

Annual Report 2006

For the year ended January 31, 2006



At a Glance

	Products Handled	Business Environment																				
Baby and Child Care	<p>Nursing products Baby bottles, baby bottle nipples, baby bottle cleansers and sterilizers, sterilizing accessories, baby bottle cleansing brushes, sterilized tongs, breast pads, breast pumps</p> <p>Weaning-related products Baby mugs, cooking utensils, feeding accessories, bibs, baby foods, baby beverages</p> <p>Skincare products Soaps, shampoos, oils, lotions, sunscreens, powders, baby wipes, wet tissues</p> <p>Others Children's pharmaceuticals, digital thermometers, thermometer/barometers, scales, bathwater thermometers, child-safety goods, cotton swabs, toothbrushes, nail clippers, cooling blankets, cooling sheets, pacifiers, teething products, toys, bath toys</p> <p>Child-rearing support services Operation of child-minding and daycare centers, babysitter dispatch services</p>	<p>Pigeon's baby and child care business covers the full range of baby-related products, including breast-feeding- and weaning-related items, diapers, and skincare products, as well as provision of child-rearing support services. This is a core business that accounts for more than 80% of Pigeon's revenues. We are the industry leader in this category, and the Pigeon brand has earned a reputation for safety, peace of mind, and reliability.</p> <p>We were quick to establish an overseas presence, setting up a subsidiary in Singapore in 1978. Since</p> <table border="1"> <thead> <tr> <th>Company name</th> <th>Capitalization</th> </tr> </thead> <tbody> <tr> <td>Pigeon Home Products Co., Ltd.</td> <td>¥300 million</td> </tr> <tr> <td>PHP Hyogo Co., Ltd.</td> <td>¥240 million</td> </tr> <tr> <td>PHP Ibaraki Co., Ltd.</td> <td>¥222 million</td> </tr> <tr> <td>Pigeon Singapore Pte. Ltd.</td> <td>SGD1,670 thousand</td> </tr> <tr> <td>Pigeon (Shanghai) Co., Ltd.</td> <td>US\$950 thousand</td> </tr> <tr> <td>Pigeon Industries (Thailand) Co., Ltd.</td> <td>THB144 million</td> </tr> <tr> <td>Thai Pigeon Co., Ltd.</td> <td>THB122 million</td> </tr> <tr> <td>Pigeon Hearts Co., Ltd.</td> <td>¥100 million</td> </tr> <tr> <td>Lansinoh Laboratories, Inc.</td> <td>US\$1</td> </tr> </tbody> </table>	Company name	Capitalization	Pigeon Home Products Co., Ltd.	¥300 million	PHP Hyogo Co., Ltd.	¥240 million	PHP Ibaraki Co., Ltd.	¥222 million	Pigeon Singapore Pte. Ltd.	SGD1,670 thousand	Pigeon (Shanghai) Co., Ltd.	US\$950 thousand	Pigeon Industries (Thailand) Co., Ltd.	THB144 million	Thai Pigeon Co., Ltd.	THB122 million	Pigeon Hearts Co., Ltd.	¥100 million	Lansinoh Laboratories, Inc.	US\$1
Company name	Capitalization																					
Pigeon Home Products Co., Ltd.	¥300 million																					
PHP Hyogo Co., Ltd.	¥240 million																					
PHP Ibaraki Co., Ltd.	¥222 million																					
Pigeon Singapore Pte. Ltd.	SGD1,670 thousand																					
Pigeon (Shanghai) Co., Ltd.	US\$950 thousand																					
Pigeon Industries (Thailand) Co., Ltd.	THB144 million																					
Thai Pigeon Co., Ltd.	THB122 million																					
Pigeon Hearts Co., Ltd.	¥100 million																					
Lansinoh Laboratories, Inc.	US\$1																					
Healthcare	<p>Nursing care products Adult disposable diapers, incontinence pads and pants, diaper covers, waterproof sheets, pillows, abdominal wipes, body wipes, urine and fecal containers, shampoos, sterilizers, deodorizers, crockery, bibs, oral hygiene products, walkers</p> <p>Nursing care services Nursing-care services in Tochigi Prefecture</p>	<p>Healthcare is an important part of Pigeon's "three-generation marketing strategy." We believe that this business will become a key pillar in the Corporation's operations, given the rapid growth of the healthcare market. Pigeon Manaka Co., Ltd., a subsidiary, provides nursing care services, and</p> <table border="1"> <tbody> <tr> <td>Pigeon Home Products Co., Ltd.</td> <td></td> </tr> <tr> <td>PHP Hyogo Co., Ltd.</td> <td></td> </tr> <tr> <td>Pigeon Tahira Co., Ltd.</td> <td>¥100 million</td> </tr> <tr> <td>Pigeon Manaka Co., Ltd.</td> <td>¥10 million</td> </tr> </tbody> </table>	Pigeon Home Products Co., Ltd.		PHP Hyogo Co., Ltd.		Pigeon Tahira Co., Ltd.	¥100 million	Pigeon Manaka Co., Ltd.	¥10 million												
Pigeon Home Products Co., Ltd.																						
PHP Hyogo Co., Ltd.																						
Pigeon Tahira Co., Ltd.	¥100 million																					
Pigeon Manaka Co., Ltd.	¥10 million																					
Others	<p>Women's care products Dietary supplements, maternity goods</p> <p>Others Wet tissues</p>	<p>In this segment, the parent company sells general-use consumable products, as well as health foods supplied by Pigeon Home Products Co., Ltd., a subsidiary, and items supplied by other companies.</p> <table border="1"> <tbody> <tr> <td>Pigeon Home Products Co., Ltd.</td> <td></td> </tr> <tr> <td>Pigeon Will Co., Ltd.</td> <td>¥100 million</td> </tr> </tbody> </table>	Pigeon Home Products Co., Ltd.		Pigeon Will Co., Ltd.	¥100 million																
Pigeon Home Products Co., Ltd.																						
Pigeon Will Co., Ltd.	¥100 million																					

