

## Executive remuneration policy

### 1. Basic policy regarding corporate governance

The Company has developed the “Pigeon Way,” as described below, comprising its Purpose, Values, Action Principles and Vision, under its Corporate Philosophy of “Love” and its Credo of “Only love can beget love,” as the basis of its spirit and actions to be shared by all Pigeon Group employees, both in Japan and abroad.

The “Pigeon Way” is more than a mere slogan. The Company believes that having all employees become strongly aware of the “Pigeon Way” and putting it into action will inevitably improve corporate value, and that its corporate value encompasses both social and economic value. We are aiming to achieve the goal of improving social value mainly by becoming an indispensable part of society, while delivering joy and happiness to our target customers, by providing solutions and new value. The Company established the following six (6) priority materialities (Key Issues) to be addressed in terms of Sustainable Development Goals (SDGs) and Environmental, Social, and Governance (ESG): 1) enhancement of business competitiveness and R&D capabilities; 2) sustainable reduction of environmental impact; 3) enhancement of stakeholder support capability; 4) improvement of the quality of human resources; 5) creation of comfortable working environment; and 6) development of a solid management base, all of which will be incorporated into our business strategies. Meanwhile, we are aiming to achieve the goal of improving economic value mainly by increasing free cash flow consistently, efficiently, and strategically, as we move into the future.

Based on this approach, the Company defines corporate governance as “the system that pays due respect to the views of our employees, customers, business partners, shareholders and local communities, and that ensures transparent and fair as well as prompt and bold decision-making” and the purpose of corporate governance as the means to achieving “the Company’s sustained growth and the improvement of corporate value in the medium- to long-term.”

The Company will continue to further strengthen this system in accordance with the above definition and make efforts to continuously enhance its corporate governance in pursuit of further improving its corporate value.

## Pigeon Way



### Corporate Philosophy

#### Love

#### Credo

#### Only love can beget love

##### Vision

To be the baby product manufacturer most trusted by the world's babies and families, "Global Number One"

##### Purpose

We want to make the world more baby-friendly by furthering our commitment to understanding and addressing babies' unique needs

##### Values

- Integrity
- Communication, Consent, Trust
- Passion

##### Action Principles

- Agility
- Keep sight of consumers
- Global collaboration among competent individuals
- Leadership and logical working style
- Willingness to change

### 2. Basic policy on executive remuneration

The Company's basic policy on remuneration for Directors (hereinafter referred to as "executive remuneration") shall be as follows, in accordance with the aforementioned "1. Basic policy regarding corporate governance":

- It should contribute to "management that improves the corporate value" of the Group over the medium- to long-term;
- It should contribute to the hiring of talented managers toward the achievement of "Global Number One," based on the "Pigeon Way"; and
- The remuneration system should be highly independent, objective, and transparent, and accountable to stakeholders.

### 3. Remuneration levels

The Company determines levels of executive remuneration in accordance with the aforementioned "2. Basic policy on executive remuneration," after surveying and

analyzing its business environment and the compensation levels in its peer group of companies in the same industry (manufacturing) and of the same size, through external databases, etc.

Remuneration levels for each position are listed as below (with president as 100%)

Position	Remuneration Level
President	100%
Chairman, vice president	80%
Senior managing executive officer	60%
Managing executive officer	50%
Director	40%

#### 4. Remuneration mix

The remuneration for the Company's Directors (excluding Independent Outside Directors) consists of "basic remuneration" commensurate with position, "bonuses" provided as short-term incentives, and "stock remuneration (performance-based and non-performance-based)" provided as a medium- to long-term incentive. The remuneration for Independent Outside Directors and Audit & Supervisory Board Members consists of "basic remuneration" only.

(Note) "Bonuses" and "stock remuneration (performance-based)" is applicable to performance-based remuneration etc., "stock remuneration (performance-based and non-performance-based)" is applicable to non-monetary remuneration listed in Article 98, paragraph (5) of the Regulation for Enforcement of the Companies Act.

##### (i) Overview of remuneration types

###### <Basic remuneration>

Positions are determined in accordance with roles and responsibilities of each Director in the Company's five business departments. Monetary amounts are decided by position and paid as monthly remuneration every month.

