



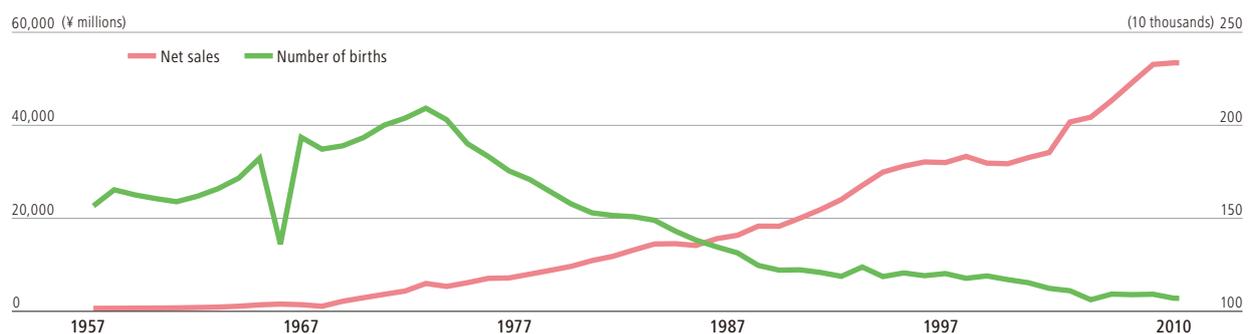
PIGEON Annual Report 2011

For the year ended January 31, 2011

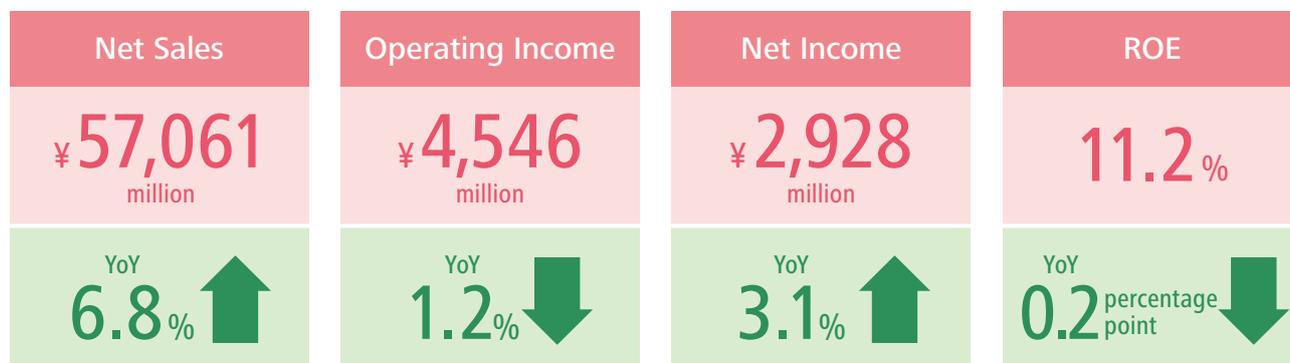
PIGEON HISTORY

	▶1950~	▶1970~	▶1980~	▶1990~	▶2000~	▶2010~	
Corporate	<p>1949 Dofu Boeki, Pigeon's predecessor, established</p> <p>1952 Yuichi Nakata appointed President</p> <p>1957 Pigeon Honyuki Honpo (Baby Bottle Manufacturing) Co., Ltd., established</p> <p>1966 Name changed from Pigeon Honyuki Honpo Co., Ltd., to Pigeon Co., Ltd.</p>	<p>1973 Head office building in Kanda-Tomiyama-cho, Chiyoda-ku, Tokyo, constructed</p>	<p>1982 Pigeon Textiles (now Pigeon Will Co., Ltd.) established to manufacture and sell maternity wear</p> <p>1983 Yoichi Nakata appointed President; Yuichi Nakata appointed Chairman</p> <p>1985 Corporate identity based on the Pigeon philosophy of "Providing the gift of love to all" adopted</p> <p>1985 Pigeon Home Products Co., Ltd., established</p> <p>1988 Stores registered with the Securities Dealers Association of Japan (present-day JASDAQ)</p>	<p>1993 Joso Research Center (now Central Research Center) established</p> <p>1995 Listed on the Second Section of the Tokyo Stock Exchange (July 7)</p> <p>1996 Fukuyo Ibaraki Co., Ltd. (now PHP Ibaraki Co., Ltd.), joins the Pigeon Group</p> <p>1997 Listed on the First Section of the Tokyo Stock Exchange</p>	<p>2000 Seiichi Matsumura appointed President and Chief Operating Officer</p> <p>2002 PHP Hyogo joins the Pigeon Group</p> <p>2006 Head office relocated to Nihonbashi-Hisamatsu-cho, Chuo-ku, Tokyo</p> <p>2007 Akio Okoshi appointed President and Chief Operating Officer; Seiichi Matsumura appointed Chairman and CEO</p>	<p>2011 Formulation and implementation of 4th Mid-Term Management Plan</p>	
Baby and Child Care Business	Domestic Baby and Child Care Products	<p>1949 First baby bottle in Japan with wide cap (A-type) launched</p> <p>1956 Baby and child care/related products launched</p> <p>1963 Milk powder case and sponge brush for baby bottles launched</p> <p>1966 Baby powder, first in a new range of baby hygiene products, launched</p>	<p>1975 World's first diaper liner made using binder-free manufacturing method launched</p> <p>1975 Liquid cleanser for baby bottles and vegetables launched</p> <p>1976 World's first rubber toothbrush for milk teeth launched</p> <p>1977 P-type baby bottle for babies with poor sucking strength launched</p> <p>1979 New-standard K-type baby bottle (still used today) launched</p>	<p>1982 MagMag training cup with adjustable tops for different ages launched</p> <p>1985 Fit, Japan's first seamless breast pad, launched</p> <p>1987 Chibion digital thermometer for babies launched</p> <p>1988 Baby's natural sucking peristaltic motion revealed</p>	<p>1992 Baby Wipes launched</p> <p>1993 Entry into baby food market</p> <p>1994 UV Baby Skincare, first ultraviolet-ray skincare product for babies, released</p> <p>1995 Baby bottle disinfectant Milkpon launched</p>	<p>2002 Wide neck Bonyu Jikkan bottles, which promote a baby's natural sucking peristaltic motion, launched</p> <p>2003 Baby shoes designed using research on toddlers' walking patterns released</p>	<p>2010 Renewal of Bonyu Jikkan series of baby bottle nipples</p> <p>2010 Became exclusive sales agent in Japan for the U.K. brand Mamas & Papas</p>
	Overseas Baby and Child Care Business	<p>1966 Exports to other countries started</p>	<p>1973 First overseas office established in Singapore</p> <p>1978 Pigeon Singapore Pte. Ltd. established</p>		<p>1990 Thai Pigeon Co., Ltd., established</p> <p>1996 Pigeon Industries Thailand Co., Ltd., established</p>	<p>2002 Pigeon Shanghai Co., Ltd., established</p> <p>2004 Lansinoh Laboratories, Inc., in USA becomes part of the Pigeon Group</p> <p>2006 Pigeon Manufacturing Shanghai Co., Ltd., established</p>	<p>2009 Established Pigeon India Pvt. Ltd., a sales subsidiary in India</p> <p>2009 Established Pigeon Industries (Changzhou) Co., Ltd., in China</p> <p>2010 Lansinoh Laboratories, Inc. (the U.S.A) acquires mOmnia business</p>
	Child-Rearing Support Services				<p>1993 Pigeon Land Joso, child-minding center for infants, opened</p> <p>1996 Pigeon Wendy, babysitter dispatch service, launched</p> <p>1999 Pigeon Kids World Co., Ltd. (now Pigeon Hearts Co., Ltd.), established</p>	<p>2001 Operation of in-company child-minding facilities launched</p> <p>2002 Operation of approval child-care center launched</p>	
Home Healthcare and Nursing Care Business		<p>1975 Habilis Business Department, targeting the senior market, established</p>	<p>1983 Nursing care products under the Habinurse brand launched</p>		<p>2000 Pigeon Manaka Co., Ltd., established</p> <p>2004 Tahira Co., Ltd. (now Pigeon Tahira Co., Ltd.), becomes part of the Pigeon Group</p> <p>2007 Recoup brand of anti-aging products launched</p>		

Net Sales (Pigeon Consolidated Sales from 1997); Number of Births (Japan)



Consolidated Financial Highlights



Three-Year Summary of Selected Financial Data

Item	Period	¥ millions			US\$ thousands
		2009	2010	2011	2011
Operating Results					
Net Sales		53,092	53,431	57,061	700,221
Gross Profit		20,164	20,902	23,281	285,691
Operating Income		4,269	4,604	4,546	55,786
Ordinary Income		4,293	4,609	4,435	54,424
Net Income		2,854	2,840	2,928	35,931
Cash Flows					
Cash Flows from Operating Activities		4,206	4,964	3,206	39,342
Cash Flows from Investing Activities		(1,279)	(2,105)	(3,949)	(48,460)
Cash Flows from Financing Activities		(110)	(2,018)	886	10,872
Balance Sheets					
Total Assets		38,407	39,493	42,684	523,794
Total Liabilities		14,083	13,229	15,640	191,925
ROA (%)		11.3	11.8	10.8	
ROE (%)		12.1	11.4	11.2	

Notes: 1. Figures in U.S. dollars are calculated, for convenience only, at the exchange rate of ¥81.49=US\$1.0. 2. The number of shares for EPS is before adjustment for residual securities. 3. ROA is the ratio of ordinary income to total assets. ROE is the ratio of net income to shareholders' equity. The denominator for both is the average of the figures at the beginning and end of the fiscal year.

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At a Glance

Consolidated Net Sales **¥57,061** million

	Share of Net Sales	Products/Services
Baby and Child Care	<p>81.9% ¥46,753 million</p> <p>Child-Rearing Support Services 9.6% ¥5,468 million</p> <p>Baby and Child Care Products (Domestic) 38.5% ¥21,961 million</p> <p>Baby and Child Care Products (Overseas) 33.9% ¥19,323 million</p>	<p>Breastfeeding-related products Baby bottles, baby bottle nipples, baby bottle cleansers and sterilizers, disinfecting equipment, baby bottle cleansing brushes, sterilized tongs, breast pads, breast milk storage bags, breast pumps</p> <p>Weaning-related products MagMag, cooking equipment, feeding accessories, bibs, baby food, baby beverages</p> <p>Skincare products Soaps, shampoos, oils, lotions, bath additives, sunscreens, powders, baby wipes, wet tissues</p> <p>Others Cotton swabs, nail clippers, digital thermometers, nose cleaners, cooling pillows, children's pharmaceuticals, toothbrushes, teething products, humidity/temperature meters, bathwater thermometers, child-safety goods, pacifiers, toys, bath toys, baby shoes</p>
	<p>Healthcare</p> <p>11.3% ¥6,428 million</p> <p>Nursing Care Support Services 1.1% ¥612 million</p> <p>Healthcare and Nursing Care Products 10.2% ¥5,815 million</p>	<p>Nursing care/anti-aging products Adult disposable diapers, incontinence pads and pants, diaper covers, waterproof sheets, abdominal wipes, body wipes, urine and fecal containers, shampoos, sterilizers, deodorizers, crockery, bibs, oral hygiene products, walking aids, nursing beds, wheelchairs, sleepwear, supplements, staffs, shoes</p>
<p>Others</p> <p>6.8% ¥3,879 million</p> <p>Others 2.4% ¥1,395 million</p> <p>Women's Care Products 4.4% ¥2,483 million</p>	<p>Women's care products Dietary supplements, maternity goods, maternity underwear</p> <p>Others Wet tissues, etc.</p>	

Business Environment/Strength of the Pigeon Group

The baby and child care segment is the core business that accounts for around 80% of Pigeon's consolidated revenues. This segment covers the full range of baby and child care products, including breastfeeding- and weaning-related items, diapers and skincare products, as well as the provision of child care support services. As a leading industry brand, Pigeon has earned a reputation for safety, peace of mind and reliability among customers in Japan and abroad. Overseas sales account for a significant share of segment sales, and our business has continued to expand in East Asia, centering on China, as well as North America. In January 2008, our new plant in Shanghai began manufacturing skincare products, toiletries, baby bottle nipples, and other items. In 2011, meanwhile, our new plant in Changzhou, Jiangsu Province, began full-scale production of breast pads, baby wipes and other products.

For half a century, we have conducted in-depth research into baby bottles. We have also engaged in research into early childhood development and persistently developed and improved products arising from such research. Thanks to these R&D activities, Pigeon is widely recognized as a high-quality brand of baby and child care products that have captured a large share of the market. We also provide high-value added services and are strengthening direct communication with customers. This includes hosting maternity events all over Japan, as well as operating Pigeon.info, an Internet portal for word-of-mouth information about pregnancy and child care.

