



Pigeon Group TCFD Report 2022

Pigeon Corporation

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Contents

1. Idea of Sustainability	1
2. Environmental Policy	1
3. Climate Change–Related Financial Disclosure in Line with the TCFD Recommendations	
3.1 Governance Around Climate-Related Risks and Opportunities	4
3.2 Strategy	6
3.3 Risk Management	11
3.4 Metrics and Targets	12

Editorial Approach

The Pigeon Group TCFD Report 2022 contains climate change–related financial information and a report on our current qualitative impact analyses prepared according to the TCFD recommendations, based on information disclosed through our corporate site, integrated reports, corporate governance reports, and other sources.

By fostering an understanding of the Pigeon Group’s Purpose, Idea of Sustainability, Environmental Policy, and initiatives, we hope to communicate with stakeholders as we directly address the challenges of climate change with the aim of making the world more baby-friendly.

1. Idea of Sustainability

To seek to increase social value, economic value, and the summation of the two that is corporate value, and to “continue to be an essential presence within society”: this is the Pigeon Group’s basic idea of sustainability. Furthermore, under the Pigeon Sustainable Vision, the Group is striving to achieve sustainable economic growth as a corporation by reducing its adverse environmental impact and contributing to solving social problems.

Pigeon Sustainable Vision: “Celebrate Babies with All”

We want to make the world more baby-friendly by furthering our commitment to understanding and addressing babies' unique needs. We aim to achieve sustainable growth as a company by reducing environmental impact and solving social issues surrounding babies and mothers in all countries and regions where we conduct business activities. Together with our stakeholders, we strive to create a future, full of joy and freedom, that treasures the amazing brilliance inherent in every baby, that encourages curiosity, and that celebrates diversity.



2. Environmental Policy

The Pigeon Group is committed to form a sustainable society in the Earth’s finite environment and 'leave a rich earth for the future of babies born tomorrow' by acting based on Pigeon Way. In addition to complying strictly with environmental laws and regulations, we recognize the relationship between its business activities and the environment, energetically tackle the environmental issues faced by all humanity.

In that spirit, we pursue maximum efficiency in the use of natural resources and energy and reduce emissions of greenhouse gases, waste, harmful chemicals and other substances that impact the environment. Thereby contributing to the reduction of global warming, preventing pollution and conservation of biodiversity.

In advancing these various efforts, we strive to form appropriate partnerships and cooperative relations with the diverse range of stakeholders in its supply chain, including customers, business partners and regional communities, to have a beneficial effect on the global environment of the future.

3. Climate Change–Related Financial Disclosure in Line with the TCFD Recommendations

In recent years, the effects of climate change have become visible around the world, with various natural disasters causing loss of life and property. The frequency and severity of such natural disasters is only expected to increase. To address climate change, policy changes and new regulations are expected in countries around the world, along with social changes such as market shifts and changes in consumer awareness in the medium to long term.

Pigeon’s Purpose is “We want to make the world more baby-friendly by furthering our commitment to understanding and addressing babies’ unique needs.” To realize this Purpose and continue to exist into the future, we consider it vital to recognize the risks stemming from climate change that could affect our management strategy or financial planning over the medium to long term, and address these risks accordingly.

For this reason, we recognize the need to understand the risks and opportunities for businesses arising from changes in the global and business environment due to climate change—including the financial effects of these risks and opportunities—and to manage key risks and opportunities appropriately. In December 2021, we publicly declared our support for the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD).

In future, we will enrich our information disclosures from the perspective of governance, strategy, and risk management, grounded in the TCFD recommendations, as we continue our analysis of climate-related risks and opportunities.

In this report (the Pigeon Group TCFD Report 2022), we present the results of our analyses of the risks and opportunities we face in relation to climate change. Our quantitative analysis of the financial effects of the risks and opportunities analyzed in this report remains ongoing, and we will disclose these and other additional analysis results in future.

