Summary of Consolidated Financial Results
For the Year Ended January 31, 2010

March 5, 2010

Company name: Pigeon Corporation (Stock code: 7956)
Listings: First Section, Tokyo Stock Exchange
Website: www.pigeon.co.jp
Representative: Akio Okoshi (President and COO)
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Annual General Meeting of Shareholders: April 28, 2010 Year-end dividends: Paid from April 30, 2010
Date of release of Business Report: April 30, 2010

1. Consolidated Financial Results (February 1, 2009–January 31, 2010)

(1) Performance

(¥ millions, rounded down, % figures denote year-on-year change)

	Net Sales		Operating Income		Ordinary Income		Net Income	
Year ended January 31, 2010	53,431	0.6%	4,604	7.8%	4,609	7.3%	2,840	(0.5)%
Year ended January 31, 2009	53,092	7.8%	4,269	33.7%	4,293	35.1%	2,854	94.0%

	Net Income per Share (¥)	Diluted Net Income Per Share (¥)	Return on Equity (%)	Total Assets/ Ordinary Income (%)	Operating Margin (%)
Year ended January 31, 2010	141.89	—	11.4	11.8	8.6
Year ended January 31, 2009	142.75	—	12.1	11.3	8.0

Reference: Equity in earnings of affiliates: ¥43 million (January 31, 2010); ¥63 million (January 31, 2009)

(2) Financial Position

	Total Assets	Net Assets	Equity Ratio (%)	Net Assets Per Share (¥)
At January 31, 2010	39,493	26,264	65.3	1,288.14
At January 31, 2009	38,407	24,324	62.3	1,195.45

Reference: Equity: ¥25,781 million (At January 31, 2010); ¥23,928 million (At January 31, 2009)

(3) Cash Flows

	Cash Flows From Operating Activities	Cash Flows From Investing Activities	Cash Flows From Financing Activities	Cash and Cash Equivalents at Year-End
Year ended January 31, 2010	4,964	(2,105)	(2,018)	6,905
Year ended January 31, 2009	4,206	(1,279)	(110)	5,972

2. Cash Dividends

	Cash Dividends per Share (¥)					Total Dividends Paid (full year) (¥ mil)	Consolidated Payout Ratio (cons.) (%)	Dividends on Consolidated Net Assets (cons.) (%)
	1Q	2Q	3Q	Year-end	Full-year			
Year ended January 31, 2009	—	23.00	—	32.00	55.00	1,100	38.5	4.6
Year ended January 31, 2010	—	32.00	—	32.00	64.00	1,280	45.1	5.2
Year ending January 31, 2011 (Forecast)	—	44.00	—	44.00	88.00		50.3	

3. Forecast for the Year Ending January 2011

(¥ millions, rounded down)

	Net Sales		Operating Income		Ordinary Income		Net Income		Net Income per Share (¥)
Year ending July 31, 2010 (% figures denote year-on-year change)	28,700	9.3	1,800	(16.5)	1,800	(17.4)	1,000	(23.5)	49.96
Year ending January 31, 2011 (% indicates changes from the corresponding previous term)	60,700	13.6	5,500	19.5	5,400	17.2	3,500	23.2	174.87

4. Other

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the changes in scope of consolidation): Yes

New: 1 (Company name: PIGEON INDUSTRIES (CHANGZHOU) CO.,LTD.)

Excluded: — (Company name:)

For detail, please refer to page 8.

(2) Changes in accounting policies, procedures and methods of presentation for preparing consolidated financial statements (changes in major items pertaining to preparation of consolidated financial statements):

(a) Changes in accounting standards: Yes

(b) Other changes: None

(3) Number of outstanding shares (Ordinary shares):

(a) Number of shares outstanding (including treasury stock):

Year ended January 31, 2010: 20,275,581 shares

Year ended January 31, 2009: 20,275,581 shares

(b) Number of treasury shares at term-end

Year ended January 31, 2010: 260,934 shares

Year ended January 31, 2009: 259,777 shares

[Reference] Non-Consolidated Financial Results
1. Non-Consolidated Financial Results (February 1, 2009–January 31, 2010)
(1) Performance

(¥millions, rounded down, % figures denote year-on-year change)

	Net Sales		Operating Income		Ordinary Income		Net Income	
Year ended January 31, 2010	31,774	1.1%	713	35.7%	1,817	39.0%	1,247	31.3%
Year ended January 31, 2009	31,439	2.1%	525	33.0%	1,307	24.3%	949	219.4%

	Net Income per Share (¥)	Diluted Net Income Per Share (¥)
Year ended January 31, 2010	62.31	—
Year ended January 31, 2009	47.49	—

(2) Financial Position

	Total Assets	Net Assets	Equity Ratio (%)	Net Assets Per Share (¥)
At January 31, 2010	28,085	18,847	67.1	941.70
At January 31, 2009	28,028	18,877	67.4	943.11

Reference: Equity: ¥18,847 million (At January 31, 2010); ¥18,877 million (At January 31, 2009)

Disclaimer regarding appropriate use of performance forecasts and other important matters

Please refer to page 4 for the postulate of consolidated operating forecast and others.

1. Performance

(1) Performance Analysis

1) Performance Overview

In the fiscal year under review, the Japanese economy failed to achieve full-scale recovery despite expectations of an economic turnaround. This was due to continued deterioration in the employment situation as the unemployment rate moved to a high level, as well as a moderate deflationary progression. In overseas markets, moreover, a number of factors remained that could potentially suppress economic recovery. These included ongoing instability in financial and capital markets since the collapse of Lehman Brothers, as well as worsening employment conditions, which caused personal consumption to weaken. Despite a pullback in raw materials costs, which had been rising due to surging crude oil prices, the Pigeon Group faced a severe sales environment due to a number of factors, including contraction of distribution inventories, cooling personal consumption, and the yen's ongoing appreciation.

In Baby and Child Care segment, the Group sought to strengthen existing businesses by continuing its direct communications program in Japan. We also strove to nurture new businesses and expand our product lineup. Overseas, we stepped up our globalization campaign, establishing sales bases in India and other emerging nations while building and expanding production facilities in China and Thailand.

In the Healthcare segment, we targeted market proliferation of our Recoup brand of products, which encourage people to remain active even as they age, and we also promoted new products.