The scale of the Pigeon Group's child-rearing support services is the largest in Japan. Moreover, in the year under review, Pigeon obtained the exclusive domestic sales rights for Mamas & Papas, a U.K. brand that is strongly acclaimed by fashion-conscious people in Europe and around the world. We also sell highly fashionable products geared to changing lifestyles via catalog and online. These products include child care and maternity items, as well as beds, chairs and other furniture.

Consolidated Subsidiaries

PIGEON HOME PRODUCTS CO., LTD. / PHP IBARAKI CO., LTD. / PHP HYOGO CO., LTD. / PIGEON HEARTS CO., LTD. / PIGEON SINGAPORE PTE.LTD. / P.T. PIGEON INDONESIA (Equity Method Affiliate) / PIGEON INDIA PVT.LTD. / THAI PIGEON CO.,LTD. / PIGEON MANUFACTURING (SHANGHAI) CO., LTD. / PIGEON (SHANGHAI) CO.,LTD. / PIGEON INDUSTRIES (CHANGZHOU) CO., LTD. / PIGEON INDUSTRIES (THAILAND) CO., LTD. / LANSINOH LABORATORIES,INC. / LANSINOH LABORATORIES MEDICAL DEVICES DESIGN INDUSTRY AND COMMERCE LTD.CO. / PIGEON MALAYSIA (TRADING) SDN.BHD.

The healthcare business represents an important component of Pigeon's three-generation marketing strategy. As a major future market, this segment is one of the Group's main pillars. We have established a division in charge of the overall operation of the segment, thereby strengthening our business platform and creating a framework geared toward growth.

The Group's strength in this segment derives from its technical and information capabilities, acquired through its experience in the baby and child care business. By assimilating the distribution, product development and production functions of Pigeon Tahira Co., Ltd., into the main body of Pigeon, and by establishing the Elderly Health Care Business Division, we have created a structure that clarifies the parent company's position in the healthcare business. During the year, we launched Recoup, a new brand to support people seeking to remain active in their old age. In these ways, we are working assertively to address the growing market associated with Japan's aging population.

Consolidated Subsidiaries

PIGEON HOME PRODUCTS CO., LTD. / PHP HYOGO CO., LTD. / PIGEON MANAKA CO., LTD. / PIGEON TAHIRA CO., LTD.

Maternity undergarments made by Pigeon Will Co., Ltd., have been warmly embraced by the younger generation of women who want to feel fashionable and care about their appearance during pregnancy. Pigeon also offers nutritional supplements, which have attracted increasing interest both among pre-pregnant women and breastfeeding mothers. Meanwhile, we have launched women's care products in China. Owing to these and other factors, our performance has grown steadily.

Consolidated Subsidiaries

PHP IBARAKI CO., LTD. / PIGEON WILL CO., LTD.

Overseas Net Sales **¥19,854 million**

Share of Net Sales

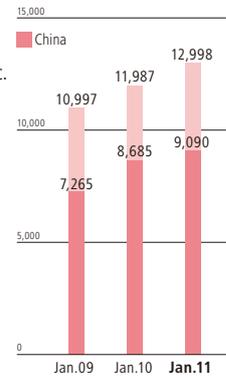
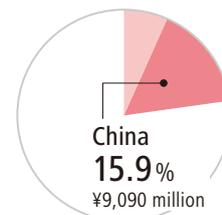
Net Sales
(¥ millions)

Asia

China (including Hong Kong), South Korea, Singapore, India, etc.

22.8%

¥12,998 million

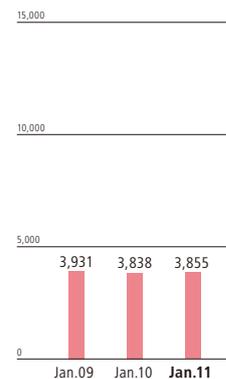
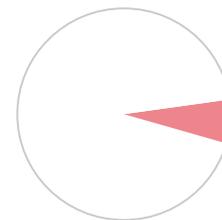


North America

United States, Canada, etc.

6.7%

¥3,855 million

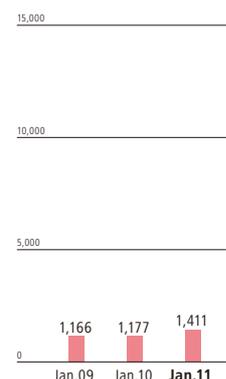
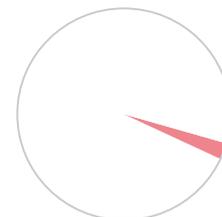


Middle East

United Arab Emirates, etc.

2.5%

¥1,411 million

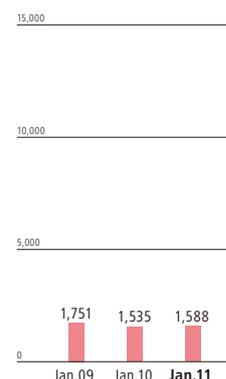
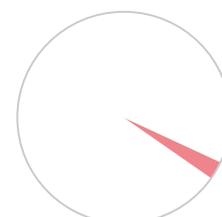


Other

South Africa, United Kingdom, Panama, Germany, etc.

2.8%

¥1,588 million



Management's Message

Our philosophy is based on “love.”

Pigeon is committed to supporting the lives of people, especially small children. In this role, we will deploy our basic research to generate new levels of value. At the same time, we will foster human resources capable of exceling on the world stage and build a global business operating system.



Akio Okoshi
President and Chief Operating Officer

大越昭夫

Pigeon's Approach

Based on its corporate philosophy of “providing the gift of love to all,” the Pigeon Group is dedicated to helping those in need—while pregnant, giving birth, and rearing children, as well as in old age. Our policy is to develop our business by delivering products and services that address the needs of these people.

We conduct our own research into the “mechanics” of babies’ growth and the aging process of the elderly, and we deliver products and services that solve problems uncovered through such research. Our corporate mission is to convey “love” to the many people who need love.

Third Medium-Term Management Plan and Fiscal 2010 Results

Fiscal 2010, ended January 31, 2011, was the final year of the Pigeon Group’s Third Medium-Term Management Plan, entitled “Becoming a Global Company: Challenges and Independence.” During the period, we aggressively tackled core issues while adhering to practically all of the plan’s guidelines. Under the plan, our consolidated targets for the year were net sales of ¥60.7 billion and ordinary income of ¥5.4 billion. Due to ongoing difficult conditions, however—including global financial instability, continued waning of personal consumption, and the yen’s appreciation and the U.S. dollar’s decline—net sales totaled ¥57,061 million, up 6.8% year-on-year, while ordinary income decreased 3.8%, to ¥4,435 million. Accordingly, we were unable to reach the sales and income targets stated in the plan.

During the final year of the plan, we sought to actively expand our baby and child care products business in

overseas while deploying our basic research to better distinguish our products in Japan. At the same time, we worked to rebuild our domestic business by strengthening direct communication with our customers. However, we failed to achieve financial targets of the plan for several reasons. These included a temporary performance slowdown as we rebuilt our distribution system in China and weak results in our healthcare and nursing care business.

A summary of the Group's domestic and overseas business trends and performance is given below.

■ Overseas Business

Amid concerns about worldwide financial instability, we stepped up efforts to expand our overseas business. On a local currency basis, we achieved year-on-year sales increases greatly in our core markets, centering on China and the United States, as we did in the previous fiscal year. In yen terms, overseas sales increased 7.1%, to ¥19,854 million.

■ Initiatives in China

Pigeon's sales are rising steadily in China, surpassing the ¥9.0 billion mark in fiscal 2010, for a 4.7% year-on-year increase. During the year, we focused on further strengthening the appeal of the Pigeon brand. Initiatives included holding maternity-related events, stepping up product proliferation activities in hospitals, and running television commercials. With respect to our production system, consolidated subsidiary PIGEON INDUSTRIES (CHANGZHOU) CO.,LTD., our second production base in China, completed Phase I of its plant construction project and is making good progress towards starting full-scale operations. Seeking to strengthen our distribution system, we dissolved two consolidated subsidiaries in the business of providing child-minding services—PIGEON LAND (SHANGHAI) CO.,LTD. and SHANGHAI CHANGNING PIGEON LAND EDUCATION TRAINING CENTER.—following a series of inconsistent performances. This reflected our commitment to rebuilding sales agencies system and specializing in product manufacture and sales in China.

■ Initiatives in North America and Europe

Sales are also increasing steadily in North America and Europe. In fiscal 2010, sales in those regions rose 0.4%, to ¥3.8 billion, reflecting growth in demand for breastfeeding-related products. In December 2010, consolidated subsidiary LANSINOH LABORATORIES,INC. took over business related to the mOmma brand of child care products, sold mainly in Europe, from Baby Solutions SA and Baby Solutions Italia Srl. In the future, Lansinoh will actively promote that business in the United States.

■ Other Overseas Business Initiatives

In order to realize even further globalization, we have continued to work to develop new markets. In Korea, we began efforts to introduce our Double Heart brand. In Malaysia, a country where our net sales are increasing by about 10% annually, PIGEON SINGAPORE PTE. LTD. acquired a local sales distributor as a subsidiary. In the future, we shall continue to enhance our global initiatives while promoting permeation of the Pigeon brand and speedy expansion of our product range.

■ Domestic Business

According to estimates, 1,071,000 babies were born in Japan in calendar 2010, practically unchanged from the previous year. The low birthrate, together with ongoing weakness in personal consumption, underscored a difficult market situation in the year under review. In the Baby and Child Care segment, we sought to address these challenges by strengthening existing businesses and nurturing new ones, while raising brand loyalty via a strategy of persistent, rigorous direct communication. In March 2010, we commenced full-scale sales of Mamas & Papas, a U.K. designer brand of baby products. In the Healthcare segment, we worked to fortify our sales and marketing capabilities through a Group-wide business operational system. We paid particular attention to promoting the brand of the Recoup line of anti-aging products and securing new sales channels. As a result, sales in Japan in fiscal 2010 increased 6.6%, to ¥37,207 million.

Fourth Medium-Term Management Plan

■ Pigeon's New Management Plan

The year ending January 2012 is the first year of the Pigeon Group's Fourth Medium-Term Management Plan, covering the three-year period from February 2011 to January 2014. The slogan of the plan is "Independence as a Global Company."

We have set the following performance targets for the year ending January 2014, the final year of the plan: net sales of ¥73.3 billion, operating income of ¥7.3 billion, ordinary income of ¥7.3 billion, and net income of ¥4.4 billion. We will also strive to improve profitability and capital efficiency, targeting an operating margin of 10.0% or higher and return on equity (ROE) of 14.0% or higher in the plan's final year.

Under the new plan, we have set the following medium-term business policies and business strategies: (1) Target renewed growth as a global company, with a focus on proactive business development in overseas markets; (2) Improve profitability of existing businesses while pursuing solid growth in new and developing businesses; and (3) Build a global business management system based on the core components of "creating new value based on fundamental research" and "fostering human resources."

Guided by these policies, in Japan Pigeon will upgrade product categories in its Baby and Child Care business and expand its presence in new businesses, such as direct sales via the Internet. In the Healthcare segment, we will entrench our presence in core product categories and tap new sales channels, with the aim of boosting profitability of existing businesses. We will also target new product fields and broaden our sales channels.

Overseas, we will make proactive business investments aimed at expanding and reinforcing our production systems and fortifying our business operational system. In China, we will strengthen ties with agencies in existing channels (baby specialty stores and department stores) and organize a network of member stores, while expanding sales via new channels (mass merchandisers and the Internet). In addition, we will reinforce our local product development infrastructure and raise the ratio of in-house manufacturing.

In Europe, we will step up proliferation activities for our existing product line (breastfeeding-related products) while broadening our product category portfolio by fostering and mobilizing the mOmma brand of child care products, acquired in the year under review.

In Latin America, meanwhile, we will work to cultivate new business. In India, we will expand sales centering on baby bottles, breastfeeding-related products, and skincare items. In the Middle East, we will reinforce strategies for baby bottles and breastfeeding-related products while strengthening our product categories. In South Korea, we will strive to raise recognition of the Double Heart brand and deepen alliances with sales agencies.

■ First Year of the Plan

The current fiscal period, ending January 2012, is the first year of the Fourth Medium-Term Management Plan. We have set the following basic policies for the year.

1. In order to achieve the objectives of the plan, we will encapsulate the business strategies of each segment and functional strategies that serve as the foundation for the business strategies into a specific enforcement plan that we will then implement.
2. By effectively deploying the Group's internal production facility and capacity, we will improve our basic cost structure and raise profitability.
3. Targeting "Independence as a Global Company," we will focus on fostering human resources and build an organization suited to the medium-term strategies and growth potential of each business.

By following the above three policies, we will strive to achieve steady progress toward reaching the first-year targets of the plan. (Please refer to the page of each business for detailed policies.)

Our consolidated forecasts for the year ending January 2012 are net sales of ¥61.1 billion (up 7.1% year-on-year), operating income of ¥5.0 billion (up 10.0%), ordinary income of ¥4.95 billion (up 11.6%), and net income of ¥3.3 billion (up 12.7%).