3.1 Governance Around Climate-Related Risks and Opportunities

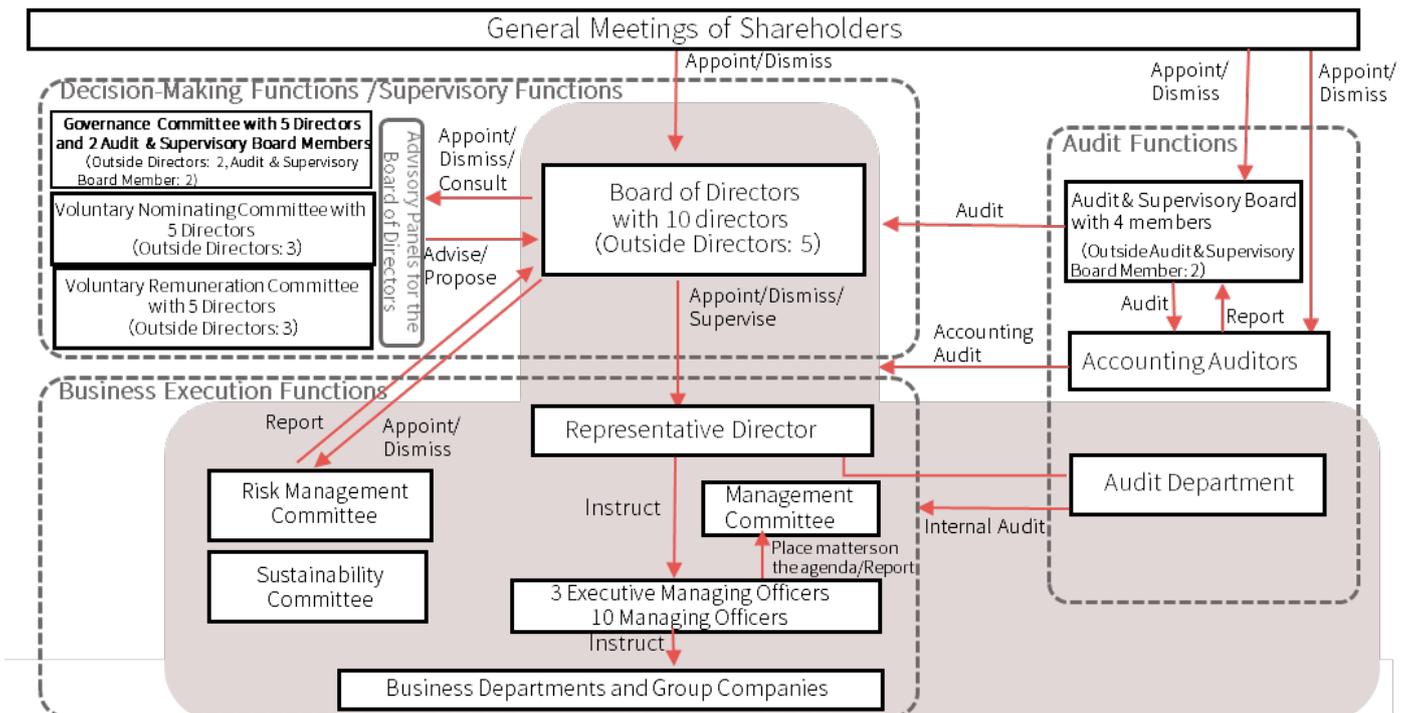
(1) Management by the Risk Management Committee and Sustainability Committee

We have established a GHO (Global Head Office) Risk Management Committee chaired by the director for GHO. This committee is responsible for short- to medium-term risk management across all of the Group’s businesses. Beneath the GHO Risk Management Committee are individual risk management committees for each business, each one chaired by the director or senior managing officer responsible for that business. These committees identify, evaluate, and manage risks at the level of individual businesses, including climate-related risks.