As a result, net sales for the year amounted to ¥53,431 million, up 0.6% from the previous year. Operating income increased 7.8%, to ¥4,604 million, and ordinary income rose 7.3%, to ¥4,609 million. Profitability was boosted by efforts to reduce raw materials costs and internalize manufacturing, as well as an improved cost-to-sales ratio and actions to restrain selling, general, and administrative expenses. Net income edged down 0.5%, to ¥2,840 million. This was due to extraordinary losses in the form of a bad debt loss and a ¥373 million provision for allowance for doubtful accounts associated with the launch of civil rehabilitation proceedings for a business partner on March 31, 2009.

2) Segment Review

The business performance in each segment is as follows

Baby and Child Care

Sales in this segment amounted to ¥42,937 million, up 0.6% year-on-year. Operating income grew 5.0%, to ¥6,940 million. This segment consists of three categories: Domestic Baby and Child Care Products, Overseas Business, and Child-Rearing Support Services.

Domestic Baby and Child Care Products

Seeking to address cooling personal consumption, we delivered products developed under our plan to support mothers in child-rearing, but sales conditions in this category remained challenging. With respect to product development, we upgraded our lineup of breastfeeding-related products with the launch of a chilled, sealed breastfeeding cap, as well as two insect repellants that are not applied directly to the skin—Insect Repellant Stickers and Insect Repellant Spray for Clothing. We also expanded our lineup of products for older children by introducing Grape-Flavored Gel-Type Toothpaste, and we unveiled a 22-sheet Pack of Sterilized Wipes for Going-out use as a product to prevent infectious diseases. In addition, we promoted our direct communications program aimed at strengthening brand loyalty. As part of this program, we held 41 maternity events during the year under review, attracting more than 3,000 participants. Meanwhile, we made good progress in attracting new members to "Pigeon Info"—a word-of-mouth community portal that supports women during pregnancy, in childbirth, and when raising children. Membership has thus been rising steadily. Moreover, we concluded an exclusive domestic distribution agreement in June 2009 to sell products made by Mamas & Papas, a U.K. company, with the aim of creating new market opportunities. In February 2010, we started selling those products via the Internet and mail-order catalog.

Overseas Business

The Pigeon Group's overseas business was affected by concerns about global economic recession. Nevertheless, overseas sales increased year-on-year in local-currency terms, driven by our principal overseas markets; China and the United States. This was despite the impact of our actions to reduce distribution inventories.

In China, we established dedicated Pigeon sales corners in retail stores and made steady progress in expanding operations into the interior of the country. We also commenced full-fledged operations of Pigeon Breastfeeding Advice Offices in national hospitals and maternity hospitals as a joint project under the Chinese government's campaign to promote breastfeeding and increase the breastfeeding rate. This was under a joint collaboration between consolidated subsidiary Pigeon (Shanghai) Co., Ltd. and China's Ministry of Health. On the production front, consolidated subsidiary Pigeon Manufacturing (Shanghai) Co., Ltd. commenced full-scale operation of a plant in Shanghai's Qingpu Industrial Zone and made steady progress toward mass-producing detergents and skincare products.

In the United States, consolidated subsidiary Lansinoh Laboratories, Inc. acquired the sales rights for the Soothies brand of breastfeeding-related products from Puronyx, Inc., in January 2009. 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. We have since made good progress with new initiatives aimed at expanding this business, including by opening a branch in Turkey.

Seeing to tap new markets, consolidated subsidiary Pigeon Singapore Pte. Ltd. transformed its representative office in Mumbai, India, into a local subsidiary in November 2009. That entity has since commenced full-scale sales and marketing activities.

Child-Rearing Support Services: In this category, we continued sales initiatives, including business involving in-company child-minding facilities. In April 2009, we were entrusted with the operation of five additional daycare facilities, and the number of children has increased steadily at our existing daycare facilities.

Healthcare

In this category, net sales expanded 0.4% year on year, to ¥6,450 million, and operating income surged 64.5%, to ¥269 million.

In August 2007, we launched the Recoup brand of anti-aging products to encourage people to remain active even as they age. To raise brand recognition, we held talk shows hosted by Yoshiko Kayama, our brand representative, and distributed live video of her introducing our products in order to raise brand recognition. We will expand a wide range of business development activities, including through the use of events, posters and dedicated catalogs. We are also pursuing this business through new channels, such as department store shopping catalogs and television shopping. In addition, we have been setting up Recoup sections in specialist retail outlets. During the period, we added a number of new products to our line of supporters (which reduce strain), which has been popular since its launch: Recoup supporters for the wrist, the elbow and the whole body. These include functional walking-support socks and functional walking-support shoes that support people whose bodily functions or physical abilities have deteriorated with their sole and insole structures. We also introduced Recoup oral healthcare products: a sheet-based mouth freshener and a cleaning solution that is easy on people with dentures. Meanwhile, in our Habinurse brand of nursing care products we began offering a new type of tight-fitting cloth underpants with incontinence pads for senior customers who prefer not to wear adult disposable diapers. We also introduced Habinurse deodorant room sprays for home nursing care situations and developed easy-to-grasp Habinurse spoons and forks.

Others

In this category, net sales rose 1.0%, to ¥4,043 million, and operating income grew 1.0%, to ¥601 million. To expand our product lineup, during the period we introduced a delicious folic acid nutritional supplement in chewable form for women who are pregnant or breastfeeding. For women who are preparing for pregnancy, we also began offering the dietary supplements Folic Acid Plus, Folic Acid Calcium Plus and Folic Acid Collagen Plus. Falling personal consumption levels led to a year-on-year decline in sales of maternity undergarments by consolidated subsidiary Pigeon Will Co., Ltd. However, sales of cleansing and sterilization products increased as customers sought to protect themselves from a new strain of influenza.

3) Outlook

The year ending January 2011 is the final year of the Group's third medium-term management plan, entitled "Becoming a Global Company: Challenges and Independence." Based on the plan's fundamental policies, we have formulated the following key assignments for our respective businesses. We will continue striving to achieve the objectives of the plan by implementing measures swiftly while accurately grasping changes in the market environment.