Shareholder Return

Going forward, the Pigeon Group will seek to make dramatic progress as a global company by deploying its various assets. These include competitive products with strong track records in Japan, exhaustive quality control and technological development systems, and flexible marketing strategies tailored to conditions in each overseas market. The Pigeon brand is supported and loved by many people in various markets worldwide. We will continue targeting renewed growth in each business by fostering this trust and implementing our management strategies.

Pigeon is committed to improving its trust-based relationships with more and more shareholders and other investors, in its quest to raise corporate value into the future.

Under the Fourth Medium-Term Management Plan, we will maintain our consolidated shareholder return target of 50%, which we will achieve via flexible capital strategies, including share buybacks. To this end, we will further upgrade and reinforce our shareholder return strategies in order to benefit all of our shareholders.

Pigeon regards meeting the expectations of all shareholders as an important management priority and is committed to achieving ongoing progress in this area.



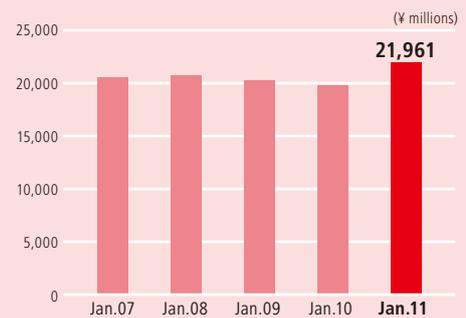
Quantitative Targets

	(¥ billions)				
	Jan. 2011	Jan. 2012E	Jan. 2013E	Jan. 2014E	Growth Rate (%) (2014/2011)
Net Sales	57.0	61.1	65.8	73.3	128.5
Gross Profit	23.2	24.9	26.8	30.4	130.8
Operating Income	4.5	5.0	5.4	7.3	161.6
Ordinary Income	4.4	4.9	5.4	7.3	164.6
Net Income	2.9	3.3	3.5	4.4	150.3
EPS (yen)	145	164	174	219	
Gross Margin	40.8	40.8	40.8	41.5	
Operating Margin (%)	8.0	8.2	8.3	10.0	
Ordinary Margin (%)	7.8	8.1	8.2	10.0	
Net Margin (%)	5.1	5.4	5.3	6.0	
ROA (%)	10.8	11.3	11.7	More than 14%	
ROE (%)	11.2	12.1	12.1	More than 14%	

Notes: 1. The number of shares for EPS is before adjustment for residual securities.
 2. ROA is the ratio of ordinary income to total assets. ROE is the ratio of net income to shareholders' equity.
 The denominator for both is the average of the figures at the beginning and end of the fiscal year. (Both are estimates.)
 E: Estimate

Domestic Baby and Child Care Products

Domestic Sales of Baby and Child Care Products Business



Business Environment

In this segment, the Pigeon Group continued facing severe market conditions, with no recovery in the number of childbirths. The total number of births in Japan has remained practically unchanged, at 1.07 million (estimated) in 2009 and 1.071 million in 2010.

There are many other changes occurring in the operating environment, including buying restraint among the Group's target customers due to income concerns, a shift to cheaper private-brand products, an oligopoly of retailers, and restructuring of wholesale distribution.

Our Competitive Edge

Based on half a century of research into breastfeeding and infant and child development, the predominance of the Pigeon brand is the result of creating and developing a wide range of high-quality products. Here, we use the discoveries we have made via in-depth research into the growth process of babies, and we have uncovered various problems that parents encounter when raising children. Our competitive edge lies in our high public profile as an industry leader and creator of the prominent Pigeon brand.



Diverse assortment of baby-related products

Business Strategy and Specific Initiatives

In the year under review, we further strengthened our existing business in Japan through our ongoing direct communication policy. We also worked hard to foster new businesses and expand our product lineup.

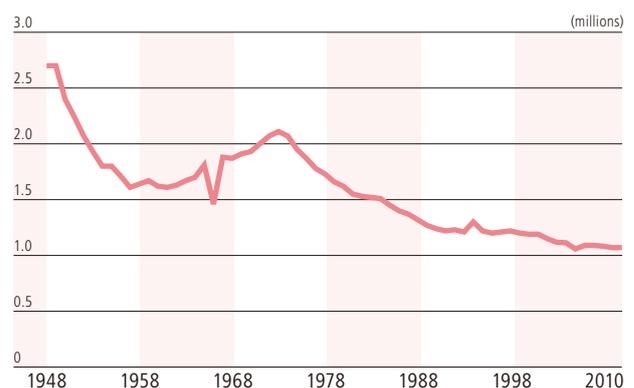
Existing Market Initiatives

Due to the launch of new products by other manufacturers, competition in breastfeeding and baby bottle products—a segment in which Pigeon enjoys a large market share—is expected to intensify. Faced with this challenge, we are working to further raise the appeal of our products and meet growing diversity among customer needs, such as by providing products for children in an older age bracket than our traditional baby segment. We have also striven to boost our market shares for all product categories by stepping up educational activities. Pigeon is renowned for its ability to offer a full range of baby products. Deploying this capability, we have been working in collaboration with large retailers to establish in-store Pigeon product sections and develop sales promotion strategies.

New Market Initiatives

Amid changes in consumer purchasing behavior, Pigeon Group is creating business models that are appropriate for

Number of Childbirths in Japan



Source: Ministry of Health, Labor and Welfare

such behavior.

Our Pigeon Mall online shopping site is performing well. We will continue strengthening ties with Pigeon.info, the Group's core information website. At the same time, we are progressing as planned in forming ties with Rakuten, Yahoo! Japan, and Amazon Japan and taking advantage of opportunities in the mobile communication market.

We are reaping the benefits of using direct communication to attract expectant mothers. The membership of Pigeon.info, our website for word-of-mouth information, continues to grow. With steadily increasing in members, Pigeon.info has become the most popular site of its type in Japan. Through such measures, we continue to ensure a high level of brand loyalty even though Pigeon's customer base changes from year to year.

Pigeon has the exclusive rights to sell the popular U.K. brand Mamas & Papas in Japan, and sales are progressing steadily. In these ways, we will further expand our business in new markets by marketing fashionable baby, child-care, and maternity products tailored to changing lifestyles.

At present, we are creating a new business model that integrates various functions, including online sales, community sites, and the Web.

Performance and Highlights

In the year under review, sales in the Domestic Baby and Child Care Products segment totaled ¥21,961 million, up 11.3% from the previous year. To address the diversified

needs of customers, we included scented items to our lineup of foam-based baby skincare products, with the addition of Baby Flower Scent Full-Body Foam Soap and Baby Flower Scent Foam Shampoo. We also launched a newly improved baby bottle called Bonyu Jikkan, as well as Straw Bottle Tall, aimed at long-term use from small babies to toddlers. In addition, we released Gohan de Gohan, a baby food set for which a rice cooking method is selected corresponding to the baby's age in months. As part of our initiatives in larger-scale products, we launched a baby stroller called Pixy-turn and a child seat called cuna. These new product releases, together with continuation and entrenchment of our direct communication policy, enabled us to strengthen brand loyalty and thus expand sales.

Outlook

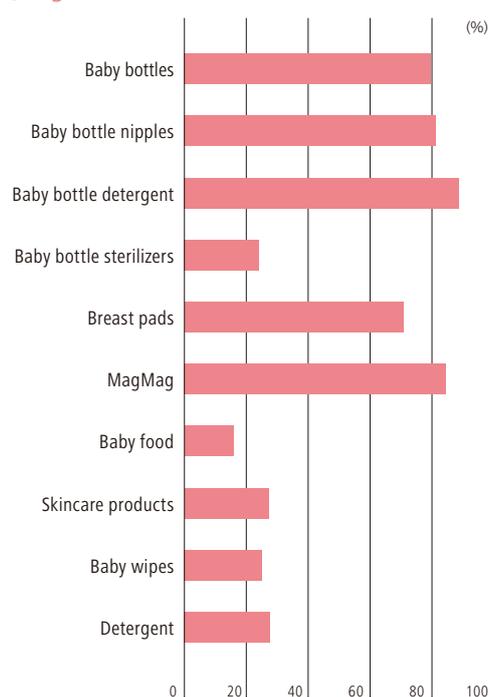
Most of all, the main reasons for the slow growth rate in segment sales were some external influences and low sales prices resulting from cutthroat competition. The birthrate in Japan is expected to remain mostly unchanged. To boost growth amid such conditions, Pigeon will deploy its strength in basic research to develop highly distinctive products and reinforce its existing product categories. We will also expand our presence in the market for large products, a new category in which we achieved good results in fiscal 2010. In addition, we will work to further strengthen store-based initiatives and enhance profitability by engaging closely with distributors and retailers.

Average Monthly Expenditures per Infant

Segment	2006	2007	2008	2009	2010
Powdered milk	1,360	1,457	1,460	1,233	1,188
Baby foods	875	758	764	725	673
Cow's milk	352	328	418	281	245
Snacks	567	553	545	560	536
Other (foods)	2,010	1,950	1,702	1,346	1,296
Subtotal (foods)	5,165	5,047	4,889	4,145	3,940
Clothes (under, outer), shoes, etc.	3,862	3,271	3,371	3,541	2,601
Cloth diapers, diaper covers/liners, etc.	156	139	273	216	171
Disposable diapers	3,602	3,166	3,615	3,437	3,279
Cloth diaper rental	0	0	0	0	0
Subtotal (clothes, diapers)	7,620	6,576	7,259	7,193	6,051
Medical treatment, pharmaceuticals	784	428	930	905	1,157
Toys	1,453	1,265	1,390	1,190	1,145
Picture books	527	389	351	425	384
Subtotal (toys, picture books)	1,980	1,654	1,741	1,615	1,530
Breastfeeding, baby food crockery	422	396	358	342	315
Bathing/hygiene accessories	1,182	1,168	1,192	1,200	1,165
Subtotal (breastfeeding, baby food crockery, bathing, hygiene)	1,604	1,564	1,550	1,542	1,480
Outdoor, furniture, beds, etc.	2,186	2,823	2,426	2,644	2,038
Total	19,339	18,092	18,795	18,044	16,198

Source: Figures compiled by Pigeon.

Domestic Market Share of Pigeon's Main Products



Source: Figures compiled by Pigeon.

CLOSEUP

Strengthening Direct Communication

Pigeon works hard to make direct contact with its customers in order to enhance brand loyalty. We do this through a variety of activities, including holding events and launching new websites.

Events for Expectant Mothers



Nearly 3,000 expectant mothers attended the 41 gatherings held throughout the business year.

Pigeon.info



The Pigeon.info website provides Japan's best source of information to support the lives of women and their children through pregnancy, approaching childbirth, and when raising children.

<http://pigeon.info>

Pigeon Mall



Our Pigeon Mall online shopping site forms a solid base for expanding sales of original Pigeon products, as well as new offerings. In the year under review, sales made via Pigeon Mall were more than 10% higher than the previous year.

<http://www.pigeonmall.jp>

Start of Sales for Mamas & Papas Brand

The Pigeon Group has an exclusive domestic distribution agreement to sell products made by Mamas & Papas, a U.K. company. We regard this as a complementary relationship, as there is no overlap between our own products and items carrying the Mamas & Papas brand. Our strategy calls for full coverage of the ever-diversifying market, and to this end the Mamas & Papas brand is a very effective part of our lineup. By handling Mamas & Papas products, we aim to further boost our Domestic Baby and Child Care Products segment and create a new growth business. Given the changing purchasing behavior of consumers, we hope to build a business model that addresses such behavior and operate a business that accurately meets the needs of customers.

In March 2010, we commenced full-scale sales via mail-order catalog and the Internet, and in September 2010 we issued the autumn catalog, which was followed by the winter catalog in November.



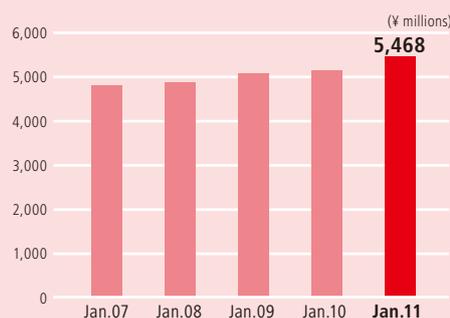
Mamas & Papas mail order catalog



<http://www.mamasandpapas.jp>

Child-Rearing Support Services

Sales from Child-Rearing Support Services



Business Environment

There are an increasing number of women who want children but who wish to keep working. Similarly, more and more women want to return to work while raising children. Despite a declining birthrate, the market for child-rearing support services is expanding. In particular, the number of children on waiting lists to enter daycare continues to increase in urban areas. There is a strong push for action to be taken immediately and the national government is examining specific measures such as a framework for additional daycare facilities and new systems for children and child-rearing.

Such measures are being implemented through the cooperation of the public and private sectors. All of society is working to enact measures for addressing the declining birthrate and for supporting child-rearing. There are high expectations for our company to fulfill a major role. Specifically, we believe that there will be a positive influence on the expansion of our child-rearing support business. For example, new kindergartens will be established and a variety of childcare services will be enhanced.