Because climate-related risks and opportunities and other aspects of lessening our adverse environmental impact must be managed from a long-term perspective that cuts across multiple businesses, we have also established a Sustainability Committee chaired by the director for GHO and staffed by the directors and managing officers responsible for individual businesses along with the Business Strategy Division Manager. The Sustainability Committee sets medium- and long-term targets for the Group related to environmental conservation, including climate change response, identifies and reviews our material issues, and evaluates the progress made toward non-financial targets set in the 7th Medium-Term Business Plan.

Beneath the Sustainability Committee are sustainability committees for each business, each chaired by the director or managing officer responsible for that business unit.

Corporate Governance Organization Chart

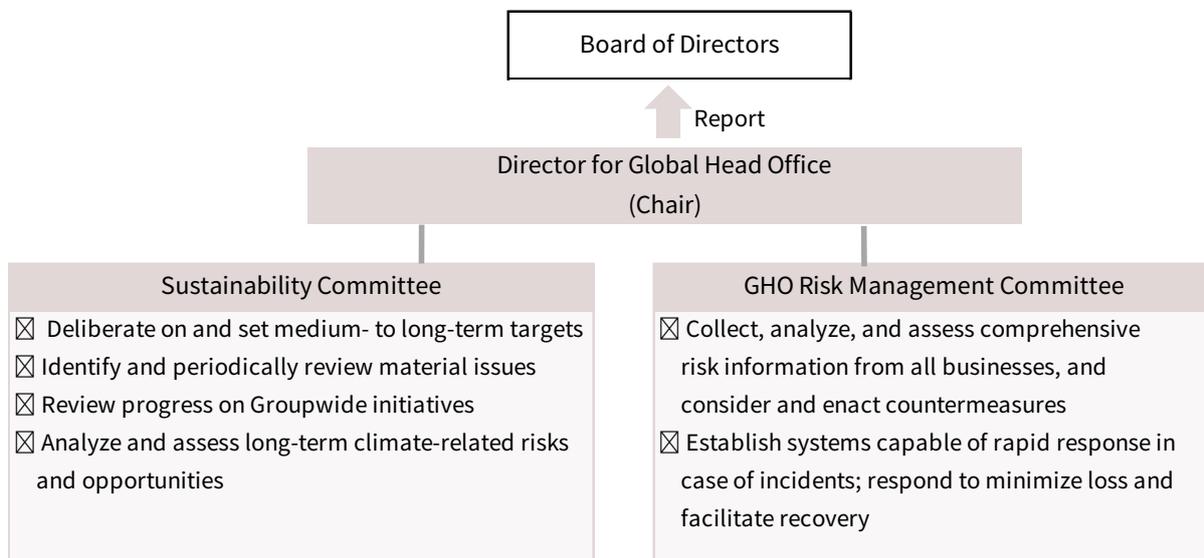


(2) Oversight by the Board of Directors

The GHO Risk Management Committee (meeting once per year) and the Sustainability Committee (meeting at least twice per year) report the results of their deliberations to the Board of Directors. If an irregular committee meeting needs to be held, a report is made to the Board of Directors about the results of its deliberations, as appropriate, according to the details of its discussions.

A CO₂ emissions reduction target is one of the non-financial targets set in the 7th Medium-Term Business Plan. Progress toward non-financial targets is annually reported to the Board of Directors by the Sustainability Committee after a Sustainability Committee meeting.

The Board of Directors performs oversight of climate-related risks and opportunities for the Group based on the reports received from these two committees.



■ Reflection of non-financial targets in director remuneration

To incentivize medium- and long-term performance by the Group and increases in corporate value, the stock remuneration paid to directors (excluding independent outside directors) when they step down is 60% performance-based and 40% non-performance-based. Performance is evaluated on the basis of 80% financial indicators and 20% non-financial indicators, and based on achievement of the financial and non-financial targets in the Medium-Term Business Plan. In the 7th Medium-Term Business Plan, three non-financial indicators are set, linked to realization of the Pigeon Sustainable Vision: “Reduce environmental impact,” “Develop products and services to help solve social issues,” and “Engage in responsible dialogue with shareholders and investors.” (For more details about the executive remuneration structure, see the executive remuneration policy available on Pigeon’s corporate site.)

