, we are strengthening our sustainable product development efforts while responding to climate change and taking other measures as a corporate citizen to reduce our environmental footprint. To provide consumers with new value that ensures efficacy, quality, and sustainability, we are accelerating the development of our unique owned technologies, as well as collaborating with external partners.

Regarding social impact, we are particularly focused on diversity and inclusion (D&I). As well as creating an inclusive society through our beauty business, we also contribute to the positive

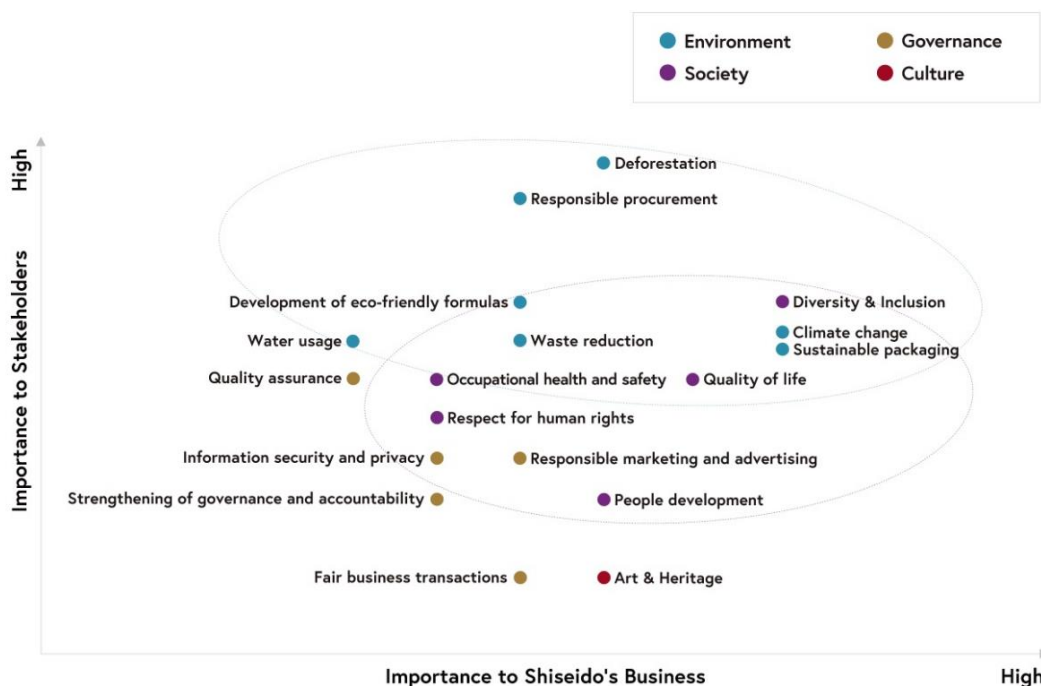
transformation of Japanese society through the empowerment of women. By utilizing the knowledge cultivated within Shiseido, we strive to transform Japanese society and the business community through the participation in the 30% Club Japan, of which our Representative Director, President and CEO Masahiko Uotani is the chair.

Innovation is essential in creating new value, and we believe our employees are the true source of innovation. Our diverse employees around the world are currently exploring and proposing innovative new businesses, products, and services that offer social and environment value unique to a beauty company.

## 2. Sustainability Management

### 2.1 Shiseido's Material Issues

At Shiseido, we are committed to creating a sustainable world and enhancing people's sense of happiness and fulfillment via value creation through beauty innovations, as we have done since our founding. To select social and environmental and issues to be addressed through our business, we compiled a list of sustainability issues based on interviews, surveys, and discussions with stakeholders. We first examined the importance of these issues to Shiseido's business and to all of our stakeholders, from consumers and business partners to employees, shareholders, and society and the Earth. We then categorized and prioritized the issues along two axes and defined 18 material issues.



**Environment: Reducing our environmental footprint through our business**


















In the area of the environment, we have defined three strategic actions: For “Reducing Our Environmental Footprint” through our business, we are working to reduce CO<sub>2</sub> emissions, water consumption, and waste in accordance with the medium-term environmental targets. In addition, we focus on “Developing Sustainable Products” as a mean to directly deliver our value to customers to provide functional and emotional values required by them while paying due consideration to the environment. We are also “Promoting Sustainable and Responsible Procurement” – a procurement practice that respects human rights and the environment.