Our Competitive Edge

Through its provision of baby and child-care offerings, Pigeon has built a reputation for safe and reliable products. Deploying this brand strength, we are building a child-rearing support services business under the principle that “raising children comes first.”

Today, the Pigeon Group provides a host of child-rearing support services that meet the varied needs of users. These include the operation of child-minding facilities, such as approved and certified daycare centers and in-company child-minding facilities. The Pigeon Group also operates preschool education facilities, such as Kids World, which is implementing new programs, and provides a service that dispatches babysitters to people’s homes. Pigeon has earned the trust of parents for the high quality of its services while operating one of Japan’s largest child-rearing support businesses.



Business Strategy

The solid reputation and trust earned by our child-rearing support services business help create new levels of value, which in turn leads to the further business growth. For this reason, we are working to strengthen the quality of this business as our top priority. We will continue building a foundation for steady growth using added value that only the private sector can effectively deliver. We do this by providing child-care and educational services, spearheaded by highly competent staff working within systems that incorporate risk management to guarantee safety and peace of mind. Through ongoing classes at Pigeon Heartner Open College, our training facility for child-care workers and other staff members, we endeavor to uphold our reputation as a provider with unparalleled knowledge of babies and young children.

Performance and Highlights

In the year under review, sales in the Child-Rearing Support Services segment amounted to ¥5,468 million, up 6.2% from the previous year.

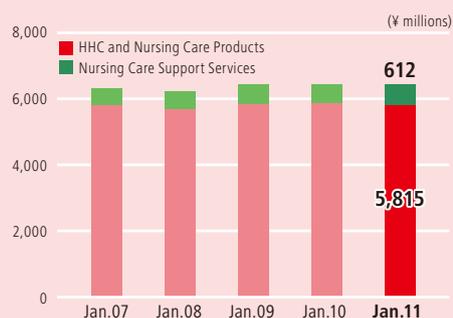
We exceeded our initial estimate for establishing new in-company child-minding facilities despite the cautious approach adopted by many companies impacted by the economic recession. During the year, we opened six new facilities, and the number of children attending our existing facilities continues to increase.



Child-minding center

Healthcare Business

Sales from the Healthcare Business



Business Environment

According to statistics released in April 2011, the population of Japanese aged 65 or older stood at 29,650,000. This represents a 50,000 increase from 29,600,000 in November 2010 (population estimates published by the Statistics Bureau of the Ministry of Internal Affairs and Communications). In Japan's progressively aging society, it is estimated that 25.2% of the total population, or one in every four Japanese, will be at least 65 years old by 2013. When baby boomers born between 1947 and 1949 begin to enter the 65-plus age bracket in two years' time, it is estimated that this group will grow by 2.3 million every year.

This market is expanding steadily against the backdrop of a society that is aging more rapidly than anywhere else in the world. The result is an extremely competitive environment, where other companies are launching new products and many dynamic enterprises are venturing into the market for the first time.

Our Competitive Edge

Pigeon's healthcare and nursing care business revolves around two brands: the Recoup brand of products that support the active elderly and the Habinurse brand of nursing care products. Together, these two brands offer items in many product categories, including toileting, bathing, hygiene, meals, sleeping, and mobility. Pigeon's strengths in this segment lie in its ability to investigate unsatisfied customer

demand, as well as its product planning capabilities and advanced quality control systems acquired in the course of developing baby care products. The Pigeon Group has two sales channels for nursing care products: retail stores and institutions/hospitals. We also possess know-how and a proven track record in public information events and activities that promote the Group's provision of nursing care services.

Business Strategy

We will further boost the sales and marketing capabilities of our nursing care business by taking advantage of the Pigeon Group's business structure.

We are continuing to upgrade and expand the new Recoup lineup brand of anti-aging products launched in August 2007. In addition, we are actively investing in developing this brand through various measures, such as setting up dedicated Recoup sections in retail stores.

We plan to further expand sales channels by offering products via mail-order catalogs and television shopping.

Pigeon launched its nursing care business in 1975, and today offers nursing care products under the Habinurse brand. Through its retail store and healthcare facility sales channels, the Pigeon Group fully meets the needs of people receiving care in their homes or in healthcare facilities.

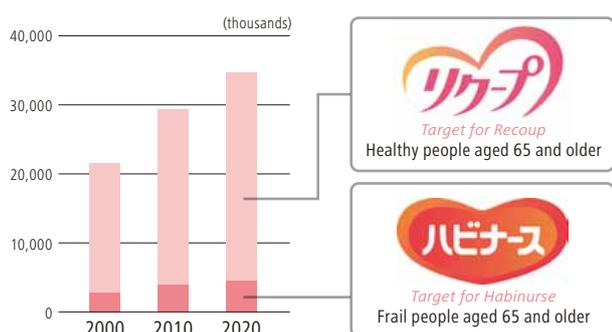
Performance and Highlights

Sales in the Healthcare segment edged down 0.3%, to ¥6,428 million. Operating income fell 46.0% year-on-year, to ¥145 million.

With respect to the Recoup brand of anti-aging products, we launched various new offerings. In March 2010, for example, we augmented our Burden Reducing Supporter line, which has been popular since its launch, with the addition of Burden Reducing Supporter—Shoulder. In the same month, we unveiled Walking Support Shoes SL (women's shoes specially designed for walking), as well as Super Absorption Incontinence Pads and Incontinence Underpants (cloth pads and underpants that provide peace of mind and comfort without having to use paper diapers). In August, we released a Jiinwari Pokapoka Gel, a gel with thermal sensing effects.

As for the Habinurse brand of nursing-care products, we

Estimate of Future Population in Japan (age 65 and older)



Source: Figures compiled by Pigeon.

launched the Mimamori Sensor Series of protective sensors designed to help staff at elderly care institutions quickly respond when patients slip or fall over and also to help staff monitor the movements of patients. In addition, we unveiled cloth pants used with an incontinence pad for extended or night-time use. We also improved the safety and usability of Full Reclining Carry FC-120 Series (wheelchairs for nursing care).

Seeking to secure new sales routes for these two brands, we continued sales activities targeting mail-order catalogs and TV shopping channels. However, sales failed to reach the previous year's level, mainly because of low brand recognition and delays in shipping products to stores.

Outlook

The Group will continue expanding its Healthcare segment, recognizing the important role of this business in boosting the earnings of its domestic operations.

We will strive to further enhance competitiveness by

undertaking brand recognition activities linked to measures to promote better understanding of our products. With respect to distribution, we will tap new and alternative channels, such as mail-order sales, while protecting our existing core channels.

Regarding the Habinurse brand, we will enhance our product lineup by bringing to market items in our well-performing skincare and food-related areas. We will also boost sales activities targeting retail stores, care facilities, and hospitals.

In addition, the Group will enhance the content and user-friendliness of the Pigeon-hhc.info site, which provides information on health and home nursing care for people aged 50 or older.

The Group plans to increase sales in this segment to ¥6.9 billion in the year ending January 2012, ¥7.4 billion in the year ending January 2013, and ¥8.0 billion in the year ending January 2014.

CLOSEUP

Recoup Brand Development

Recoup is a brand for the active elderly targeting healthy aged people and those who require light nursing. As walking is effective for maintaining mobility, we have a range of products built around the theme of walking. The brand provides support for a healthy and positive lifestyle that resolves and dispels problems arising from a decline in physical function, and prevents the age-related deterioration of physical functions.

Burden Reducing Supporter–Shoulder: Comfortable Supporter Suitable for Everyday Use (Recoup Product)



The new shoulder supporter can be put on with one

In August of last year, Pigeon launched Burden Reducing Supporter–Shoulder, a new addition to the Recoup brand. This highly functional product, targeting women in their forties and fifties, supports and keeps the shoulder warm and enables mobility while providing the comfort of an ordinary undergarment.

hand by simply fastening the Velcro tape at the front. The elasticated material sewn into the back of the Supporter carries the weight of the shoulder and arm. The adoption of an absorbent fast-drying material in the fabric prevents sweat problems, while cushioning material sewn into the fabric where it wraps around the shoulder retains heat at the same time as providing protection.

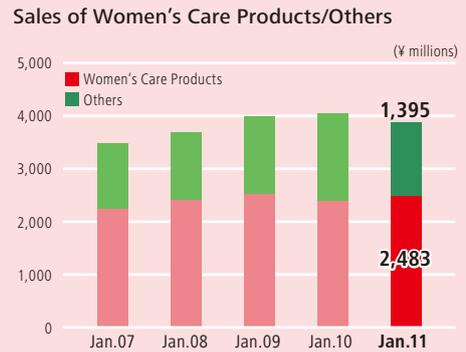
Recoup's new offering is the first to provide both heat-retention and support while being suitable for everyday wear.

Mimamori Sensor Series: Prevents Falls in Nursing Facilities (Habinurse Product)

In February of last year, Pigeon released the Mimamori Sensor Series under the Habinurse brand of nursing care products. The sensors detect a patient's movements, thus alerting staff if an elderly resident is about to fall over.

Before use, the behavioral characteristics of the patient and environment are programmed into the sensor unit. For example, to prevent a patient from falling out of bed, a "bed-exit alert alarm" sounds when the patient moves in an attempt to get out of bed, and a "bed-exit alarm" sounds when the patient has gotten out of the bed. The sensor's monitoring of the movements of patients reduces the workload of care workers by allowing them to focus on patients requiring immediate attention, which reduces the risk of falls, thus enhancing the quality of care.

Women's Care Products/Others



Business Environment and Marketability

Products handled by this segment include nutritional supplements for women during pregnancy, approaching childbirth, and rearing small children, as well as maternity undergarments.

According to 2009 statistics, the average age of marriage for women, our target customers, is 28.6 years and rising annually. Consequently, the significant decline in women giving birth in their 20s has led to a higher birthrate among women in their 30s. Furthermore, the rising educational level of women and the growing number of women in the workforce have prompted diversification of purchasing channels as women become more discerning about product selection.

Performance and Highlights

In the year under review, the Women's Care Products/Other segment posted sales of ¥3,879 million, a year-on-year decrease of 4.1%. Operating income declined 6.1%, to ¥565 million. During the year, we broadened our lineup with the launch of nutritional supplements for expectant and nursing mothers and a newly developed liquid toothpaste. However, sales of disinfectant and sterilization products declined due to

the rebound effect of increased demand in the previous year caused by the H1N1 influenza virus. Accordingly, both sales and operating income in this segment were down year-on-year.

Outlook

The declining birth rate and economic downturn are major factors causing sluggish growth in sales and operating income in this segment. One internal factor was our failure to develop products fast enough in response to market trends. The Group will take steps to remedy this situation.

In the year ending January 31, 2011, the Group will begin expanding its lineup of nutritional supplements for women during pregnancy, approaching childbirth, and rearing small children. At the same time, we will step up provision of information on the importance of nutrition during these stages of a woman's life.

We will also expand the lineup of maternity products sold by Pigeon Will Co., Ltd., by drawing on various products with unique features developed by Pigeon over its many years of pregnancy research.

In China, meanwhile, we will draw on our success with child care products to promote sales of cosmetics and other items targeting expectant and new mothers.

CLOSEUP

Pigeon Will Co., Ltd. is a consolidated subsidiary that specializes in the sale of maternity undergarments.

Pigeon Will Co., Ltd. offers highly original products which combine superior design with the functions needed by expecting mothers.

A specific example is the new maternity bra Raku-Raku Open Nursing Bra that was released in March 2011. This bra contains new functionality useful when nursing. In order to enable easy nursing, vertically opening slits have been cut into

the sides of the bra's cups. This design makes it easy for nursing mothers to access their nipples and aids in nursing while sleeping next to an infant. When combined with a nightgown that features an opening for nursing, mothers no longer have to bare their shoulders when nursing in cold seasons.

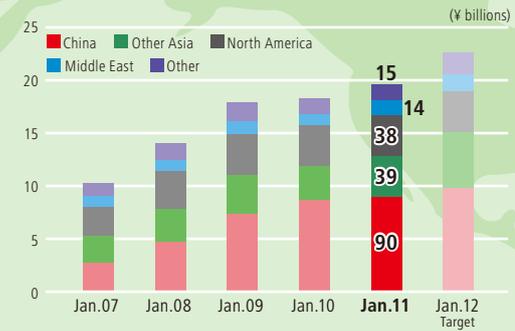
Products like these help reinforce the strong track record enjoyed by Pigeon's products.



Globalization

● Group Companies
● Branches

Overseas Business Sales by Region



Business Overview

Against a background of a sagging world economy, in the year under review the Pigeon Group continued devoting considerable managerial resources to its overseas business, which is positioned as a driver of Group growth. Accordingly, we reported healthy overseas sales expansion, especially in China and North America. In the year ended January 2011, overseas sales amounted to ¥19,854 million, up 7.1% from the previous year. We reported particularly strong growth in China, where sales rose 4.7% in yen terms and 10.6% on a local currency basis. Consequently, the ratio of overseas sales to net sales remained mostly unchanged, edging up from 34.7% to 34.8%.