3.2 Strategy

(1) Process for Identifying Climate-Related Risks and Opportunities and Qualitatively Analyzing their Impact

Business risks that require countermeasures with a short- to medium-term time base are identified, analyzed, and assessed by each business unit as part of its risk management activities, and action plans to address major risks considered and enacted.

Given that climate-related impacts occur over the long term, these must be considered with a long-term perspective that cuts across multiple businesses. For this reason, separate from the specified process for identifying risks in risk management, we identify and analyze the financial impact of long-term climate-related risks concerning our business, within a process for identifying climate-related risks and opportunities and performing scenario analysis, incorporating input from external consultants with insight into climate change, and in coordination with relevant departments.

■ Target product categories for risk/opportunity analysis and impact analysis time frame

Because the Pigeon Group provides a range of products and services to customers in over 70 countries around the world, in 2021, our analysis focused on manufacturing and sales of nursing bottles, nipples, and skincare sold in Japan and China, which account for a relatively significant proportion of sales in those regions.

The companies that manufacture these products are Pigeon Home Products Corporation (Fuji, Japan), PIGEON MANUFACTURING (SHANGHAI) CO., LTD. (Shanghai, China), PIGEON INDUSTRIES (Thailand) CO., LTD. (Chonburi, Thailand), and THAI PIGEON CO., LTD. (Samutprakarn, Thailand).

The time frame adopted for impact analysis was the global environment and society in 2030. Risks related to laws and regulations and physical risks were also analyzed with reference to the year 2050.

■ Identified long-term climate-related risks and opportunities

Under our climate-related risk and opportunity identification process, based on the transition risks, physical risks and opportunities provided as examples by the TCFD, we extracted risks and opportunities related to our nursing bottle, nipple, and skincare business models.

Of the extracted risks and opportunities, those expected to have a financial impact in future and those our investors are thought to take a strong interest in were identified as climate-related risks and opportunities that should be prioritized for impact analysis (see table below).

Transition risks	
Establishment of/increase in carbon price	Strengthening of regulations around GHG emissions
Introduction of plastic regulations	Increase in electricity prices due to climate policy change
Increase in material transportation prices due to climate policy change	Increase in material prices due to climate change
Changes in consumer preferences (toward products made with consideration for the environment)	

Physical risks	
Damage to manufacturing properties, operation stoppages at factories, and interruption of product/main material procurement routes due to flooding	Shortages of water needed for production due to drought
Flooding and operation stoppages at factories due to sea level rise	Operation stoppages at factories due to the spread of new infectious diseases accompanying climate change

Opportunities	
Changes in consumer preferences (toward products made with consideration for the environment)	Increased demand for products capable of saving water, due to water shortages
Increased demand for products that can contribute to countermeasures against heat, humidity, and dryness due to rising average temperatures	Increased demand for products that can contribute to preventing infection by infectious diseases

■ **Climate-related risk and opportunity impact analysis (qualitative analysis)**

To analyze the impact of climate-related risks and opportunities on our nursing bottle, nipple, and skincare business models, we identified the parameters expected to influence the actualization of the above risks and opportunities. Based on projection of these parameters as of 2030 (with reference to 2050 for some

parameters) under the “1.5°C scenario” and “4°C scenario,” respectively referring to the increase in average global temperature compared to pre-industrial levels, we supposed the worlds below and performed a qualitative impact analysis with reference to nursing bottle, nipple, and skincare manufacturing costs, progress on countermeasures against natural disaster at our sites for manufacturing these products, supply chain locations, and other factors.