Baby and Child Care

Domestic Baby and Child Care Products:

In this category, we will expand the scope of our operations by nurturing new businesses while strengthening existing ones. We will also work to raise profitability through basic cost reductions and more efficient spending in certain areas.

Overseas Business:

We will prioritize allocation of managerial resources to our overseas business, which we regard as a key growth driver for the Pigeon Group. Adopting appropriate marketing strategies, we will work to strengthen and broaden brand loyalty in overseas markets. At the same time, we will work to expand our presence in existing markets and

enter new markets.
Child-Rearing Support Services:
Here, we will continue emphasizing education via our new personnel development system while broadening the scope of our services, with the aim of improving the quality of both personnel and services.
Healthcare
In this segment, we will step up activities focused on core product lines in existing businesses. In particular, we will promote branding activities and work to secure new sales channels for the Recoup brand of products that encourage people to remain active in their old age.

For the year ending January 31, 2011, we forecast net sales of ¥60.7 billion (up 13.6% year-on-year), operating income of ¥5.5 billion (up 19.5%), ordinary income of ¥5.4 billion (up 17.2%), and net income of ¥3.5 billion (up 23.2%).

(2) Financial Position

1) Assets
As of January 31, 2010, Pigeon had consolidated total assets of ¥39,493 million, up ¥1,085 million (or 2.8%) from a year earlier. Within this amount, total current assets increased ¥641 million (3.0%), and total fixed assets rose ¥443 million (2.6%).

Major factors boosting current assets were a ¥932 million (15.6%) increase in cash and time deposits and an ¥866 million (18.7%) jump in inventories, which contrasted with a ¥1,360 million (13.4%) decease in notes and accounts receivable.

The main reason for the rise in fixed assets was a ¥316 million (146.0%) jump in construction in progress associated with consolidated subsidiary Pigeon Industries (Thailand) Co., Ltd., our production base in Thailand, as well as with construction of a new plant by Pigeon Industries (Changzhou) Co., Ltd., established in Changzhou, Jiangsu Province, China as the Group's new production base in that nation.

2) Liabilities
Total liabilities at fiscal year-end stood at ¥13,229 million, down ¥854 million (6.1%) from a year earlier. Current liabilities decreased ¥549 million (4.9%), while long-term liabilities fell ¥304 million (10.7%).

The main factor holding down current liabilities was a ¥457 million (25.2%) fall in short-term borrowings.

The main reason for the decline in long-term liabilities was a ¥319 million (24.2%) decrease in long-term borrowings.

3) Net Assets
At January 31, 2010, consolidated net assets amounted to ¥26,264 million, up ¥1,939 million (8.0%) from a year earlier. This increase resulted mainly from a ¥1,559 million (10.1%) rise in retained earnings.

4) Cash Flows
Cash and cash equivalents at January 31, 2010, stood at ¥6,905 million, up ¥932 million (15.6%) from January 31, 2009. Major boosting cash and cash equivalents included income before income taxes, depreciation, and a decrease in notes and accounts receivable. These partly offset outflow-related factors, such notably a rise in inventories, income taxes paid, and acquisition of property, plant and equipment, as well as dividends paid.
Cash Flows from Operating Activities:
Net cash provided by operating activities amounted to ¥4,964 million, up 18.0% from the previous year. Factors boosting operating cash flows included ¥4,165 million in income before income taxes (up 3.6% year-on-year), ¥1,496 million in depreciation (down 8.0%), and a ¥1,448 million decrease in notes and accounts receivable (up ¥1,267 million). Contrasting factors included an ¥827 million (33.3%) increase in inventories, a ¥412 million decrease in trade payables (up 425.7%), and ¥1,047 million in income taxes paid (up 12.4%).
Cash Flows from Investing Activities:
Net cash used in investing activities totaled ¥2,105 million (up 64.6%). Main factors included ¥1,801 million in acquisition of property, plant and equipment (up 31.2%) and ¥307 million in acquisition of intangible fixed assets (down 22.3%).
Cash Flows from Financing Activities:
Net cash used in financing activities was ¥2,018 million (up ¥1,907 from the previous year). This resulted primarily from ¥1,278 million in payment of cash dividends (up 66.7%).

[Reference] Cash Flow Indicators for the year ended January 31

	FY2008	FY2009	FY2010
Equity Ratio (%)	62.4	62.3	65.3
Equity Ratio based on Market Price (%)	90.7	118.0	179.7
Debt Repayment Term (years)	0.7	0.8	0.5
Interest Coverage Ratio (times)	91.4	56.1	96.2

Notes:
- Equity ratio: Total shareholders' equity ÷ Total assets
- Equity ratio based on market price: Market value of total stock ÷ Total assets
- Debt repayment term: Interest-bearing debt ÷ Operating cash flows
- Interest coverage ratio: Operating cash flows ÷ Interest paid

1. Each index is calculated based on consolidated financial figures.
2. Market value of total stock is calculated by multiplying the stock price (closing price at the end of the term) by the number of shares outstanding at the end of the term (after deduction of treasury stock).
3. Operating cash flow figures are taken from the Cash Flows from Operating Activities section of the Consolidated Statements of Cash Flows.
4. Interest-bearing debt refers to all debt that incurs interest (listed in Consolidated Balance Sheets).
5. For interest paid, interest expenses (listed in Consolidated Statements of Cash Flows) are used.

(3) 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 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 announced in March 2008, we are targeting a consolidated total shareholder return of 50% by the year ending January 2011, the final year of the plan. To this end, we are seeking to further strengthen and upgrade measures for returning profits to all shareholders.

Based on this policy, we paid an interim cash dividend of ¥32.00 per share, and we plan to declare a year-end dividend of ¥32.00. This will bring total annual dividends to ¥64.00 per share (¥64.00 per share of common stock, up ¥9.00 from the previous year).

(4) Business Risks

The operating results of the Pigeon Group may be potentially and significantly affected by various factors that could occur in the future. The Group has identified the major risks that could affect its business development. Details are given below. Information contained within related to the future is based on the Group's judgment as of the end of the period under review.

1) Declining Birthrate

We predict that overall (quantitative) demand in the domestic market for baby and child care products, the Group's main business, will be influenced by the falling birthrate, and sales in this segment may decline as a result.