Back in January 2008, we commenced operations at a plant in Shanghai's Qingpu Industrial Zone, followed by a second facility in 2009. At these plants, we produce detergents, skincare products, baby bottles, and baby bottle nipples. In February 2010, we started construction of a new plant in Changzhou, Jiangsu Province, to make breast pads and baby wipes. Phase 1 of construction has since been completed, with full-scale operations scheduled to begin in the current fiscal year.

Business Strategies

Our competitive advantage in overseas markets derives from two key strengths.

One is the appeal of our products. We conduct basic research through in-depth consideration of "what is best for babies and their mothers," and made products accordingly. In stores, meanwhile, we create displays to permit an instant understanding of our product appeal, and we are building a system to allow explanation of displays and product features in an easy-to-understand manner. In the first 24 months of life, the growing process of babies is universal worldwide. Therefore, Pigeon intends to advance its business model, well established in Japan, across the world.

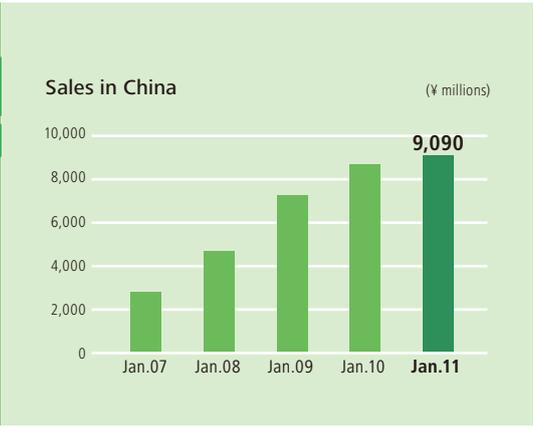
Another strength is teamwork with high-quality business partners. Since we began exporting to China in the 1990s, we have been fortunate to have reliable sales partners (primary distributors). To advance our overseas business, not only in China, it is extremely important that we build good

relationships with local partners—including distributors and retailers—with excellent local knowledge. We are mindful that reviews and updates of our promotions and their results are in the best interests of our customers. Accordingly, we closely monitor market conditions, and timely take action where necessary.

Business Features and Outlook

An important strategy for the fiscal year ending January 31, 2012, is the positioning of China and Europe as key markets under the Fourth Medium-Term Management Plan. In March 2011, we separated our China-related operations from the Overseas Business Division and established the China Business Division. This new division will focus on strengthening ties with existing distributors while nurturing new distributors. The commissioning of a new plant in Changzhou, Jiangsu Province, will bolster development activities and in-house production. In Europe, meanwhile, we will expand the lineup of offerings sold under the mOmma brand. In addition to China and Europe, the Pigeon Group is actively entering new markets in order to expand its business. By following these strategies, in the year ending January 2012, we are targeting consolidated overseas sales of ¥22.8 billion.

We recognize the particular importance of recruiting and promoting highly talented staff in realizing our global strategies. Pigeon already has numerous personnel with diverse skills in the Overseas Business Division. Going forward, we will focus on enhancing the mobility of personnel in Japan and overseas, strengthening language training, and recruiting local employees at our overseas sites, in order to strengthen our operating foundation.



Business Overview

With a population of around 1.3 billion, China's annual childbirths have averaged about 15 million–20 million over the past several years, which is 14–18 times the number of births of Japan. Pigeon is targeting the wealthiest 15%–20% of the market, representing 2 million–4 million people. Given that we generate around ¥22 billion from our baby and child care products business in Japan, where only 1.07 million babies are born annually, we feel it is possible to achieve annual sales in China of around ¥40 billion.

At the beginning, we developed our business mainly in coastal areas around large cities, such as Shanghai and Beijing. More recently, however, we have broadened our coverage across all areas, including interior regions.

Our Position

The target for Pigeon's products is the "new rich" market with monthly household incomes of 5,000 yuan or higher. We are advancing our business by proposing innovative lifestyle scenarios, with an emphasis on toiletry-related products. With more than 500 types of products on the Chinese market, we supply higher-priced items to meet high-end demand from the growing number of newly wealthy people in major coastal cities.

In China, where economic growth continues at lightning speed, we have steadily expanded our business through various measures. These include good timing of market entry,

extensive face-to-face sales activities based on stable pricing that reflects sharp economic growth and the high quality of our products, as well as increasing the number of stores and dedicated in-store Pigeon sections handling our offerings.

Business Strategies

From the beginning, Pigeon has regarded China as a market rather than a production center. With this in mind, we have worked to strengthen brand awareness and proliferation by deploying the sales prowess of our partner companies.

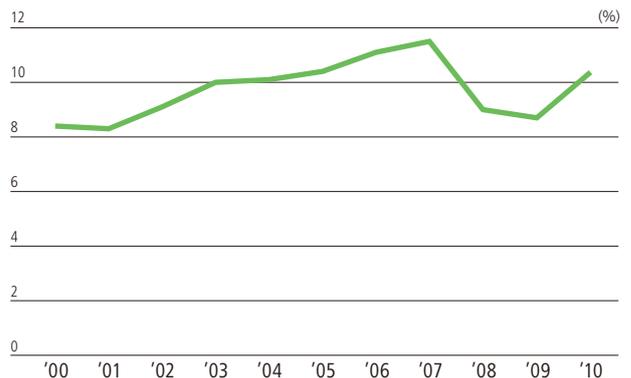
In Chinese hospitals, for example, we have held various events, such as product exhibitions, product explanation forums, and child-care information sessions. In 2009, we opened Pigeon Breastfeeding Advice Offices in 34 hospitals as a joint project with China's Ministry of Health. In these ways, we have stepped up our focus on brand appeal reinforcement. As of January 31st, 2011, we have formed partnerships with 200 hospitals throughout the country in order to offer educational activities related to breastfeeding, including our Pigeon Breastfeeding Advice Offices.

Pigeon's sales growth in China has been generally favorable. In the fiscal year ended January 2011, sales in China exceeded ¥9 billion, and we expect this figure to reach ¥14.2 billion by the year ending January 2014. In the future, we expect household incomes to continue rising, leading to increased sales of our existing products, notable baby bottles and nipples and toiletries. We also anticipate rapid growth

Sales Channel Expansion in China



GDP in China



Source: The figures are compiled by Pigeon Corporation with data from the International Monetary Fund (IMF) (~2006) and the Organization for Economic Cooperation and Development (OECD) (2007~).

in the market for consumables, including breast pads and baby wipes and other items generally popular in industrialized nations. To properly address such market changes, we must ensure stable supply of products and reduce costs. With the aim of establishing a solid local procurement and production infrastructure and increasing the internal manufacturing ratio, in 2010 we commenced construction of a new plant, which started full-scale operations in the current fiscal year. In March 2011, meanwhile, we established the China Business Division as an independent entity from the Overseas Business Division to facilitate our advancement in the Chinese market.

Sales Development

We are expanding ties with local distributors in order to develop our sales network across the entire nation. Through agreements with three primary distributors by sales channel and establishments of secondary distributors for baby specialty stores, we are steadily increasing the number of stores handling our products.

Seeking to further boost sales in China, we will continue rebuilding our distribution network by selecting and mobilizing both primary and secondary distributors.

Expanding Our Sales Network

Through our focus on establishing dedicated Pigeon sections within baby specialty stores, we are making steady sales progress in China's interior regions. In the year under review, we increased the number of such dedicated sections by 650, for a total of around 1,700 at fiscal year-end. In addition to Shanghai, where we have a business base, we opened a branch in Beijing in 2008, and in Guangzhou in 2009. We will continue expanding our presence across the nation.

Fiscal 2010 Results and Evaluation

Back in fiscal 2008, ended January 2010, sales in China increased substantially to ¥8.6 billion, up 19.4% from ¥7.2 billion in fiscal 2009. In the year under review, we again enjoyed healthy growth, with sales in China reaching ¥9.0 billion, up 4.7% year-on-year.

Assuming that the Chinese economy continues to grow

at a high rate and that we are able to increase the rate of self-manufacturing through Pigeon's new factories, there is the possibility of even further business growth in China.

Since 2008, PIGEON MANUFACTURING (SHANGHAI) CO.,LTD. has been manufacturing and assembling various products. These include silicon baby bottle nipples, detergents, and toiletries, as well as baby bottles.. Furthermore, we started operations at PIGEON INDUSTRIES (CHANGZHOU) CO.,LTD. from 2011 and are producing breastfeeding pads and baby wipes.

Future Outlook

Looking at demand for products aimed at children from birth to 24 months, there is no major difference between China and Japan. We look forward to further market growth in China, centering on consumable products, in line with economic expansion. China also has greater growth potential than Japan with respect to the number of births, and that nation's finances are also stable. Over the long term, there is minimal cause for instability, because the Chinese government is swift to take action, including public spending and consumption stimulatory measures. For this reason, Pigeon has not changed its view that China should remain a priority market.

Our sales network in China extends well beyond Shanghai. We are also reinforcing efforts to tap markets and boost sales in China's interior regional cities—having opened a branch in Beijing in 2008, and in Guangzhou in 2009. While we recognize the existence of income differences between people living in coastal and regional areas, our total sales in China have grown steadily thanks to our nationwide business advancement strategy. Indeed, sales in interior regions now exceed those in major coastal cities, such as Shanghai, Beijing, and Guangzhou, and we look forward to further growth in the future.

In addition to the above factors, consolidated subsidiary PIGEON INDUSTRIES (CHANGZHOU) CO.,LTD. commenced full-scale operations at its new plant in the year under review. In fiscal 2011, therefore, we forecast sales in China of ¥9.9 billion, up 10.0% year-on-year.



Retail store in Linan, Zhejiang Province



Breastfeeding advice room

North America/ Europe

Sales in North America



Business Overview

Pigeon's sales are also rising steadily on a local currency basis in the United States, the epicenter of the global financial crisis, with a population that is growing by around 3 million per year.

With an average birthrate of 2.1 children per family, the United States is an advanced country with a relatively stable birthrate. Doctors in that nation generally recommend breastfeeding, so demand for breastfeeding-related products is rising. For this reason, high-quality products supplied by LANSINOH LABORATORIES, INC., have garnered strong support.

In April 2004, Pigeon acquired LANSINOH LABORATORIES, INC., based in Virginia, and transformed it into a wholly owned subsidiary. Since then, it has been building sales platforms in the United States and Europe based on medium- and long-term perspectives. In December 2010, Lansinoh took over business related to the mOmma brand of child care products, sold mainly in Europe, from Baby Solutions SA and Baby Solutions Italia Srl. In the current fiscal year, Lansinoh will actively promote that business in the United States in order to expand its product categories and business scope.

Pigeon's Position

The Lansinoh range of breastfeeding-related products includes breast creams, breast pads, breast milk storage bags, and breast pumps. It is recognized for its unmatched product quality and brand strength, and its offerings are handled by more than 40,000 stores in the United States.

In January 2009, Lansinoh acquired the sales rights for the Soothies brand of breastfeeding-related products from Puronyx, Inc. Here, our aim is to strengthen our business in the United States by upgrading our lineup of breastfeeding-related products and securing sales channels into hospitals.

While the breastfeeding-related market in North America is quite large, Lansinoh enjoys limited brand recognition in the breast-pump segment of the market. In response, we launched an electric breast pump in December 2009. We also introduced diaper rash creams into U.S. retail stores as part of an aggressive effort to raise market share.

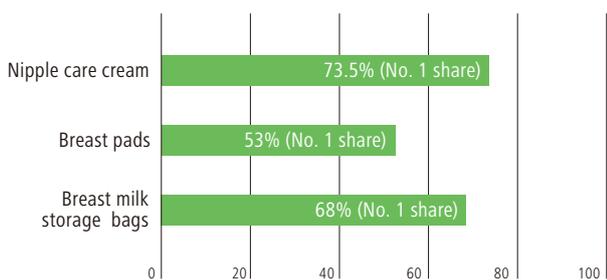


mOmma brand products



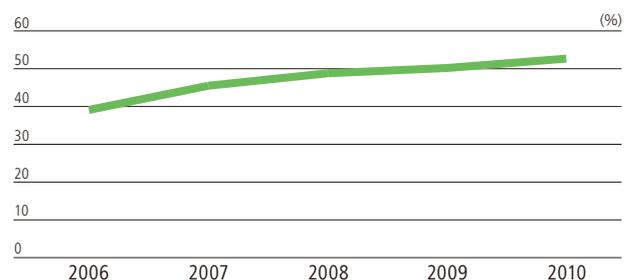
Lineup of Lansinoh Laboratories, Inc.

Lansinoh Laboratories, Inc.: U.S. Market Share (yearly average)



Source: Figures compiled by Pigeon (as of January 2010).

Lansinoh Laboratories, Inc.: Breast Pad Market Share in North America



Source: Figures compiled by Pigeon.