**Society: Disparity and other structural problems in society; prejudice and discrimination arising from conventional, stereotyped values**

In the area of society, diversity and inclusion are our major priority. Our unique position as a beauty company allows us to help address social issues such as prejudice and discrimination that arise from conventional, stereotyped values. Specifically, we are promoting three strategic actions: “Advancing Gender Equality,” which is a critical issue particularly in Japan and throughout Asia; “Empowering People Through the Power of Beauty,” which contributes to authenticity and empowerment through Shiseido’s track record of research and technology; and “Promoting Respect for Human Rights,” which is at the heart of everything we do.

**2.2 Strategic Actions and Corresponding SDGs**

Shiseido has established six strategic actions based on different material issues, three each in the areas of environment and society. To implement these initiatives, we are distributing management resources on a priority basis in each department across the entire company.

Area	Strategic Action	Corresponding SDGs
Environment	Reducing our environmental footprint	<b>6 CLEAN WATER AND SANITATION</b>  <b>11 SUSTAINABLE CITIES AND COMMUNITIES</b>  <b>12 RESPONSIBLE CONSUMPTION AND PRODUCTION</b>  <b>13 CLIMATE ACTION</b>  <b>14 LIFE BELOW WATER</b> 
	Developing sustainable products	<b>3 GOOD HEALTH AND WELL-BEING</b>  <b>9 INDUSTRY, INNOVATION AND INFRASTRUCTURE</b>  <b>12 RESPONSIBLE CONSUMPTION AND PRODUCTION</b>  <b>14 LIFE BELOW WATER</b> 
	Promoting sustainable and responsible procurement	<b>8 DECENT WORK AND ECONOMIC GROWTH</b>  <b>12 RESPONSIBLE CONSUMPTION AND PRODUCTION</b>  <b>15 LIFE ON LAND</b> 
Society	Advancing gender equality	<b>5 GENDER EQUALITY</b>  <b>10 REDUCED INEQUALITIES</b> 
	Empowering people through the power of beauty	<b>3 GOOD HEALTH AND WELL-BEING</b>  <b>5 GENDER EQUALITY</b>  <b>10 REDUCED INEQUALITIES</b> 
	Promoting respect for human rights	<b>8 DECENT WORK AND ECONOMIC GROWTH</b>  <b>10 REDUCED INEQUALITIES</b> 

### 3. Strategic Actions and KPIs

#### 3.1 Commitments in the Area of the Environment

Respect for the planet, society and people has been embedded in our culture since our foundation in 1872. In everything we do – from development and procurement to production, use, and disposal – we work to preserve the global environment that we all depend on. That is how we create sustainable value.

#### COMMITMENT 1

##### Reducing Our Environmental Footprint

We are reducing the environmental footprint of our activities by taking actions in three key areas:

- CO<sub>2</sub>: We will be carbon neutral by 2026.\*<sup>1</sup>
- Water: We will reduce our water consumption by 40% by 2026.\*<sup>2</sup>
- Waste: We will send zero waste to landfills by 2022.\*<sup>3</sup>



## COMMITMENT 2

### Developing Sustainable Products

We use innovation to minimize the environmental impact of our products and disclose our policies on product development:

- Packaging: We will achieve 100% sustainable packaging by 2025.\*<sup>4</sup>
- Formula/Ingredients: We aim to reduce our environmental and social impact by using sustainably sourced raw materials that are selected in consideration of safety, the environment and ethics.



## COMMITMENT 3

### Promoting Sustainable and Responsible Procurement

We work with suppliers to procure raw materials in consideration of environmental protection, biodiversity and human rights:

- Palm Oil: We will achieve 100% sustainable palm oil usage by 2026.\*<sup>5</sup>
- Paper: We will achieve 100% sustainable paper usage for product packaging by 2023.\*<sup>6</sup>
- Supplier Assessment Program: We aim to create a sustainable supply chain.



\*1 At all our sites. Scope 1 and 2.