2) Overseas Business Risk

At present, the Group makes products in Thailand, China, and Indonesia, and also has business activities elsewhere in Asia, as well as in the Middle East, North America, and Europe. Risks associated with our overseas business are described below. We will hedge against such risks to the extent possible, but various unforeseen factors could potentially affect our business performance.

- Legal revisions or tightening regulations that have a negative impact on the Group
- Socioeconomic upheaval caused by terrorist acts, war, or the outbreak of infectious diseases, such as SARS and avian influenza
- Earthquakes and other natural disasters
- Unforeseen foreign exchange fluctuations

3) Climactic and Natural Disasters

The markets for baby and child care products and healthcare products, the Group's mainstay businesses, are relatively impervious to weather-related factors. However, the sudden occurrence of natural and other disasters or unprecedented accidents could cause losses in the form of damage to manufacturing and distribution facilities, forfeiture of assets, or suspension in supply of products. The Group's business results could be affected as a result.

4) Changes in Raw Materials Prices
Major raw materials used by the Group include some that are affected by the market prices of crude oil and pulp. If the prices of such materials rise, our manufacturing costs will also increase. Depending on circumstances, the Group may be unable to pass such increases onto its sales prices, thus potentially affecting its business results.
5) Problems with Manufacturing Subcontractors
The Group subcontracts part of the production of baby and child care products and healthcare products to outside manufacturers. While all due care is taken to ensure top quality, there is a risk that quality could be compromised by an unforeseen event, and the Group's business performance could be affected as a result.
6) Changes in Laws and Regulations
In the course of developing its domestic business, the Group is subject to a variety of legal regulations, including the Pharmaceutical Affairs Law, Food Sanitation Law, and Product Liability Law. If such laws and regulations are revised, or unexpected ones introduced, the Group's business performance could be affected as a result.
7) Risks Related to the Child-Rearing Support Business
To assist families in which both parents are working, the Group offers a number of services, including operation of child-minding and daycare centers and provision of babysitter dispatch services. It also has its own Kids World chain of child-minding centers. Through these activities, the Group is entrusted with the care of numerous babies and toddlers. The Group takes every precaution to ensure maximum safety, but acknowledges the possibility that an accident could cause injury to a baby or toddler. To date, there have been no accidents or compensation claims that could affect the Group's business operations. However, there is no guarantee that such events will not occur in the future. If such an event does occur, the Group's business performance may be affected as a result.
8) Litigation Risk
As a manufacturer of products for consumers, the Group recognizes the extreme importance of being regarded as a supplier of high-quality, safe products made of reliable materials. Complaints about product reliability and safety could cause a sharp decline in revenue, which could affect the Group's business performance. Since its establishment, the Group has not been the target of large-sum compensation claims or lawsuits. In our business, however, there is a constant inherent risk of being sued, either in Japan or overseas. Therefore, the Group's business results could potentially be affected if it is subject to a compensation claim, the extent of impact being determined by the outcome of such legal action.
9) Litigation Risk
Since its establishment, the Group has not been the target of large-sum compensation claims or lawsuits. In our business, however, there is a constant inherent risk of being sued, either in Japan or overseas. Therefore, the Group's business results could potentially be affected if it is subject to legal action, as well as the outcome of such action.
10) Information System Risk
The Group has in its possession personal information about numerous customers, acquired via sales promotion campaigns, the annual "Newborn Baby Commemorative Tree-Planting Campaign," and other events. To prevent loss, mistaken use, and falsification of such important information, the Group undertakes security measures for managing its systems and information. However, unforeseen events could cause our information systems to break down, stop, or undergo temporary disruption, resulting in potential loss, leakage, or falsification of personal and other internal information. Such events, which include power outages, major disasters, software and hardware defects, computer viruses, and illegal access, could have a negative impact on the Group's operating activities and potentially affect its performance and financial position.
11) Risk of Personal Information Leakage
In the course of providing products and services to consumers, the Group handles a large volume of personal information. For some time, we have sought to ensure that all employees understand the importance of protecting personal information, provide mandatory in-house education forums, and reinforce our systems for managing customer information. Due to unforeseen circumstances, however, there is a risk that personal information could be leaked to a third party, which could potentially affect the Group's business performance.

2. Corporate Group

The Pigeon Group consists of Pigeon Corporation (the parent company), 17 subsidiaries, and two affiliates. The Group is engaged mainly in the manufacture, purchase, and sale of baby care, child care, and healthcare products.

The main businesses of each subsidiary, as well as its segmental positioning and relationship with the parent company, are summarized below.

Baby and Child Care

The following subsidiaries manufacture baby and child care products: Pigeon Home Products Co., Ltd., PHP Hyogo Co., Ltd., PHP Ibaraki Co., Ltd., Pigeon Industries (Thailand) Co., Ltd., Thai Pigeon Co., Ltd., Pigeon Manufacturing (Shanghai) Co., Ltd., and P.T. Pigeon Indonesia (affiliate). Four other subsidiaries—Pigeon Singapore Pte. Ltd., Pigeon (Shanghai) Co., Ltd., Lansinoh Laboratories, Inc., and Pigeon India Pvt. Ltd.—purchase and sell these products, together with other products.

The aforementioned manufacturing companies also independently sell some of their products.

The parent company and the following subsidiaries are engaged in the child-minding, daycare, and infant education businesses: Pigeon Land (Shanghai) Co., Ltd., and Shanghai Changning Pigeon Land Education Training Center.

Healthcare

Healthcare products are manufactured by Pigeon Home Products Co., Ltd. and PHP Hyogo Co., Ltd. The parent company and Pigeon Tahira Co., Ltd. purchase and sell these products, together with other products. Another subsidiary, Pigeon Manaka Co., Ltd., provides at-home nursing care services.

Other

The parent company and PHP Ibaraki Co., Ltd. also sell general-use consumables, health foods, and other products. Another subsidiary, Pigeon Will Co., Ltd., purchases and sells products from sources unrelated to the Group.

3. Management Policies

(1) Basic Policies

Based on its corporate commitment, "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. Fulfilling our role as a "lifestyle support company focusing on child rearing," we are leveraging the Pigeon brand and the quality of our management to build a high corporate profile that is recognized worldwide. This is our medium-term corporate vision.