1.5°C scenario world	4°C scenario world
<ul style="list-style-type: none"> ● Environmental awareness among consumers rises. ● Regulations on greenhouse gas emissions and combustion and materials derived from fossil fuels are introduced and greatly strengthened. ● Regulations on palm plantations are greatly strengthened. ● Greater risk of natural disasters, including floods and droughts, relative to the present. 	<ul style="list-style-type: none"> ● Environmental awareness among consumers do not rise as high as in the 1.5°C scenario. ● Strong regulations toward decarbonization are not introduced. ● Much greater risk of natural disasters, including floods and droughts. ● Uncertainty about the future for babies may become a factor in decreasing birth rates.

● **Impact on nursing bottle, nipple, and skincare business consumer markets**

Nursing bottles and nipples, which are core products for Pigeon, will continue to be essential parenting products needed by babies regardless of the climate situation or policy. However, because great changes in the climate and the environment are expected under the 4°C scenario—such as more common and severe natural disasters—we expect that uncertainty about the future for babies may become a factor in decreasing birth rates, which could affect sales of nursing bottles and nipples.

Under the 1.5°C scenario, consumers’ preference for ethical choices could be expected to increase, resulting in a stronger tendency to choose products manufactured with consideration for the environment, human rights, and other factors across the supply chain. We believe that product strategies that focus on making products with consideration for the environment across the value chain would become important, including switching to environmentally friendly packaging, increasing our use of non-fossil fuel-derived and recycled materials, and decarbonizing our manufacturing processes, as well as promoting these initiatives to consumers.

Additionally, under both the 1.5°C and 4°C scenarios, the increase in the average global temperature would be expected to make extreme weather more frequent and natural disasters more prevalent. For this reason, increased demand could be expected for skincare products addressing heat, humidity, and dryness, products to help baby stay hydrated for periods of high temperature, and cleansing and sterilizing products

and nursing goods that use less water than current products—or no water at all—during interruptions of water service due to drought or flood.

- **Impacts from transition risks (excepting consumer market)**

Under the 1.5°C scenario, decarbonization policies are expected to be stronger globally compared with the 4°C scenario, bringing the following risks.

- ✓ There is a risk that a carbon tax will be applied to our Scope 1 and Scope 2 greenhouse gas emissions, or that these emissions will become subject to an emissions trading scheme. However, because our CO₂ emissions across the entire group in 2021 were 2,855 tonnes for Scope 1 and 20,655 tonnes for Scope 2 (total: 23,510 tonnes), while our operating income was 13.3 billion JPY, a carbon tax or emissions trading scheme would be a factor in increasing operating costs, but we would expect the financial impact to be limited.
- ✓ There is a risk of increased electricity prices due to the introduction of, or cost increases in, carbon taxes or GHG emissions trading schemes affecting the operating costs of power companies. However, the electricity costs at manufacturing sites for nursing bottles, nipples and skincare products make up only a tiny fraction of our operating expenses (total cost of manufacturing, materials, sales, and management), so an increase in electricity costs would be relatively immaterial.
- ✓ Globally, we expect decarbonization policy to be a factor in increasing transportation costs, although these costs are variable in the short term because freight volume supply and demand balance and other factors have a significant impact. In the nursing bottle, nipple, and skincare businesses, transportation costs must be watched closely, so we will continue our quantitative analysis of these financial impacts.
- ✓ It is possible that regulations restricting the use of plastics using fossil fuel-derived materials will be applied. Because plastic nursing bottles and skincare product containers use plastic materials, if the use of these materials is restricted, we will need to use alternative materials. For this reason, it is possible that we will incur costs for developing products made of an alternative material, investments in manufacturing equipment supporting new materials and form factors, and costs for removing the old equipment. We will continue our quantitative analysis of these financial impacts.
- ✓ The strengthening of policies and regulations toward decarbonization could be a factor in price increases for raw materials for nursing bottles, nipples, and skincare products, such as skincare ingredients including components derived from oil palm, and plastic materials. However, the prices of these materials also vary in the short and medium term due to factors not related to climate change, and are managed.