Fiscal 2010 Results and Future Outlook

Despite posting a significant increase in sales in North America in local currency terms, sales in yen terms edged up just 0.4% year-on-year, to ¥3,855 million, due to the sharp appreciation of the yen. In Europe, we expanded our lineup of offerings for the breastfeeding-related market while increasing the number of retailers and stores handling our products. The Turkey subsidiary of LANSINOH LABORATORIES, INC. (LANSINOH LABORATORIES MEDICAL DEVICES DESIGN INDUSTRY AND COMMERCE LTD.

CO.) is making progress in developing its breast pump business. Lansinoh also acquired the mOmma brand.

By acquiring the mOmma business of Lansinoh, the Pigeon Group will realize synergies with Lansinoh by reinforcing its lineup of breastfeeding-related products in Europe and the United States, and working proactively to establish a presence in the child-care products market. We will also work together with Lansinoh to tap new markets in Central and South America.

Other Countries

Business Strategies

In addition to China and the United States, the Pigeon Group is actively entering new markets in order to expand its business. In the year under review, we advanced our business in emerging nations with major future growth potential. For example, we established a new sales subsidiary in India, formed a distribution agreement in Russia, and investigated opportunities in Brazil.

India

In 2010, the population of India reached 1,214,500,000 people, and has been growing at the rate of more than 10 million per year. More than half the population is under 25. Although there are major discrepancies between rich and poor, considerable growth in the wealthy population is boosting the number of childbirths.

Currently, there are no dominant brands of Baby and Child care products in India. We will respond to demand from the growing population of wealthy people by raising recognition of Pigeon as a top-quality brand with high added value, as we have done in Japan and China.

For some time, we have been promoting our business in India, centering on such major cities as New Delhi and Mumbai. In November 2009, consolidated subsidiary PIGEON SINGAPORE PTE.LTD. transformed its representative office in Mumbai, India, into a local subsidiary. The new company, PIGEON INDIA PVT.

LTD., has since commenced full-scale sales and marketing activities. It is also pursuing proactive initiatives in other areas. In April 2010, for example, it started local production of skincare items under contract, and has also established dedicated Pigeon sections in retail stores in that nation. In the year ending January 2014, the final year of our new medium-term plan, we project that sales in India will surpass ¥800 million.

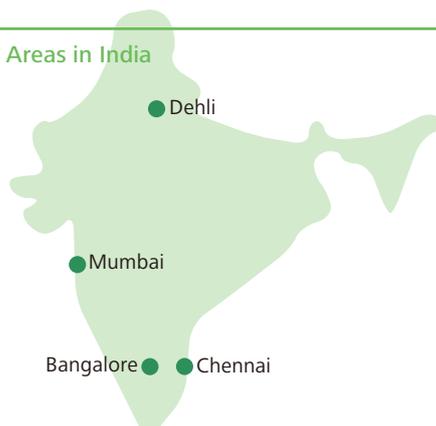
Other Countries

The Pigeon Group launched the Double Heart brand in South Korea. Going forward, we will work to improve brand recognition and to increase product categories through cooperation with distributors. In Malaysia, where sales have been increasing at an annual rate of around 10%, PIGEON SINGAPORE PTE.LTD. transformed a local sales company into a subsidiary. The aim of this strategy is to expand our business in Malaysia by drawing on the strong brand power and marketing know-how developed in Singapore. In the Middle East, we will reinforce strategies related to our flagship product of baby bottles, while expanding other product categories such as skincare products.



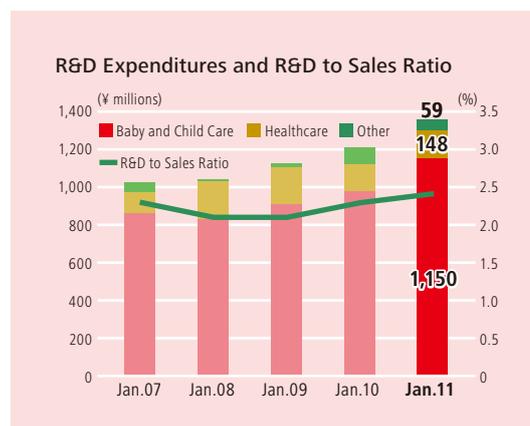
Skincare products in India

Strategic Areas in India



"Double Heart" brand products in South Korea

Research and Development



Our R&D Mission

At Pigeon, we conduct research into such fields as infant growth processes and the aging mechanisms of the elderly, guided by the principle that R&D constitutes the core competency that drives the Group's growth. Our aim is to solve the issues that arise in the course of such research.

Pigeon's basic research themes center on infants, mothers, and the elderly. By conducting research on these universal themes, which are not directly affected by advances in materials, systems, or technological breakthroughs, Pigeon continues to create unique products.

Basic Research and Achievements

It is generally acknowledged that the development of new technologies and new materials requires enormous expenditure. At Pigeon, while we use high-tech equipment in our R&D activities, we also engage in hands-on studies of our subjects. In this way, we steadily build up bodies of research on such themes as child development, physical decline, and features of everyday behavior. We have established a Research & Development Department as an organization for conducting this universal research.

Child development, on which we base our baby and child care products, is universal, allowing us to conduct basic research in Japan. We also integrate research findings by coordinating individual research projects undertaken by our various overseas companies in Japan. This integration of basic research findings related to Pigeon-brand products facilitates standardization of global product concepts and designs.

Our baby shoes are a good example of a best-selling product to emerge from basic research conducted at the Central Research Center. This product required eight years of research before its launch in 2003. Research began with detailed observation of babies' mobility development—from when they pull themselves upright until they are able to walk properly. Following extensive research and analysis, Pigeon developed revolutionary baby shoes with a shape that does not interfere with the movement of the toes.

Also, we have been expanding our body of knowledge on the suckling movements established by Pigeon some time ago, which consists of the three principles of "adsorption,"

"suckling," and "swallowing." One finding from this research has been applied to a new baby bottle nipple called Bonyu Jikkan. Launched in spring 2010, this new product allows babies to suckle in a more natural way.

Overseas Business and R&D

For more than 50 years since our founding, we have created a diverse range of products based on research into breastfeeding and other aspects of child development. Overseas, we have successfully marketed the same products that were originally known in Japan for their high quality and advanced technological functions. This has enabled Pigeon to satisfy customers and earn their trust in overseas markets, such as China. Because all babies grow in similar ways, we can provide products for babies not only in Japan, but also all over the world.

It is widely known from previous research that the various processes of physical development for newborn infants through to 18-month-old children are the same worldwide, regardless of ethnicity, culture, or environment. This means we can pursue research anywhere in the world. Pigeon has built an R&D organization permitting both vertically and horizontally integrated research according to each theme. The major themes of developing hand/foot motor function and developing mouth and other biological functions are divided into sub-themes. Since it is necessary to gain a firm grasp of key research functions, these themes are overseen by the Central Research Center in Japan. Research into the deterioration of functions caused by aging, a key research theme undertaken for the Recoup business, and related product development also take place in Japan. Once these stages have been completed, Pigeon is then able to introduce such advances and products to overseas markets.

Localized R&D and Quality Control

Today, Pigeon is steadily expanding its business in China, North America, and other countries and regions. The establishment of product supply and development systems and the training of personnel are pivotal for promoting further globalization. Consequently, Pigeon's R&D focuses on developing products that address local needs and on establishing a highly reliable quality control system.

Developing products that reflect local needs requires each local development department to oversee the monitoring of products sold solely in that region. For example, our local development department is responsible for the planning and development of items sold in China. The Central Research Center in Japan controls key products, such as baby bottles and baby bottle nipples, whereas Shanghai takes care of production and other aspects of technical development.

Since 2006, we have been working to strengthen quality control in our overseas businesses to ensure a highly reliable quality control structure. We have also integrated quality control structures that had previously been operating independently. Quality control checks of products developed in all countries are now centralized at our Central Research Center.

All products sold in overseas countries are subject to stringent quality control checks by the Central Research Center before their release. Quality confirmation related to mass production is handled by the Center's quality control section. This framework assures consistent product quality across the Pigeon Group.

R&D and Marketing Strategies

At Pigeon, we conduct R&D in order to develop products for babies, expectant mothers, and the elderly according to market needs. Our fundamental approach to product development focuses on the following three phases: (1) creating new demand, (2) implementing strategies for converting demand into products, and (3) creating products based on such strategies.

At the demand creation stage, researchers involved in basic research formulate and test hypotheses by accumulating various data, identifying previous research, and monitoring. Once the hypotheses have been tested from an independent perspective to see whether or not there is potential for a new product, specific strategies are established with the aim of creating a product. At this stage, we place greatest emphasis on confirming market demand and the potential for stimulating demand. The marketing department's involvement begins at the pre-product strategy and hypothesis stages. The department formulates sales strategies while work is progressing on creating a specific product.

Under our R&D system, the four basic marketing strategies

(product, price, place, and promotion) are established from the product planning stage. Consequently, a sales strategy is already in place when work on a new product has been completed. The system enables examination of any strategy-related issues at the point when it has become clear whether sales are successful or not following the product's release. This framework forms the basis of Pigeon's product strategy, which centers on hypothesis testing.

R&D Expenditures and Organization

In the year ended January 31, 2011, expenditures on research and development totaled ¥1,359 million, a 12.3% increase from ¥1,210 million in the previous year.

R&D at Pigeon is spearheaded by the Central Research Center in Tsukuba Mirai City, Ibaraki Prefecture. Currently 102 Researchers work in four departments: basic research (which includes planning), product development, quality control, and intellectual property. We send researchers to our companies in Japan, as well as to China, Thailand, and other overseas bases to strengthen our ability to address those markets.

The basic research department conducts research into various themes, such as breastfeeding and infant suckling behavior, as well as the deterioration of physical functions among the elderly.

Since 2006, we have integrated quality checks of our products developed in various countries into the Central Research Center's quality control department. Because safety and peace of mind are the minimum standards required by consumers, wherever child care products are concerned, new products must undergo quality control testing at the Central Research Center before they are put on the market in any country.

The intellectual property department is responsible for matters concerning patents, design, and trademarks. The department gives priority to applications filed in Japan, but also makes applications overseas while taking into consideration the areas where Pigeon plans to expand.

Going forward, Pigeon will work to create products that better match market needs by promoting unified interaction between its R&D and business divisions.



Central Research Center (Tsukuba Mirai City, Ibaraki Prefecture)



Lactation simulator

Corporate Governance

Basic Stance

Adhering to the Pigeon Group's corporate motto, "Only love generates love," all executives and employees of the Pigeon Group embrace a strong sense of ethics. They promote compliance-oriented management across all areas of the Group's business activities and are committed to helping Pigeon fulfill its corporate social responsibilities. We recognize the vital importance of various factors in achieving the sustained enhancement of corporate value. These include improving management efficiency and transparency and strengthening the management oversight function with the aim of achieving performance targets while maintaining a proper balance between value for shareholders, value for customers and value for employees. The Group is implementing a variety of initiatives to upgrade its corporate governance structure.

Corporate Governance Structure

Pigeon's Board of Directors consists of nine members, none of whom are outside directors. We have adopted a corporate auditor system, with four corporate auditors, two of whom are external auditors. Pigeon is building a corporate governance framework based on internal control systems.

In 2000, we introduced an executive officer system for the execution of business. The role of executive officers is independent from that of directors, who are responsible for management. This separation of the decision-making and management function from the business execution function clarifies the respective duties of directors and executive officers. We are working hard to make management more efficient, including by ensuring prompt decision making on management-related issues, made possible by the introduction of a general manager system.

Promoting Compliance

Seeking to strengthen our compliance framework, we operate an internal reporting system, called Speak Up, which was established some time ago, and in July 2008 we set up Pigeon Partners Line, a reporting system for our business partners. We have a system in place to swiftly address problems that are uncovered within or outside of the Group. This includes holding a Compliance Meeting to discuss appropriate responses and investigating the relevant circumstances. Throughout the process, we ensure that the identities of persons reporting the problems and those communicating with such persons are duly protected.

In January 2010, we established an English version of Pigeon Partners Line.

Following our voluntary recall of Pigeon products in 2008, we sought to adopt more exhaustive quality controls in order to prevent accidents from recurring. To this end, we created an internal framework by establishing a QC

Committee, chaired by the president of Pigeon.

We will strive to raise management quality by further reinforcing our internal control system and adopting rigorous compliance and risk management protocols. One reinforcement measure is the Compliance Report, which is sent to all employees once a month. This is an educational report that also includes specific instructions on addressing compliance-related issues. We also established the Compliance Self-Check system and are working relentlessly in other ways to make our company even better.