(2) Performance Targets

The Pigeon Group has formulated its third medium-term management plan. The plan, designed to expedite Pigeon's transformation into a truly global company, covers the three-year period from February 1, 2008, to January 31, 2011.

By steadily implementing initiatives as stated in our basic medium-term policies, which are outlined in the paragraphs below, we have set the following performance targets for the fiscal year ending January 31, 2011: net sales of ¥60.7 billion, operating income of ¥5.5 billion, ordinary income of ¥5.4 billion, and net income of ¥3.5 billion. We have also adopted return on equity (ROE) as a suitable benchmark for targeting improved profitability and capital efficiency, and we hope to achieve ROE of 12% or higher by the year ending January 31, 2011.

(3) Medium-Term Management Strategies

Under our third medium-term management plan, we have set the following basic policies.

1) In the baby and child care products business, we will target further globalization and concentrate managerial resources in growth markets, centering on China and North America. At the same time, we will actively tap new markets.
2) In our domestic operations, we will seek to further strengthen existing businesses, particularly related to baby and child care products and nursing care products. We will also build a new business model to cover such areas as nursing care prevention products and IT sales channels.
3) To achieve growth in each of our businesses, we will promote in-depth research and product development that accurately reflect the needs of customers, in order to raise competitiveness. At the same time, we will build an infrastructure conducive to globalization of our operations.

(4) Issues to Address

The Pigeon Group continues to face an unstable operating environment, characterized by such factors as prolonged global financial instability, a depressed world economy, sharp deterioration of corporate financial results, and an uncertain employment situation. Moreover, there are no signs of recovery in births and marriages in Japan.

The year ending January 2011 is the final year of the Group's third medium-term management plan, entitled "Becoming a Global Company: Challenges and Independence." Guided by the plan, which is designed to expedite the Group's transformation into a global company, we will steadily implement strategies for our respective businesses, as well as functional strategies to underpin such businesses. We will also act swiftly to address changing business conditions by taking measures as circumstances require.

We will also actively invest resources into our overseas business, which we have identified as a growth sector. In the home healthcare (HHC) and nursing care products category, we will pursue a consistent marketing strategy to further strengthen our Group-wide business operational infrastructure, while assertively directing managerial resources to the new *Recoup* brand, positioned as a pillar for future growth.

In addition, we will target further improvements in management soundness and transparency by broadening and reinforcing our internal control system.

4. Consolidated Financial Statement

(1) Consolidated Balance Sheets

(Thousands of yen)

	At January 31, 2009	At January 31, 2010
ASSETS		
I. Current Assets:		
Cash and time deposit	5,972,743	6,905,541
Notes and accounts receivable	10,118,834	8,757,897
Inventories	4,641,179	—
Goods and products	—	4,358,658
Goods in process	—	57,058
Raw material and inventory goods	—	1,091,958
Deferred tax assets-current	490,913	624,278
Receivables	233,468	292,222
Other current assets	228,460	297,529
Allowance for doubtful accounts	(54,731)	(112,497)
Total Current Assets	**21,630,868**	**22,272,647**
II. Fixed Assets:		
1. Tangible Fixed Assets:		
Buildings and structures	10,182,448	10,592,034
Accumulated depreciation	(5,640,778)	(5,953,039)
Buildings and structures-net	4,541,669	4,638,994
Machinery and transportation equipment	8,730,848	9,382,068
Accumulated depreciation	(6,710,655)	(7,218,184)
Machinery and transportation equipment-net	2,020,193	2,163,884
Tools, furniture and fixtures	3,749,326	3,919,360
Accumulated depreciation	(3,099,422)	(3,112,802)
Tools, furniture and fixtures-net	649,904	806,558
Land	5,879,913	5,897,038
Construction in progress	216,681	533,072
Total Tangible Fixed Assets	**13,308,362**	**14,039,547**
2. Intangible Fixed Assets:		
Goodwill	816,244	521,156
Software	645,662	512,204
Other intangible fixed assets	83,046	197,587
Total Intangible Fixed Assets	**1,544,953**	**1,230,947**
3. Investments and Other Assets:		
Investment securities	1,268,595	1,336,768
Bankruptcy claims	12,980	82,715
Deferred tax assets	110,275	101,781
Insurance reserve	225,438	216,557
Other	311,079	293,331
Allowance for doubtful accounts	(4,577)	(80,638)
Total Investments and Other Assets	**1,923,791**	**1,950,515**
Total Fixed Assets	**16,777,107**	**17,221,009**
Total Assets	**38,407,976**	**39,493,657**

(Thousands of yen)

	At January 31, 2009	At January 31, 2010
LIABILITIES		
I. Current Liabilities:		
Notes and accounts payable	4,674,216	4,311,892
Short-term borrowings	1,819,680	1,361,900
Long-term debt due within one year	—	107,920
Accrued account payable	2,341,708	2,238,379
Income taxes payable	426,442	682,976
Accrued bonuses to employees	522,731	531,445
Returned goods adjustment reserve	74,302	63,109
Other current liabilities	1,384,431	1,396,508
Total Current Liabilities	**11,243,512**	**10,694,132**
II. Long-Term Liabilities:		
Long-term borrowings	1,319,680	1,000,000
Deferred tax liabilities	850,593	890,961
Employees' retirement benefits	252,065	221,399
Retirement benefits for directors and corporate auditors	287,840	298,386
Other long-term liabilities	129,694	124,453
Total Long-Term Liabilities	**2,839,874**	**2,535,200**
Total Liabilities	**14,083,386**	**13,229,333**
NET ASSETS		
I. Shareholder's Equity:		
Capital stock	5,199,597	5,199,597
Additional paid-in capital	5,180,246	5,180,246
Retained earnings	15,484,915	17,044,069
Treasury stock	(442,935)	(446,523)
Total Shareholders' Equity	**25,421,824**	**26,977,390**
II. Valuation and Translation Adjustments:		
Net unrealized gains (losses) on securities	(251)	7,563
Foreign currency translation adjustment	(1,493,521)	(1,203,267)
Total Valuation and Translation Adjustments	**(1,493,773)**	**(1,195,704)**
III. Minority Interests	**396,538**	**482,638**
Total Net Assets	**24,324,589**	**26,264,324**
Total Liabilities, Minority Interests and Net Assets	**38,407,976**	**39,493,657**