- **Impacts from physical risks**

Because average global temperature increases even further in both the 1.5°C scenario and the 4 °C scenario, extreme weather is expected to become more common, and floods, droughts, and infectious diseases are expected to disrupt supply chains and logistics networks, with the company incurring costs for repairs in case of disaster.

- ✓ Of our manufacturing sites for nursing bottles, nipples and skincare products—Pigeon Home Products Corporation (Fuji, Japan), PIGEON MANUFACTURING (SHANGHAI) CO., LTD. (Shanghai, China), PIGEON INDUSTRIES (Thailand) CO., LTD. (Chonburi, Thailand), and THAI PIGEON CO., LTD. (Samutprakarn, Thailand)—THAI PIGEON is at risk of damage by flooding. During the 2011 flooding in Thailand, materials and manufacturing equipment from THAI PIGEON were moved to PIGEON INDUSTRIES (Thailand), and operations at THAI PIGEON were halted for two weeks as a protective measure. THAI PIGEON is also situated on low-lying land near the sea, with many canals nearby, and faces the long-term risk of inundation due to rising sea levels. We have currently adopted a system under which, if natural disaster makes manufacturing nursing bottles or nipples at THAI PIGEON difficult, production can be switched to other Group companies.
- ✓ Regarding the risk of materials procurement being interrupted by disasters affecting suppliers, we have made preparations in the form of buying each main material from at least two suppliers (redundancy of supply routes), and storing sufficient raw materials for a certain period on-premises. Pigeon Home Products has also prepared backup formulas and specifications so that it can switch to manufacturing with other materials if supplies of the usual materials are interrupted, and also has emergency response plans in place that involve measures such as advance notification to an authority so that imports can be obtained rapidly from PIGEON MANUFACTURING (SHANGHAI) in China.
- ✓ Pigeon uses water to formulate skincare products, clean equipment, and generate steam. Our factories manufacturing skincare products are all currently in areas where the risks of water shortages are low, but we will continue to analyze and evaluate the risk of water shortages in the future.
- ✓ The risk of suspension of operations due to the spread of new infectious diseases accompanying climate change is addressed by each factory in its risk management activities. Based on information made public by the relevant national government about preventing and addressing infectious disease, each factory explores and implements necessary measures against infectious disease as appropriate, including in cases where an infectious disease outbreak has already occurred.

3.3 Risk Management

At the Pigeon Group, under the direction of the GHO Risk Management Committee Secretariat, each business unit conducts regular risk assessments, identifying, assessing, and carrying out countermeasures against risks faced by the business as a whole in the short to medium term. These risk assessments involve uncovering all risk phenomena that could arise for the Group, performing risk assessments based on the frequency of the relevant phenomenon and the extent of the damage if it were to occur, and carrying out the necessary countermeasures based on this assessment.

However, because it is also necessary to grasp climate-related risk from a long-term perspective and prepare for the predicted risks, in 2021 we performed risk analysis narrowed down to climate-related risks. Specifically, in 2021, we made assumptions about global environmental and social conditions in the year 2030 under the 1.5°C and 4°C scenarios (also considering the year 2050 for policy and regulatory risks, and physical risks), and worked with manufacturing sites and related departments to identify and qualitatively assess the climate-related risks with respect to our core products of nursing bottles, nipples, and our skincare business. For risks where we decided concrete analysis of financial impact was needed, in 2022 we intend to perform a quantitative analysis of financial impacts.

Regarding risks that are highly probable in the short to medium term and directly related to business continuity, such as temporary suspension of operations due to flooding, work is proceeding on countermeasures amid risk management activities centered around the Risk Management Committee. However, regarding risks that are not directly related to business continuity in the short and medium term but may have a negative impact on our performance in the long term, or environmental themes that can contribute to the development of our business, the Sustainability Committee deliberates on and sets objectives toward reducing environmental burden (decarbonized society/circular economy city/society coexisting with nature), and carries out management by regularly evaluating progress toward these objectives.