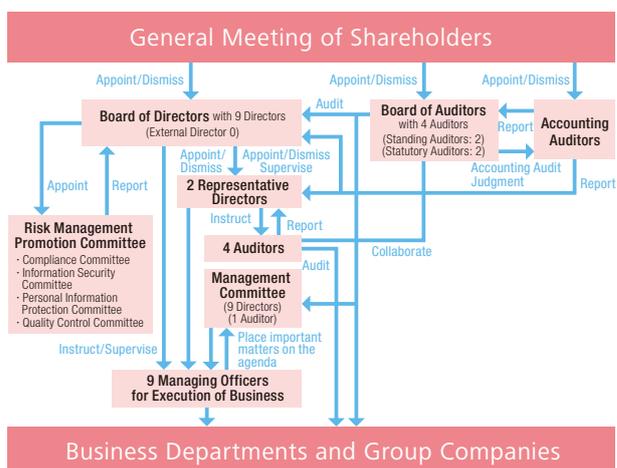
Risk Management

The Risk Management Promotion Committee is responsible for managing all risks facing the Pigeon Group. The committee sets basic internal control policy concerning the identification and evaluation of risks and the consideration of countermeasures. It also receives reports on the activities and policies of the Compliance Committee, the Information Security Committee, the Personal Information Protection Committee and the Quality Control Committee.

Protection of Personal Information

As a company that provides customers with products, services and information, we place high importance on ensuring information security and protecting personal information, and we are working continuously to raise our standards. For example, we established the Personal Information Protection Committee and embarked on a companywide effort aimed at obtaining Privacy Mark certification from Japan Information Processing Development Corporation (JIPDEC). This certification is awarded to places of business that have proper mechanisms in place to ensure protection of personal information being handled. As a result, we received Privacy Mark certification in July 2005 and were awarded extensions in 2007 and 2009.

Organization of Corporate Governance



Corporate Social Responsibility

Basic Stance on CSR

The Pigeon Group's business philosophy of "providing the gift of love to all" is embodied in its mainstay business of offering products and services to people requiring assistance with pregnancy, childbirth, child-care and nursing care. Our tree-planting campaign and other proactive initiatives are based on our awareness that our business activities themselves incorporate a CSR dimension.

We view all our stakeholders as customers and believe that maintaining a good balance between our stakeholders is in itself an act of corporate social responsibility and one that enhances corporate value.

24th Newborn Baby Commemorative Tree-Planting Campaign

In 1986, Pigeon launched the Newborn Baby Commemorative Tree-Planting Campaign because it wanted to do something for society befitting the Pigeon corporate motto, "Only love generates love." Under the slogan "Raising Children, Raising Trees: The Spirit Is the Same," the campaign is based on the premise that both babies and seedlings share a need for warm and nurturing environments to grow and prosper.

Since then, between 3,500 and 6,000 trees, including Japanese oaks, sawtooth oaks, and nettle trees, have been planted each year at the Pigeon Miwa no Mori site in Hitachi-Omiya City (formerly Miwamura) in Ibaraki Prefecture. By the time of the 24th event, nearly 100,000 trees had been planted, and the first trees we planted now stand more than 10 meters high.



Newborn Baby Commemorative Tree-Planting Campaign

Social Contribution Activities in China

Pigeon Group bases our overseas business expansion on the following philosophy: Instead of merely seeking the growth of Pigeon's business, we shall exist as a corporation which contributes to the countries where we do business.

During the Sichuan Earthquake of 2008, our local Chinese subsidiary PIGEON (SHANGHAI) CO., LTD. provided various aid including donating funds for the reconstruction of a local elementary school. Construction of the school buildings proceeded smoothly, and an opening ceremony was held in December 2009 for the Pigeon Hope Elementary School in Meishan District of Sichuan Province. In 2010, we donated a school building to Huzhu Tu Autonomous County in Qinghai Province. The opening ceremony for the building was held in November.

In the future, we plan to continually donate primary school buildings at the pace of 1 building per year. In 2011, we plan to build a school in the Xinjiang Uyghur Autonomous Region.



Qinghai Pigeon Hope Primary School

Management's Discussion and Analysis

Business Environment and Performance

Business Conditions in Fiscal 2010

In the fiscal year under review, the Pigeon Group reported an increase in its operating margin thanks to growth in sales of its domestic and overseas baby and child care products businesses, as well as a decline in the cost-to-sales ratio. However, several factors had an adverse impact on bottom-line earnings. These included a foreign exchange loss stemming from the yen's appreciation and the liquidation of a consolidated subsidiary. Under such circumstances, consolidated net sales for the year amounted to ¥57,061 million, up 6.8% from the previous fiscal year.

Income Statement Analysis

Cost of sales increased 3.8% with increase in sales, to ¥33,780 million. Buoyed by higher revenue, however, gross profit rose 11.4%, to ¥23,281 million—posting stronger growth than net sales.

Selling, general, and administrative expenses increased 14.9% to ¥18,734 million. This was due to a rise in sales promotional expenses stemming from such factors as costs associated with tapping new overseas markets and sales costs related to launching a new business in the domestic market.

In line with business expansion, the number of employees rose to 2,678 at the fiscal year-end, up from 2,318 a year earlier. Due to cost control efforts, however, the increase in personnel expenses was limited to ¥168 million. Nevertheless, operating income edged down 1.2%, to ¥4,546 million. Amid considerable expansion of our overseas business, the Group posted an increase in non-operating expenses.

This stemmed from a ¥147 million foreign exchange loss, up from ¥50 million in the previous fiscal year, due to the yen's appreciation. Accordingly, ordinary income was down 3.8% to ¥4,435 million.

Despite a ¥62 million loss on liquidation of subsidiaries and affiliates, the Group limited its total extraordinary losses to ¥86 million, thanks to extinguishment of a bad debt loss incurred in the previous fiscal year. As a result, net income increased 3.1%, to ¥2,928 million.

Financial Position

Assets

As of January 31, 2011, Pigeon had consolidated total assets of ¥42,684 million, up ¥3,191 million (or 8.1%) from a year earlier. This was due to increases in both current and fixed assets.

The major factor boosting current assets was a ¥1,116 million (12.7%) rise in notes and accounts receivable. The main reasons for the increase in fixed assets were a ¥711 million (15.3%) increase in machinery and transportation equipment and a ¥383 million (17.7%) rise in tools, furniture, and fixtures associated with construction of a new factory by PIGEON INDUSTRIES (CHANGZHOU) CO.,LTD.

Liabilities

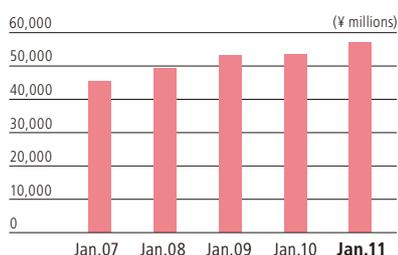
Total liabilities at the fiscal year-end stood at ¥15,640 million, up ¥2,411 million (18.2%) from a year earlier, stemming from increases in both current and long-term liabilities.

The main factors boosting current liabilities were an ¥896 million (65.8%) jump in short-term borrowings and an ¥892 million (826.6%)

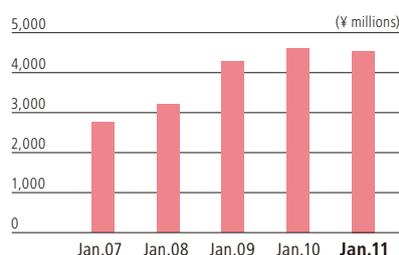
(¥ millions)

Sales by Segment	Jan. 2010				Jan. 2011			
	Amount	Percentage (%)	YoY Change (%)	Gross Margin (%)	Amount	Percentage (%)	YoY Change (%)	Gross Margin (%)
Net Sales	53,431	100.0	100.6	39.1	57,061	100.0	106.8	40.8
Baby and Child Care Products (Domestic)	19,735	36.9	97.7	40.9	21,961	38.5	111.3	46.1
Baby and Child Care Products (Overseas)	18,050	33.8	103.9	49.3	19,323	33.9	107.1	48.1
Child Care Support Services	5,151	9.6	101.4	11.3	5,468	9.6	106.2	11.4
HHC/Nursing Care Products	5,859	11.0	100.3	31.3	5,815	10.2	99.3	30.3
Nursing Care Support Services	590	1.1	101.4	14.1	612	1.1	103.6	14.2
Women's Care Products	2,386	4.5	94.9	38.0	2,483	4.4	104.1	37.7
Other	1,657	3.1	111.2	32.5	1,395	2.4	84.2	33.7
Overseas Business	18,539	34.7	103.9	49.5	19,854	34.8	107.1	48.3

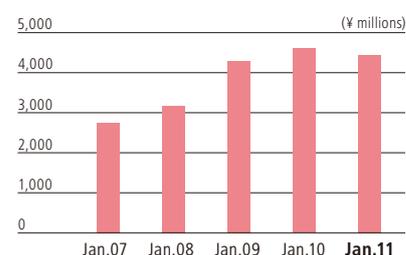
Net Sales



Operating Income



Ordinary Income



surge in long-term debt due within one year. Major reason for the increase in total long-term liabilities was a ¥615 million (61.5%) jump in long-term debt.

Net Assets

Consolidated net assets at fiscal year-end amounted to ¥27,044 million, up ¥779 million (3.0%) from a year earlier.

Sound Financial Position

At fiscal year-end, the Group had ¥6,827 million in cash and time deposits. Although interest-bearing debt increased year-on-year, it ended the period at ¥4,873 million. The equity ratio also remained high, at 62.2%. These figures underscore the Group's ability to make flexible and proactive investments, including in M&As, even in the face of the current global credit squeeze.

Cash Flows

Cash Flows from Operating Activities

Net cash acquired as the result of operating activities amounted to ¥3,260 million (compared to ¥4,964 in the previous year). Main factors included a ¥1,470 million increase in trade receivables and a ¥1,444 million decrease in corporate taxes paid, offset by increases such as income before income taxes of ¥4,369 million and depreciation of ¥1,624 million.

Cash Flows from Investing Activities

Net cash used as the result of investing activities totaled ¥3,949 million (compared to ¥2,150 million used in the previous year). Main factors included ¥2,710 million used to acquire property, plant and equipment, as well as ¥818 million in payments for transfer of business.

Cash Flows from Financing Activities

Net cash provided by financing activities totaled ¥886 million (compared to ¥2,018 million used in the previous year). Main factors included decreases such as ¥7,627 million used to repay short-term loans and ¥1,518 million paid in dividends, offset by increases such as ¥8,548 million in proceeds from short-term debt and ¥1,648 million in proceeds from long-term loans payable.

ROA and ROE

Seeking to improve profitability and capital efficiency, Pigeon uses return on equity (ROE) as a key performance indicator. At the fiscal year-end, ROE was down 0.2 percentage point from a year earlier (from 11.4% to 11.2%). Unfortunately, it fell 1.8 points short of the 13.0% target set under the Group's most recent medium-term management plan. Going forward, we will redouble our efforts to achieve numerical targets set under our new medium-term management plan. Return on

assets (ROA) at fiscal year-end was 10.8%, down 1.0 percentage point from 11.8% a year earlier. EBITDA (earnings before interest, taxes, depreciation, and amortization) amounted to ¥6,041 million, up ¥329 million (5.7%), and EV/EBITDA (enterprise value/EBITDA) fell from 12.9 times to 9.1 times.

Profit Appropriation Policy

The Pigeon Group regards the return of profits to shareholders as an important management priority. Our policy is to actively return profits to shareholders through the appropriation of retained earnings and other means, while reinforcing our financial position based on considerations of medium-term changes in business conditions and the Group's business strategies. In addition to strengthening our financial position, we effectively use retained earnings in a number of ways to fortify our operational base and improve future Group earnings. These include investing in new businesses and research and development, as well as investing in production facilities to raise production capacity, reduce costs, and enhance product quality.

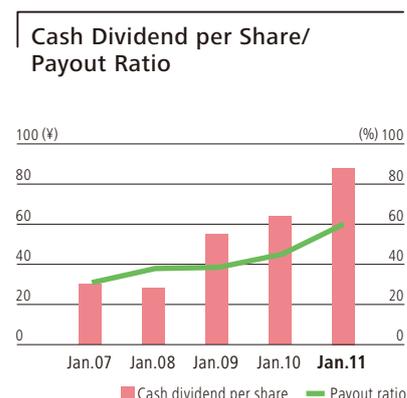
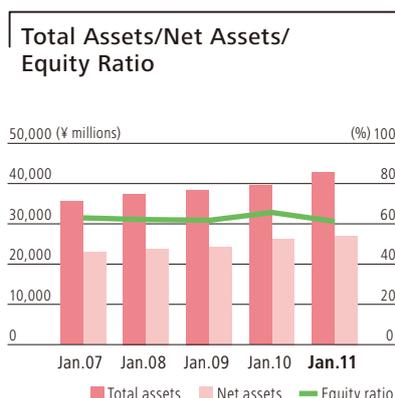
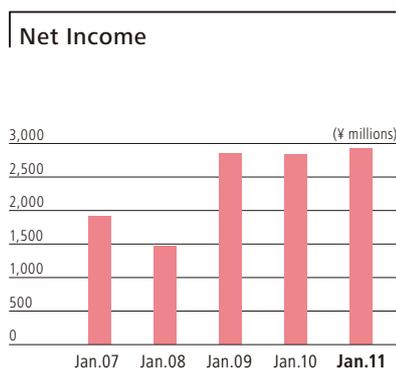
With respect to specific goals of shareholder return, under our medium-term management plan just ended we were targeting a consolidated total shareholder return of more than 50% by the year ended January 2011, the final year of the plan. To this end, we have sought to further strengthen and upgrade measures for returning profits to all shareholders. In the year under review, we achieved a consolidated total shareholder return of 51.9%, up 6.8 percentage points from 45.1%.