(2) Consolidated Statements of Income

(Thousands of yen)

	Year Ended January 31, 2009	Year Ended January 31, 2010
I. Net Sales	**53,092,041**	**53,431,750**
II. Cost of Sales	**32,895,735**	**32,540,706**
Gross profit	**20,196,305**	**20,891,044**
Reversal of reserve for returned products	48,481	75,578
Transfer to reserve for returned products	80,387	63,708
Adjusted gross profit	**20,164,399**	**20,902,913**
III. Selling, General and Administrative Expenses	**15,895,253**	**16,298,803**
Operating Income	**4,269,145**	**4,604,110**
IV. Other Income:		
Interest income	40,559	26,556
Dividend income	27,752	22,666
Rental income	120,422	120,697
Equity in earnings of non consolidated subsidiaries and affiliates	63,043	43,738
Refund of consumption tax	—	78,132
Other	154,773	117,893
Total Other Income	**406,551**	**409,685**
V. Other Expenses:		
Interest expense	72,911	51,277
Sales discounts	187,209	212,695
Rental income-related costs	94,381	74,368
Currency exchange loss	9,146	50,737
Other	18,212	15,446
Total Other Expenses	**381,861**	**404,525**
Ordinary Income	**4,293,836**	**4,609,270**
VI. Extraordinary Income:		
Gain on sales of property	5,037	4,477
Reversal of allowance for doubtful accounts	11,407	268
Other	—	42
Total Extraordinary Income	**16,444**	**4,787**
VII. Extraordinary Loss:		
Loss on sales of property	731	3,098
Loss on disposal of property	36,679	27,844
Transfer to allowance for doubtful accounts	—	69,219
Bad debts loss	—	304,594
Unrealized loss on marketable securities	153,024	—
Loss on revision of retirement benefit plan	—	32,860
Expenses related to self-imposed product recall	94,506	—
Other	4,676	11,327
Total Extraordinary Loss	**289,618**	**448,943**
Income before Income Taxes	**4,020,662**	**4,165,115**
Income taxes	1,041,541	1,299,898
Adjustment for corporate tax	(26,093)	(89,983)
Total Corporate Income Tax	**1,015,448**	**1,209,914**
Less: Minority Interest in Net Income of Consolidated Subsidiaries	**150,823**	**115,051**
Net Income	**2,854,390**	**2,840,149**

(3) Statement of Changes in Consolidated Shareholders' Equity

(Thousands of yen)

	Year Ended January 31, 2009	Year Ended January 31, 2010
Shareholders' equity		
Common stock		
Balance at the end of previous period	5,199,597	5,199,597
Changes during the period		
Total changes during the period	—	—
Balance at the end of current period	**5,199,597**	**5,199,597**
Capital surplus		
Balance at the end of previous period	5,167,362	5,180,246
Changes during the period		
Disposal of treasury stock	12,884	—
Total changes during the period	**12,884**	—
Balance at the end of current period	**5,180,246**	**5,180,246**
Retained earnings		
Balance at the end of previous period	13,389,545	15,484,915
Changes during the period		
Dividends from surplus	(759,019)	(1,280,995)
Net income	2,854,390	2,840,149
Total changes during the period	**2,095,370**	**1,559,153**
Balance at the end of current period	**15,484,915**	**17,044,069**
Treasury stock		
Balance at the end of previous period	(624,063)	(442,935)
Changes during the period		
Disposal of treasury stock	188,136	—
Acquisition of treasury stock	(7,009)	(3,587)
Total changes during the period	**181,127**	**(3,587)**
Balance at the end of current period	**(442,935)**	**(446,523)**
Total shareholders' equity		
Balance at the end of previous period	23,132,442	25,421,824
Changes during the period		
Dividends from surplus	(759,019)	(1,280,995)
Net income	2,854,390	2,840,149
Disposal of treasury stock	201,021	—
Acquisition of treasury stock	(7,009)	(3,587)
Total changes during the period	**2,289,382**	**1,555,565**
Balance at the end of current period	**25,421,824**	**26,977,390**

(Thousands of yen)

	Year Ended January 31, 2009	Year Ended January 31, 2010
Valuation / translation gain (loss)		
Valuation difference on other marketable securities		
Balance at the end of previous period	(5,586)	(251)
Changes during the period		
Changes in items other than shareholders equity (net)	5,335	7,815
Total changes during the period	**5,335**	**7,815**
Balance at the end of current period	**(251)**	**7,563**
Foreign currency translation adjustment		
Balance at the end of previous period	242,186	(1,493,521)
Changes during the period		
Changes in items other than shareholders equity (net)	(1,735,708)	290,254
Total changes during the period	**(1,735,708)**	**290,254**
Balance at the end of current period	**(1,493,521)**	**(1,203,267)**
Total valuation / translation gain (loss)		
Balance at the end of previous period	236,599	(1,493,773)
Changes during the period		
Changes in items other than shareholders equity (net)	(1,730,373)	298,069
Total changes during the period	**(1,730,373)**	**298,069**
Balance at the end of current period	**(1,493,773)**	**(1,195,704)**
Minority interests		
Balance at the end of previous period	462,162	396,538
Changes during the period		
Changes in items other than shareholders equity (net)	(65,624)	86,099
Total changes during the period	**(65,624)**	**86,099**
Balance at the end of current period	**396,538**	**482,638**
Total net assets		
Balance at the end of previous period	23,831,205	24,324,589
Changes during the period		
Dividends from surplus	(759,019)	(1,280,995)
Net income	2,854,390	2,840,149
Disposal of treasury stock	201,021	—
Acquisition of treasury stock	(7,009)	(3,587)
Changes in items other than shareholders equity (net)	(1,795,997)	384,168
Total changes during the period	**493,384**	**1,939,734**
Balance at the end of current period	**24,324,589**	**26,264,324**

(3) Consolidated Statements of Cash Flows

(Thousands of yen)