###### <Bonuses>

Bonuses are paid in March every year for the purpose of granting incentives according to the Group's consolidated performance and the performance of the Director's respective departments each fiscal year.

Consolidated performance will vary within a range from 0 to 150%, in accordance with the achievement level of targeted “net sales,” which indicates the scale of the Company’s main businesses; “operating income,” which indicates the profitability of the Company’s main businesses; and, “PVA” (Pigeon Value Added, the Company’s original performance indicator), which indicates the amount of corporate value created in excess of capital costs. These targets utilize the performance forecasts published in the summary of financial results at the beginning of each period for net sales and operating income, and in the initial fiscal-year plan for PVA.

The Chairman of the Board, President and CEO, and Director in charge of GHO dare evaluated only based on consolidated performance. However, for other Directors, bonuses will vary within a range from 0 to 150% based on the base amount of bonuses set for each position, in accordance with the achievement level of targets, with consolidated performance accounting for 70%, and the performance of the Directors’ respective departments (net sales, operating income, and PVA) accounting for 30%.

The valuation ratio for each indicator is as follows:

Indicator	Valuation Ratio
Net sales	50%
Operating income	30%
PVA	20%

<Stock remuneration>

Stock remuneration is paid at the time of retirement for the purpose of granting an incentive to improve the Group’s medium- to long-term company performance and corporate value, and to place Directors in the “same boat” as the shareholders (thus, giving Directors and shareholders a shared interest).

The base amount of share remuneration is set for each position, and this base amount consists of 60% performance shares and 40% restricted stock.

- Performance shares

In principle, performance shares will vary within a range from 0 to 150%, primarily in accordance with the achievement level of target financial indicators set out in the Medium-Term Business Plan (consolidated net sales CAGR, EPS growth rate, ROE and TSR (Total Shareholder Return)) as well as non-financial indicators (e.g., sustainable

reduction of environmental impact, development of products and services that help solve social issues, and engaging in dialogue with shareholders and investors in a responsible manner). Financial indicators are used because they promote the continuous growth of the top line (net sales), further improvement of business profitability and efficiency, as well as an increase in corporate value over the medium- to long-term. With regard to non-financial indicators, we will work to solve social issues surrounding babies, their mothers and their families, as well as reduce factors that lead to environmental load in all countries and regions in which the Group operates, with the aim of making the world more baby-friendly. Furthermore, we will establish a solid management base to continuously support babies by actively engaging with shareholders and investors to gain their understanding and consent to these measures. If the targets set out in the Medium-Term Business Plan are changed significantly, the Board of Directors determines the appropriateness of the target values for stock remuneration, after deliberation by the Voluntary Remuneration Committee.

The valuation ratio for each indicator is as follows:

Indicator		Valuation Ratio	
Financial Indicators	Consolidated net sales CAGR	80%	30%
	EPS growth rate		30%
	ROE		10%
	TSR (relative comparison)		10%
Non-financial indicators	Sustainable reduction of environmental impact	20%	5%
	Development of products and services that help solve social issues		10%
	Engaging in dialogue with shareholders and investors in a responsible manner		5%

• Restricted stock

From the same-boat perspective, a fixed number of shares will be allocated as stock remuneration.

The Company recommends that in principle, Directors (excluding Independent Outside Directors) hold at least one year's worth of basic remuneration in Company

shares.

Stock remuneration is allocated through a trust-based stock remuneration system.

This system grants units (points) to the trustees each year, and issues shares in the Company corresponding to the number of units (points) from the trust at the time of retirement. From the same-boat perspective, the determined number of units (points) is disclosed in the Reference Documents for the General Meeting of Shareholders.

Management of Company shares is entrusted to Mitsubishi UFJ Trust and Banking Corporation.