\*2 For all our sites, intensity per sales, compared with 2014.

\*3 For owned factories.

\*4 For sale of products with plastic packaging.

\*5 RSPO's physical supply chain models, identity preserved, segregated, and/or mass balance.

\*6 Such as certified paper and recycled paper.

The impact of climate change, including extreme weather events, is becoming more apparent every year. The Sixth Assessment Report issued by the Intergovernmental Panel on Climate Change (IPCC) confirmed that "it is unequivocal that human influence has warmed the atmosphere, ocean and land." And at the UN Climate Change Conference of the Parties (COP26) Conference in Glasgow last November, an international 1.5°C goal was agreed upon. In order to mitigate climate change, the reduction of CO<sub>2</sub> emissions is imperative. Companies must respond to climate change issues and take a resilient approach to both market and environmental changes, while ensuring transparency in disclosure. Shiseido produces only a

limited amount of CO<sub>2</sub> emissions, given the nature of its cosmetics business. However, to live up to the responsibility of a corporate citizen, we disclosed our medium-to-long-term targets for the reduction of CO<sub>2</sub> emissions – which account for the majority of greenhouse gas (GHG) emissions – as well as the reduction of water consumption and waste. In line with this initiative, we have established a sustainability performance target, “We will be carbon neutral by 2026.”

### **3.2 Commitments in the area of Society**

Since our establishment, we have offered products and services to enrich the lives of people everywhere, responding to everchanging social values and the diverse needs of humanity. Going forward, we strive to promote a broader range of social values. By offering various avenues of education, we aim to move away from monoculture, stereotypes, prejudice, and discrimination to nurture a society of diversity and inclusion.

#### **COMMITMENT 1**

##### **Advancing Gender Equality**

- Empowerment of Women

We aim to eliminate the gender gap so everyone can live life exactly as they wish. To advance gender equality, we support women’s career growth, girls’ education, and independence.



#### **COMMITMENT 2**

##### **Empowering People Through the Power of Beauty**

- Improving Quality of Life Through Cosmetics

We have developed a wide range of cosmetics for various skin concerns, and support cancer survivors and older people around the world.



#### **COMMITMENT 3**

##### **Promoting Respect for Human Rights**

- **Respecting Human Rights**  
We promote various initiatives to respect the human rights of stakeholders throughout our business.
- **Human Resources**  
We welcome diverse professionals and promote an inclusive culture in which each person can positively demonstrate their differences.



The World Economic Forum annually publishes the Global Gender Gap Report\*. According to the 2022 report, Japan ranked 116th among 146 countries benchmarked, remaining in last place among the Group of Seven (G7) industrialized nations.

For 150 years since our founding, we have embraced the spirit of diversity and strived for value creation. For us, our business is not about simply producing and selling cosmetics. We have promoted respect for unique lifestyles of diverse people and helped them to live their lives in their own way through our beauty business. Addressing gender gap in Japan is a pressing issue, and we believe that the contribution to the resolution of this challenge should facilitate a structural reform in Japan. We are playing a leading role in the above-mentioned 30% Club Japan by driving relevant initiatives to increase a ratio of female directors and trigger social and corporate reforms in Japan.

Women's empowerment in the workplace is one of our top priorities. It is important not only to have a working environment in which female employees can demonstrate their skills, but also to ensure gender balance in terms of decision-making. Although the ratio of women in leadership positions in our group is higher than the average for Japanese companies, further improvement is urgently needed.

We, therefore, established a Sustainability Performance Target, "achieve the ratio of female leaders in Japan of 40% by January 1, 2026."

\* Benchmarks gender gaps of each country for cross-country comparison

#### **4. A System for Promoting Sustainability**

At Shiseido, we work to promote sustainability across the entire company, including our brands and regional businesses.