We paid an interim cash dividend of ¥44.00 per share, and we declared a year-end dividend of ¥44.00. This brings the total annual dividend to ¥88.00 per share (¥88.00 per share of common stock, up ¥24.00 from the previous year).

Outlook

The year ending January 2012 is the first year of the Group's Fourth Medium-Term Management Plan, entitled "Independence As a Global Company." We will strive to steadily achieve the targets of the plan, based on its fundamental policies. We have set the following consolidated performance targets for the year ending January 2012: net sales of ¥61.1 billion (up 7.1% year-on-year), operating income of ¥5.0 billion (up 10.0%), ordinary income of ¥4.95 billion (up 11.6%), and net income of ¥3.3 billion (up 12.7%).

(In this annual report, statements other than historical or present-day facts are regarded as future forecasts. Such future forecasts reflect the Pigeon Group's hypotheses and judgments based on information currently available, and thus contain discernable and unpredictable risks, uncertainties, and other factors that may impact on the Group's performance and financial position.)



Financial Data

Consolidated Balance Sheets (January 31, 2010 and 2011)

Item	Period	¥ millions		US\$ thousands
		2010	2011	2011
Assets				
Current Assets				
Cash and Time Deposits		6,905	6,827	83,777
Notes and Accounts Receivable		8,757	9,874	121,168
Goods and Products		4,358	4,549	55,823
Other Current Assets		2,250	2,911	35,722
Total Current Assets		22,272	24,162	296,503
Tangible Fixed Assets		14,039	15,409	189,091
Intangible Fixed Assets		1,230	1,188	14,578
Investments and Other Assets		1,950	1,924	23,610
Investment Securities		1,336	1,316	16,149
Total Fixed Assets		17,221	18,521	227,279
Total Assets		39,493	42,684	523,794
Liabilities				
Current Liabilities				
Notes and Accounts Payable		4,311	3,984	48,889
Accrued Account Payable		2,238	2,687	32,973
Income Taxes Payable		682	561	6,884
Accrued Employees' Bonuses		531	537	6,590
Other Current Liabilities		2,929	4,455	54,669
Total Current Liabilities		10,694	12,227	150,043
Long-Term Borrowings		1,000	1,615	19,818
Long-Term Liabilities		1,535	1,798	22,064
Total Long-Term Liabilities		2,535	3,413	41,882
Total Liabilities		13,229	15,640	191,925
Shareholders' Equity				
Capital Stock		5,199	5,199	63,799
Additional Paid-in Capital		5,180	5,180	63,566
Retained Earnings		17,044	18,451	226,420
Net Unrealized Gain (Loss) on Securities		7	11	135
Adjustment on Foreign Currency Statement Translation		(1,203)	(1,861)	(22,837)
Treasury Stock		(446)	(447)	(5,485)
Minority Interests		482	510	6,258
Total Net Assets		26,264	27,044	331,869
Total Liabilities, Minority Interests and Net Assets		39,493	42,684	523,794

Note: Figures in U.S. dollars are calculated, for convenience only, at the exchange rate of ¥81.49=US\$1.00.

Consolidated Statements of Income (For the years ended January 31, 2010 and 2011)

Item	Period	¥ millions		US\$ thousands
		2010	2011	2011
Net Sales		53,431	57,061	700,221
Cost of Sales		32,528	33,780	414,529
Gross Profit		20,902	23,281	285,691
Selling, General and Administrative Expenses		16,298	18,734	229,893
Operating Income		4,604	4,546	55,786
Other Income		409	372	4,565
Other Expenses		404	484	5,939
Ordinary Income		4,609	4,435	54,424
Extraordinary Income		4	20	2,479
Extraordinary Losses		448	86	1,055
Income before Income Taxes		4,165	4,369	53,614
Income Taxes		1,299	1,331	16,333
Adjustment for Corporate Tax		(89)	21	258
Less: Minority Interest in Net Income of Consolidated Subsidiaries		115	88	1,080
Net Income		2,840	2,928	35,931

Note: Figures in U.S. dollars are calculated, for convenience only, at the exchange rate of ¥81.49=US\$1.00.

Consolidated Statements of Changes in Shareholders' Equity

(¥ thousands)

	Shareholders' Equity					Valuation and Translation Adjustments			Minority Interests	Net Assets
	Capital	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity	Profit/Loss on Deferred Valuation of Other Securities	Foreign Currency Translation Adjustment	Total		
Balance at January 31, 2010	5,199,597	5,180,246	17,044,069	(446,523)	26,977,390	7,563	(1,203,267)	(1,195,704)	482,638	26,264,324
Changes during Period										
Distribution of Earnings	—	—	(1,521,108)	—	(1,521,108)	—	—	—	—	(1,521,108)
Net Income	—	—	2,928,407	—	2,928,407	—	—	—	—	2,928,407
Disposal of Treasury Stock	—	—	—	—	—	—	—	—	—	—
Acquisition of Treasury Stock	—	—	—	(1,150)	(1,150)	—	—	—	—	(1,150)
Changes during Period Not Related to Shareholders' Equity (net)	—	—	—	—	—	3,673	(658,318)	(654,644)	28,209	(626,434)
Total Changes During Period	—	—	1,407,298	(1,150)	1,406,148	3,673	(658,318)	(654,644)	28,209	779,713
Balance at January 31, 2011	5,199,597	5,180,246	18,451,368	(447,673)	28,383,538	11,237	(1,861,586)	(1,850,348)	510,847	27,044,037

Financial Indicators (January 31)

Item	Period	2007	2008	2009	2010	2011
Profitability						
Gross Margin (%)		37.8	37.9	38.0	39.1	40.8
Operating Margin (%)		6.1	6.5	8.0	8.6	8.0
Ordinary Margin (%)		6.1	6.5	8.1	8.6	7.8
ROA (Operating Income to Total Assets) (%)		7.9	8.7	11.3	11.8	11.1
ROA (Ordinary Income to Total Assets) (%)		7.9	8.7	11.3	11.8	10.8
ROE (Return on Equity) (%)		9.0	6.4	12.1	11.4	11.2
Cost of Sales Ratio (%)		62.2	62.1	62.0	60.9	59.2
Stability						
Current Ratio (%)		169.5	160.7	192.4	208.3	197.6
Fixed Ratio (%)		82.1	77.2	70.1	66.8	69.8
Fixed Assets to Long-Term Capital Ratio (%)		73.9	72.4	62.7	60.8	61.8
Equity Ratio (%)		63.0	62.4	62.3	65.3	62.2
Interest Coverage Ratio (times)		54.1	91.4	56.1	96.2	95.7
Interest-Bearing Debt to Total Assets Ratio (%)		6.9	7.5	8.4	6.3	11.4
Interest Expenses to Interest-Bearing Debt (%)		1.5	1.7	2.4	1.8	1.3
Efficiency						
Total Assets Turnover (times)		1.3	1.4	1.4	1.4	1.4
Receivables Turnover (days)		75.4	71.9	69.6	59.8	63.2
Inventory Turnover (days)		53.8	52.9	51.4	49.5	49.7
Accounts Payable Turnover (days)		58.4	62.2	51.8	48.4	43.1
Growth Ratios						
Sales Growth Ratio (% YoY)		8.5	8.7	7.8	0.6	6.8
Ordinary Income Growth Ratio (% YoY)		24.8	15.7	35.1	7.3	-3.8
Other Indices						
Net Income per Share (yen)		97.0	73.9	142.8	141.9	146.3
Shareholders' Equity per Share (yen)		1,128.7	1,173.9	1,195.4	1,288.1	1,325.7
Cash Dividend per Share (yen)		30.0	28.0	55.0	64.0	88.0
Payout Ratio (%)		25.7	37.9	38.5	45.1	60.1
Total Payout Ratio (%)		25.7	37.9	38.5	45.1	60.1
EBITDA (¥ millions)		4,790.6	4,392.4	5,720.1	5,712.5	6,041.7
EV/EBITDA (times)		9.2	8.4	8.5	12.9	9.1
Shares Issued (thousand)		20,275	20,275	20,275	20,275	20,275
Dividend to Equity (%)		2.3	2.5	3.2	5.0	5.5
Number of Employees		2,018	2,087	2,226	2,318	2,678

Note: Figures in U.S. dollars are calculated, for convenience only, at the exchange rate of ¥81.49=US\$1.00.

Consolidated Statement of Cash Flows (For the years ended January 31, 2010 and 2011)

Item	Period	¥ millions		US\$ thousands
		2010	2011	2011
Cash Flows from Operating Activities		4,964	3,206	39,342
Cash Flows from Investing Activities		(2,105)	(3,949)	(48,460)
Cash Flows from Financing Activities		(2,018)	886	10,872
Translation Gain (Loss) Related to Cash and Cash Equivalents		91	(220)	(2,700)
Net Change in Cash and Cash Equivalents		932	(77)	(945)
Cash and Cash Equivalents at Beginning Year		5,972	6,905	84,734
Cash and Cash Equivalents at End of Year		6,905	6,827	83,777

Note: Figures in U.S. dollars are calculated, for convenience only, at the exchange rate of ¥81.49=US\$1.00.

Corporate Information

(As of January 31, 2011)

Corporate Data

Company Name — Pigeon Corporation
 Address — 4-4, Nihonbashi-Hisamatsucho, Chuo-ku,
 Tokyo 103-8480, Japan
 Phone +81-3-3661-4200
 Fax +81-3-3661-4320
 URL — http://www.pigeon.co.jp
 Established — August 15, 1957
 Paid-in Capital — ¥5,199,597 thousand
 Fiscal Year-End — January 31
 Business — Manufacture, sales, import and export
 of baby and child care products, maternity
 items, women's care products, home
 healthcare products, nursing care products,
 etc.; operation of child-minding centers
 Employees — 882 (non-consolidated)

Stock Data

Shares Authorized — 60 million
 Shares Issued — 20,275,581
 Number of Shareholders (includes odd-lot shares) — 8,869
 Treasury Stock — 261,343

Board of Directors, Auditors and Officers

(As of April 27, 2011)

Executive Advisor and Member of the Board — Yoichi Nakata
 Chairman and Chief Executive Officer — Seiichi Matsumura
 President and Chief Operating Officer — Akio Okoshi
 Senior Managing Director — Takashi Sakuma
 Managing Directors — Kazuhiko Ota
 Shigeru Yamashita
 Directors — Kazuhisa Amari
 Hiroki Yuda
 Eiji Akamatsu
 Standing Auditors — Katsumi Oyabu
 Kimiyoshi Tanaka
 Statutory Auditors — Shigeru Nishiyama
 Shuji Idesawa
 Senior Managing Officer — Norimasa Kitazawa
 Managing Officer — Tsutomu Matsunaga
 Yasushi Takashima
 Tadashi Itakura
 Yusuke Nakata
 Yasunori Kurachi
 Koji Ishigami
 Isao Kosaka
 Shinobu Iwamoto

Note: Shigeru Nishiyama and Shuji Idesawa are both external auditors pursuant to Article 2-16 of the Corporation Law.

Consolidated Subsidiaries

Pigeon Home Products Co., Ltd.
 Pigeon Will Co., Ltd.
 Pigeon Hearts Co., Ltd.
 Php Hyogo Co., Ltd.
 Php Ibaraki Co., Ltd.
 Pigeon Tahira Co., Ltd.
 Pigeon Manaka Co., Ltd.
 Pigeon Singapore Pte. Ltd.
 Pigeon India Pvt. Ltd.
 Pigeon (Shanghai) Co., Ltd.
 Lansinoh Laboratories, Inc.
 Lansinoh Laboratories Medical Devices
 Design Industry And Commerce Ltd.Co.
 Pigeon Manufacturing (Shanghai) Co., Ltd.
 Pigeon Industries (Changzhou) Co., Ltd.
 Pigeon Industries (Thailand) Co., Ltd.
 Thai Pigeon Co., Ltd.

Equity Method Affiliate

P.T. Pigeon Indonesia

Ten Largest Shareholders

Shareholder's Name	Shares Held (thousands)	Ownership (%)
Yoichi Nakata Japan	2,036	10.04
Japan Trustee Services Bank, Ltd. (Trust Account)	1,758	8.67
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,583	7.81
BBH Matthews Asia Dividend Fund	1,208	5.96
The Chase Manhattan Bank N.A. London SL (Omnibus Account)	517	2.55
State Street Bank and Trust Company	509	2.51
Japan Trustee Services Bank, Ltd. (Trust Account 9G)	429	2.12
The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	332	1.64
Pigeon Corporation Employees' Stock	328	1.62
Northern Trust Co. AVFC Re Fidelity Funds	322	1.59

Stock Price Range/Turnover of Common Stock



PIGEON CORPORATION

(Security Code: 7956)

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