(ii) Standard model for the composition of Director (excluding Independent Outside Directors) remuneration (if the achievement level of each indicator is 100%)

Type of remuneration	Composition Percentage
Basic remuneration	60%
Bonuses	20%
Stock remuneration	20%

## 5. Governance

In order to increase the independence, objectivity, and transparency of the details of the executive remuneration system, a Voluntary Remuneration Committee has been established as an advisory panel to the Board of Directors, chaired by and with a majority consisting of Independent Outside Directors. In principle, the Voluntary Remuneration Committee shall meet at least four times per year, deliberate primarily on the following main agenda items regarding executive remuneration amounts, calculation methods, and policy for deciding the content of remuneration per individual, and provide advice and proposals to the Board of Directors. The Board of Directors, in turn follows such advice and proposals to the greatest extent possible in its decision-making. Please note that executive remuneration will be paid within the limit of remuneration adopted at the General Meeting of Shareholders.

In order to introduce an objective perspective from outside of the Company, as well as expertise on the executive remuneration system, the Company employs an outside consultant (Human Resources Governance Leaders Co., Ltd.), with whose support it considers the details of the remuneration system, while taking into account matters

such as external data, the economic environment, industry trends, management conditions, employee remuneration amount, and dividend amount.

In addition, to enhance the effectiveness of the Board of Directors, we are working to coordinate the Voluntary Nominating Committee and Remuneration Committee on activities related to director nomination and remuneration. We also evaluate the effectiveness of the Voluntary Remuneration Committee in evaluating the effectiveness of the Board of Directors.

<Main agenda items of the Voluntary Remuneration Committee>

- Whether it is necessary to revise the executive remuneration policy
- Remuneration levels of individual executives (base amount by position)
- Performance targets and evaluation table for bonuses
- Performance evaluations and individual payment amounts, etc. for bonuses in the previous fiscal year
- Performance evaluations and individual payment amounts, etc. for stock remuneration in the previous fiscal year
- Level, composition, indicators, etc. of executive remuneration using external data, etc.
- The necessity of response to executive remuneration due to environmental changes such as the novel coronavirus pandemic.

<Remuneration limits>

Date of Resolution of the General Meeting of Shareholders	Resolution Details	Number of members on the day of resolution at the General Meeting of Shareholders*
62 <sup>nd</sup> Ordinary General Meeting of Shareholders held on April 25, 2019	Monetary remuneration Under ¥800 million per year ( Under ¥100 million for Outside Directors, not including salary as an employee for Directors that are also employees)	10 (of which three are Outside Directors)
	Share remuneration	7

	Eligible parties : Directors (excluding Outside Directors) Payment limits: ¥600 million for three fiscal years (However, for the fiscal year ended December 2019 under ¥200 million) Limit on shares : 41,000 points for one fiscal year (equivalent to 41,000 shares)	
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\*The number of members as of March 30, 2022, was 10 (of which five are Outside Directors) .

#### 6. Forfeiture and return of remuneration

If the Board of Directors resolves to correct its financial statements after the disclosure, due to major accounting errors or fraud, or if the Board of Directors, etc. determines that a Director (excluding Independent Outside Directors) has violated his or her duty of care as a prudent manager or duty of loyalty, or committed other serious violations of his or her legal or contractual obligations during his or her term of office, the Voluntary Remuneration Committee, in consultation with the Board of Directors, deliberates on whether to seek forfeiture of the right to receive some or all bonuses and stock remuneration, or to seek the return of some or all bonuses and stock remuneration which have already been paid, and also provides advice and proposals to the Board of Directors regarding the results of its deliberations. The Board of Directors shall resolve on whether to demand from the Director in question the forfeiture of the right to receive some or all bonuses and stock remuneration, or the return of some or all bonuses and stock remuneration which have already been paid, while following the advice and proposals of the Remuneration Committee to the greatest extent possible.

#### 7. Policy on information disclosure, etc.

The Company swiftly and actively discloses the details of the executive remuneration system, based on its Disclosure Policy, through the annual securities reports,



Reference Documents for the General Meeting of Shareholders, business reports, Corporate Governance Reports, Integrated Reports, websites, and other materials created and disclosed in accordance with statutory and other obligations.

The Company, led by the CEO and the Directors (including Independent Outside Directors), also actively engages with shareholders and investors. The Company positions engagement with shareholders and investors who understand the Pigeon Way as a core value. It shares the views of shareholders and investors gained through engagement with the Board of Directors and other meetings, and uses these views to increase its corporate value (social and economic value).