The Director for GHO serves as chair of both the GHO Risk Management Committee and the Sustainability Committee, and the Heads of each business also serve as committee members, permitting a coordinated response to long-term climate change risks.

3.4 Metrics and Targets

In the above assessments of climate-related risks and opportunities related to nursing bottles, nipples and skincare businesses, we used CO₂ emissions volumes, usage quantities of various kinds of energy, electricity prices, and procurement costs of materials containing palm oil derivatives.

We continuously monitor the absolute volume and intensity (volume per sales unit) of our Scope 1 and Scope 2 CO₂ emissions, and disclose this information on our corporate site and in our integrated reports.

https://www.pigeon.com/sustainability/environment_top/warming/

In our 7th Medium-Term Business Plan (2020–2022), we set the companywide target of reducing Scope 1 & 2 CO₂ emissions per sales unit in FY2022 by 10% compared to FY2018, and the Sustainability Committee is evaluating our progress toward this goal. This indicator is one of the non-financial indicators linked to stock remuneration for directors (excluding independent outside directors).

■ Pigeon Group CO₂ emissions (Scope 1 & 2) targets and performance

	FY2018 (base year)	FY2019	FY2020	FY2021	FY2022
Scope 1 emissions (tonnes of CO ₂)	3,198	2,959	2,911	2,855	—
Scope 2 emissions (tonnes of CO ₂)	25,005	23,972	22,062	20,655	—
Scope 1 & 2 emissions (tonnes of CO ₂)	28,203	26,931	24,973	23,510	—
Reduction rate (Absolute Scope 1 & 2 total)	—	4.5 %	11.5 %	16.6 %	—
Reduction rate (Scope 1 & 2 total per unit of sales)	—	0.1 %	7.2 %	11.7 %	10% (target)

■ Scope 3 greenhouse gas emissions

Regarding Scope 3 greenhouse gas emissions, we calculated emissions for the fiscal year ended December 2020 for our Japan Business and Lansinoh Business. For both businesses, the majority of emissions were Category 1 emissions (purchased goods and services). Our Japan Business's Category 1 emissions were 106 thousand tonnes of CO₂e, of which emissions accompanying purchases of nonwoven fabrics and baby drinks accounted for a large portion.

	FY2019 (Thousand tonnes CO2e)	FY2020 (Thousand tonnes CO2e)	FY2021	Categories included in the calculation
Lansinoh Business*	19	22	To be calculated	Category 1, 2, 4, 5, 6, 7, 9, 11, 12
Japan Business	—	312	To be calculated	Category 1, 2, 3, 4, 5, 6, 7, 11, 12, 14
Chain Business	—	—	To be calculated	
Singapore Business	—	—	To be calculated	

*The Lansinoh Business has already set a target for reducing Scope 3 greenhouse gas emissions, and is actively working toward this goal.

In 2022, we expanded the list of businesses for which we calculate Scope 3 emissions by adding our China Business and Singapore Business, and we are currently calculating the Pigeon Group's Scope 3 emissions for FY2021. Based on the results of these calculations, we will explore initiatives to reduce greenhouse gas emissions across our entire value chain.

■ Toward realizing a decarbonized society

To contribute to realizing a carbon-neutral society and economy in 2050, we will not only formulate a medium- to long-term environmental vision, in our to-be-formulated 8th Medium-Term Business Plan (2023–2025) we will continue and strengthen our initiatives to reduce our adverse environmental impact.

Ends

Disclaimer regarding forward-looking statements

This report may contain forward-looking statements. These statements are based on the information available when this report was compiled and assumptions reliant on uncertain factors that can affect future performance, and also reflect our understanding as of the date the statements are made, so they contain risk and uncertainty. Due to these factors, there is no guarantee that these statements and assumptions will be realized in future, and actual results may differ materially. Except where required by law or stock exchange regulations, Pigeon Corporation has no responsibility to update any forward-looking statements included in this report.