In 2020, we launched the Sustainability Committee, a dedicated body to ensure timely management decisions related to sustainability and their company-wide implementation. The committee decides on Group-wide sustainability strategies, policies, and discusses specific



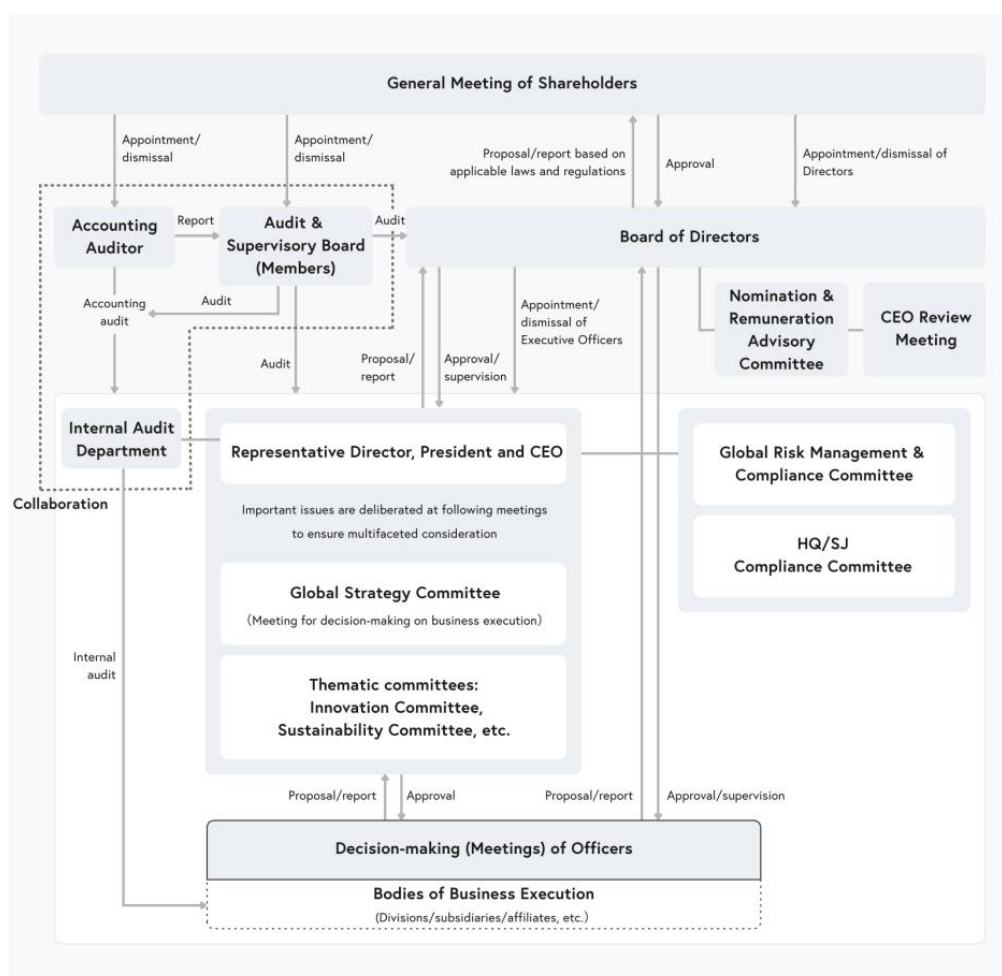
topics such as disclosure contents of TCFD and actions for human rights, as well as monitors the progress of medium-to-long-term goals. The committee consists of the Group CEO and executive officers in charge of Corporate Strategy, R&D, Supply Network, Corporate Communications, and our brands, as well as other executive officers from different fields to ensure discussion of a range of issues from different perspectives.

In 2021, we held additional meetings to discuss and decide on measures for implementation with the relevant executive officers and those in charge of promoting sustainability in major departments in order to incorporate sustainability issues into management, thereby strengthening promotion across the Group. In addition, the Global Strategy Committee and the Board of Directors are consulted when a decision is needed on important matters related to business execution.

In 2022, Shiseido underwent organizational reform to bolster and expand its sustainability activities and seamlessly incorporate and promote them in our management and business strategies. Specifically, the Sustainability Strategy Acceleration Department was established within the Corporate Transformation Acceleration Division to take charge of the Group-wide sustainability strategy and its acceleration. At the same time, the D&I Strategy Acceleration Department was created to accelerate Shiseido's diversity and inclusion (D&I) initiatives both internally and externally.

Moreover, in a bid to promote sustainability initiatives, we have revised indicators for the long-term performance-linked remuneration of internal directors and executive officers, increasing the weight of social value indicators from 10% to 20%.