	Year Ended January 31, 2009	Year Ended January 31, 2010
I. Cash Flows from Operating Activities:		
Income before income taxes	4,020,662	4,165,115
Depreciation	1,626,486	1,496,087
Amortization of goodwill	271,663	314,176
Increase (decrease) in allowance for doubtful accounts	(87,696)	133,506
Increase (decrease) in accrued bonuses to employees	13,562	8,713
Increase (decrease) in employees' retirement benefits	36,376	(30,666)
Increase (decrease) in directors' retirement benefits	(19,945)	10,546
Interest and dividend income	(68,311)	(49,223)
Equity in (gains) losses of non consolidated subsidiaries and affiliates	(63,043)	(43,738)
Interest expense	72,911	51,277
Gain on sale of fixed assets	(5,037)	—
Loss on sale of fixed assets	731	—
Loss (gain) on sale of fixed assets	—	(1,379)
Loss on disposal of fixed assets	36,679	27,844
Loss (gain) on evaluation of marketable securities	153,024	—
Decrease (increase) in trade receivables	(1,267,670)	1,448,186
Decrease (increase) in inventories	(620,664)	(827,347)
Increase (decrease) in trade payables	(78,469)	(412,496)
Increase (decrease) in account payable	372,829	(164,854)
Increase (decrease) in consumption tax payable	60,104	(36,736)
Decrease (increase) in bankruptcy claims	93,522	(69,735)
Other	558,183	(37,827)
Subtotal	**5,105,898**	**5,981,448**
Interest and dividends received	107,432	82,401
Interest paid	(75,028)	(51,596)
Income taxes paid	(932,047)	(1,047,272)
Net Cash Provided by Operating Activities	**4,206,255**	**4,964,981**
II. Cash Flows from Investing Activities:		
Proceeds from reversal of time deposits	471,000	—
Acquisition of property, plant and equipment	(1,373,300)	(1,801,916)
Proceeds from sales of property, plant and equipment	11,779	6,939
Acquisition of intangible assets	(395,621)	(307,513)
Acquisition of investment securities	(9,898)	(6,187)
Payment to life insurance fund for directors	(16,366)	(11,034)
Proceeds from cancellation of life insurance fund for directors	65,429	20,681
Loans advanced	(2,611)	(2,771)
Collection of loan receivables	2,286	2,663
Payment for lease deposits	(32,850)	(27,439)
Proceeds from recovery of lease deposits	25,168	33,128
Other	(24,337)	(12,457)
Net Cash Used in Investing Activities	**(1,279,322)**	**(2,105,907)**

(Thousands of yen)

	Year Ended January 31, 2009	Year Ended January 31, 2010
III. Cash Flows from Financing Activities:		
Proceeds from short-term debt	10,049,879	5,406,100
Repayment of short-term debt	(9,860,539)	(5,867,260)
Net increase in short-term bank loans	1,357,360	—
Repayment of long-term debt	(1,040,000)	(219,200)
Payment of cash dividends	(767,081)	(1,278,707)
Payment of cash dividends to minority shareholders	(44,526)	(55,474)
Payment of cash dividends to minority shareholders	201,021	—
Acquisition of treasury stock	(7,009)	(3,587)
Net Cash Used in Financing Activities	**(110,895)**	**(2,018,129)**
IV. Effect of Exchange Rate Changes on Cash and Cash Equivalents	**(618,924)**	**91,854**
V. Net Change in Cash and Cash Equivalents	**2,197,112**	**932,798**
VI. Cash and Cash Equivalents at Beginning of the Period	**3,775,631**	**5,972,743**
VII. Cash and Cash Equivalents at End of the Period	**5,972,743**	**6,905,541**

6. Segment Information

(1) Performance by Business Segment

Previous fiscal year (February 1, 2008–January 31, 2009)

(Thousands of yen)

	Baby and child care	Healthcare	Others	Total	Eliminations or corporate	Consolidated
Sales						
(1) Sales to outside customers	42,663,855	6,422,349	4,005,836	53,092,041	–	53,092,041
(2) Intersegment sales	–	–	–	–	(–)	–
Total	42,663,855	6,422,349	4,005,836	53,092,041	(–)	53,092,041
Operating expenses	36,052,039	6,258,679	3,410,299	45,721,018	3,101,877	48,822,895
Operating income	6,611,815	163,669	595,537	7,371,023	(3,101,877)	4,269,145
Total assets	25,263,339	3,830,945	2,366,160	31,460,445	6,947,530	38,407,976
Depreciation and amortization	1,124,987	168,608	92,508	1,386,105	240,381	1,626,486
Capital investment	1,313,182	48,982	43,367	1,405,531	143,073	1,548,605

Notes:

1. The Company's business is segmented for internal control purposes.
2. Main products/services of each segment are shown below.

Segment	Main products/services
Baby and child care	Breastfeeding and weaning products, skincare products, child-rearing support services, other
Healthcare	Nursing-care products, nursing-care support services, other
Others	Women's care products (supplements, maternity products, etc.), wet tissues, other

3. Figures in the "Eliminations or corporate" column refer to the portion of operating expenses that are unallocatable. These are primarily expenses related to general administration and R&D.
4. Assets at year-end included all companywide assets covered in the "Elimination or corporate" column. Such assets consisted mainly of a foreign currency translation adjustment amount (incurred when translating financial statements of overseas consolidated subsidiaries into yen), surplus working capital of the parent company (cash and deposits), long-term investment capital (investments in securities, etc.), and administration-related assets.
5. "Depreciation" and "Capital expenditure" include long-term prepaid expenses or depreciation related to such expenses.

Current fiscal year (February 1, 2009–January 31, 2010)

(Thousands of yen)

	Baby and child care	Healthcare	Others	Total	Eliminations or corporate	Consolidated
Sales						
(1) Sales to outside customers	42,937,479	6,450,284	4,043,986	53,431,750	–	53,431,750
(2) Intersegment sales	–	–	–	–	(–)	–
Total	42,937,479	6,450,284	4,043,986	53,431,750	(–)	53,431,750
Operating expenses	35,997,256	6,181,086	3,442,448	45,620,792	3,206,848	48,827,640
Operating income	6,940,222	269,198	601,538	7,810,958	(3,206,848)	4,604,110
Total assets	25,031,194	4,100,286	2,291,716	31,423,196	8,070,460	39,493,657
Depreciation and amortization	1,038,273	152,108	98,880	1,289,263	206,824	1,496,087
Capital investment	2,014,165	57,699	28,006	2,099,871	71,512	2,171,384

Notes:

1. The Company's business is segmented for internal control purposes.
2. Main products/services of each segment are shown below.

Segment	Main products/services
Baby and child care	Breastfeeding and weaning products, skincare products, child-rearing support services, other
Healthcare	Nursing-care products, nursing-care support services, other
Others	Women's care products (supplements, maternity products, etc.), wet tissues, other

3. Figures in the "Eliminations or corporate" column refer to the portion of operating expenses that are unallocatable. These are primarily expenses related to general administration and R&D.
4. Assets at year-end included all companywide assets covered in the "Elimination or corporate" column. Such assets consisted mainly of a foreign currency translation adjustment amount (incurred when translating financial statements of overseas consolidated subsidiaries into yen), surplus working capital of the parent company (cash and deposits), long-term investment capital (investments in securities, etc.), and administration-related assets.
5. "Depreciation" and "Capital expenditure" include long-term prepaid expenses or depreciation related to such expenses.

(2) Performance by Geographic Region

Previous fiscal year (February 1, 2008–January 31, 2009)

(Thousands of yen)

	Japan	East Asia	Others	Total	Eliminations or corporate	Consolidated
Sales						
(1) Sales to outside customers	38,183,427	10,179,606	4,729,008	53,092,041	—	53,092,041
(2) Intersegment sales	1,682,443	2,593,796	—	4,276,240	(4,276,240)	—
Total	39,865,871	12,773,402	4,729,008	57,368,281	(4,276,240)	53,092,041
Operating expenses	35,555,167	10,181,509	4,223,637	49,960,315	(1,137,419)	48,822,895
Operating income	4,310,703	2,591,892	505,370	7,407,966	(3,138,820)	4,269,145
Total assets	25,758,810	8,367,134	2,358,429	36,484,373	1,923,602	38,407,976

Notes:

1. Segmentation of countries and regions is based on geographic proximity.
2. Major countries and regions are as follows:
   East Asia: Singapore, Thailand, China
   Other: United States, etc.
3. Operating expenses for the year included ¥3,101,877 thousand in expenses for noncategorized spending covered in the “Elimination or corporate” column. Such expenses were mainly related to divisions in control of consolidated administration and R&D.
4. Assets at year-end included ¥6,947,530 thousand in companywide assets covered in the “Elimination or corporate” column. Such assets consisted mainly of a foreign currency translation adjustment amount (incurred when translating financial statements of overseas consolidated subsidiaries into yen), surplus working capital of the parent company (cash and deposits), long-term investment capital (investments in securities, etc.), and administration-related assets.

Current fiscal year (February 1, 2009–January 31, 2010)

(Thousands of yen)

	Japan	Asia	Others	Total	Eliminations or corporate	Consolidated
Sales						
(1) Sales to outside customers	37,475,456	11,299,071	4,657,222	53,431,750	—	53,431,750
(2) Intersegment sales	2,134,437	1,979,965	—	4,114,403	(4,114,403)	—
Total	36,609,894	13,279,037	4,657,222	57,546,154	(4,114,403)	53,431,750
Operating expenses	34,808,179	10,903,939	4,230,783	49,942,902	(1,115,261)	48,827,640
Operating income	4,801,715	2,375,097	426,438	7,603,251	(2,999,141)	4,604,110
Total assets	24,596,321	10,585,347	2,255,440	37,437,108	2,056,548	39,493,657

Notes:

1. Segmentation of countries and regions is based on geographic proximity.
2. Major countries and regions are as follows:
   Asia: Singapore, Thailand, China, India
   Other: United States, etc.
3. Operating expenses for the year included ¥3,206,848 thousand in expenses for noncategorized spending covered in the “Elimination or corporate” column. Such expenses were mainly related to divisions in control of consolidated administration and R&D.
4. Assets at year-end included ¥8,070,460 thousand in companywide assets covered in the “Elimination or corporate” column. Such assets consisted mainly of a foreign currency translation adjustment amount (incurred when translating financial statements of overseas consolidated subsidiaries into yen), surplus working capital of the parent company (cash and deposits), long-term investment capital (investments in securities, etc.), and administration-related assets.
5. Geographical Segment Name Change
   In conjunction with the establishment in November 2009 of consolidated subsidiary Pigeon India Pvt. Ltd., the Group has changed the name of the “East Asia” geographical segment to “Asia.”

(3) Oversea Sales

Previous fiscal year (February 1, 2008–January 31, 2009)

(Thousands of yen)

	East Asia	North America	Middle East	Other	Total
Overseas sales	10,997,889	3,931,527	1,166,773	1,751,347	17,847,538
Consolidated net sales	—	—	—	—	53,092,041
Share of overseas sales in consolidated net sales (%)	20.7	7.4	2.2	3.3	33.6

Notes:

1. Segmentation of countries and regions is based on geographic proximity.
2. Major countries and regions are as follows:
   (1) East Asia: China, South Korea, Singapore, etc.
   (2) North America: United States, Canada, etc.
   (3) Middle East: United Arab Emirates, etc.
   (4) Other: United Kingdom, Panama, South Africa, Australia, etc.
3. Overseas sales refer to sales in countries or regions outside of Japan reported by the Company and its consolidated subsidiaries.

Current fiscal year (February 1, 2009–January 31, 2010)

(Thousands of yen)

	Asia	North America	Middle East	Other	Total
Overseas sales	11,987,466	3,838,822	1,177,679	1,535,090	18,539,058
Consolidated net sales	—	—	—	—	53,431,750
Share of overseas sales in consolidated net sales (%)	22.4	7.2	2.2	2.9	34.7

Notes:

1. Segmentation of countries and regions is based on geographic proximity.
2. Major countries and regions are as follows:
   (1) Asia: China, South Korea, Singapore, India etc.
   (2) North America: United States, Canada, etc.
   (3) Middle East: United Arab Emirates, etc.
   (4) Other: South Africa, United Kingdom, Panama, Germany, etc.
3. Overseas sales refer to sales in countries or regions outside of Japan reported by the Company and its consolidated subsidiaries.
4. Geographical Segment Name Change
   In conjunction with the establishment in November 2009 of consolidated subsidiary Pigeon India Pvt. Ltd., the Group has changed the name of the “East Asia” geographical segment to “Asia.”