## Organization for Promoting Sustainability



### 5. Sustainability-Linked Bond (SLB) Framework

In this Framework, Shiseido specifies the following five core components set forth in the Sustainability-Linked Bond Principles 2020 of the International Capital Market Association (ICMA) and the Sustainability Linked Bond Guidelines 2022 of the Ministry of the Environment of Japan.

- (1) Selection of Key Performance Indicator (KPI)
- (2) Calibration of Sustainability Performance Targets (SPTs)
- (3) Bond characteristics
- (4) Reporting
- (5) Verification

(1) Selection of KPI

The following two indicators have been selected for KPI for the sustainability-linked bonds to be issued based on the Framework. These indicators have been selected in accordance with the sustainability strategy defined as the cornerstone of our corporate management in the medium-to-long-term strategy, WIN 2023 and Beyond.

Item	KPI
KPI (1)	CO <sub>2</sub> emissions (Scope 1 + Scope 2)
KPI (2)	A ratio of female leaders <sup>*1</sup>

\*1 Shiseido Group in Japan

■ Results for KPI (1) (Unit: t)

	2018	2019	2020	2021
Scope 1 and Scope 2	81,249	78,750	72,458	65,481
CO <sub>2</sub> emissions total				

■ Results for KPI (2) (Unit: %)

	Jan. 1, 2019	Jan. 1, 2020	Jan. 1, 2021	Jan. 1, 2022
Ratio of female leaders in Japan	32.3	33.1	34.8	37.3

\* Each of the figures above has been verified by a third party.

(2) Calibration of SPTs

The sustainability-linked bonds to be issued based on the Framework will employ the following two sustainability performance targets (referred to as "SPTs").

Item	Description of SPTs
SPT (1)	Carbon neutrality by 2026 <sup>*2</sup>
SPT (2)	A ratio of female leaders in Japan of 40% by January 1, 2026 <sup>*3</sup>

\*2 Including emissions credits purchase

\*3 Scope: Shiseido Group in Japan

(3) Bond characteristics

Characteristics of the sustainability-linked bonds to be issued based on the Framework will vary depending on our performance against the SPTs. Specifically, if we fail to achieve the SPTs, we plan to make a donation by the redemption date to a public interest incorporated association, public interest incorporated foundation or international

organization working for environmental preservation, empowerment of women or gender equality. A recipient of the donation will be decided through necessary resolutions on or after the observation date for each SPT.

Details of bond characteristics variations (including a ratio of donation to the issuance amount) and an observation date will be specified in legal documentation, such as the Amended Shelf Registration Statement or Shelf Registration Supplement in connection with the issuance of the sustainability-linked bonds under the Framework.

In case of exceptional events that could substantially impact the calculation of the KPI, the restatement of the SPTs and/or pro-forma adjustments of baselines or KPI scopes, they may be subject to recalculation. The events may include, but not limited to, M&A activities, drastic changes in the regulatory environment or extreme events, etc. we will disclose the details of recalculation.

(4) Reporting

Shiseido discloses the following details on its performance of the SPTs for the predefined KPI annually on our website during the period before the sustainability-linked bonds to be issued based on the Framework are redeemed.

Item	Contents of Reporting
Performance of KPI	KPI (1): Performance of the KPI at the date of reporting each year KPI (2): Performance of the KPI as of January 1st of each year
Important information updates	Information that may affect the achievement of SPTs (e.g.: Establishment and update of sustainability strategies)
Details of donation	If a donation is to be made, the name of a recipient, reasons why the recipient is selected, an amount of the donation, and a scheduled date of the donation will be disclosed.

(5) Verification

Shiseido will obtain a third-party opinion from a third-party reviewer to the effect that the Framework complies with the Sustainability-Linked Bond Principles of the International Capital Market Association (ICMA) and the Sustainability Linked Bond Guidelines of the Ministry of the Environment of Japan. The third-party opinion so obtained will be disclosed at our corporate website.

We will be subject to annual third-party verification on our performance of the SPTs for

the predefined KPI until the arrival of an observation date for the SPTs. Verification results will be disclosed at our corporate website.