In this document, statements other than historical facts are forward-looking statements that reflect Pigeon Corporation's plans and expectations. These forward-looking statements involve risks, uncertainties, and other factors that may cause actual results and achievements to differ from those anticipated in these statements.

and Group Companies

Main Products

then, we have formed manufacturing companies in Thailand, Indonesia, and China, and transformed our U.S.-based operation into a consolidated subsidiary. These initiatives have enabled us to deliver products that meet the cultural attributes of various nations. Today, we are steadily increasing overseas sales, especially to China and elsewhere in Asia, as well as the Middle East, Europe, and North America. This segment is becoming a central driver of future growth for the Pigeon Group.

Controlling share	Description of business
100.0%	Manufacture of toiletry products, planning and sales of Pigeon's health foods
100.0%	Manufacture of Pigeon-brand wet tissues
86.5%	Manufacture of Pigeon-brand wet tissues
100.0%	Sales of Pigeon's trademark maternity and infant products
100.0%	Manufacture and sales of Pigeon's trademark maternity and infant products
97.5%	Manufacture of Pigeon's trademark maternity and infant products
53.0%	Manufacture of Pigeon's trademark infant products
100.0%	Consignment operation of daycare and child-minding centers
100.0%	Sales of breast feeding products



Nursing products



Weaning-related products



Skincare products

Baby and Child Care



Others



Child-rearing support services

Pigeon Tahira Co., Ltd. (name changed from Tahira Co., Ltd., on May 1, 2006), another subsidiary, makes products for sale to nursing care institutions. Pigeon will use the resources of both companies to expand its healthcare business.

73.9%	Sales of nursing care products
67.0%	Sales of Pigeon-brand nursing care products



Nursing care products



Nursing care services

Healthcare

Another subsidiary, Pigeon Will Co., Ltd., mainly sells maternity undergarments supplied by non-Group companies.

100.0%	Sales of maternity and infant products
--------	--



Women's care products



Others

Others

(April 27, 2006)

To Our Shareholders

“Providing the gift of love to all”: This is the Pigeon business philosophy



Seichi Matsumura
President and Chief Operating Officer

In 2006, Pigeon celebrates the 50th anniversary of its founding.

For half a century, we have shared the emotion and joy of pregnancy, giving birth, and raising children with many customers. We have continued to grow despite a declining birthrate as we strive to meet the expectations of all shareholders.

The period under review was the first year of Global 500, our second medium-term management plan for the 21st century. Guided by this plan, the Group will reinforce its unique position and competitive edge in the baby and child care segment, its core business, through relentless market penetration. At the same time, we will actively mobilize Groupwide synergies and “drawing power” to build a strong presence in growth areas. Through these actions, we will seek to maximize corporate value on a global scale.

The plan incorporates several specific initiatives. One addresses changes in the earnings structure of our overall business by reforming internal systems and redistributing managerial resources. Another seeks to make our baby and child care business, the main source of the Group’s cash flow, more robust by shifting the emphasis of the domestic baby and child care business from “quantity” to “quality.” The plan also positions our overseas, child-rearing support, and healthcare businesses as growth areas.

Operating Environment and Response

Due to the ongoing decline in domestic childbirths, which has exceeded expectations, the Pigeon Group faced an uncertain operating environment, with future business conditions expected to remain difficult.

In the year under review, we responded by implementing proactive initiatives across all operations. These included our core business in domestic baby and child care products, as well as three areas that we have designated for future growth—our overseas, child-rearing support, and healthcare businesses.

Consolidated sales (years ended January 31)

Segment	2006	2005	Change	% change
Baby and child care	32,185	31,100	+1,084	+3.5
Healthcare	6,476	6,758	-281	-4.2
Others	3,085	2,860	+224	+7.8
Total	41,747	40,719	+1,027	+2.5

(¥ millions)

Segment Overview and Performance

In the domestic baby and child care segment, market conditions remained difficult as domestic birthrates declined and prices of consumables, especially baby wipes, continued falling. Under these conditions, we actively introduced new products to enhance the emotion and joy of customers, from giving birth to raising children. In the market for baby wipes, we launched a new product with enhanced grime-removal features that also protects the delicate skin of babies. We also sought to enhance name recognition among consumers via television commercials. However, these efforts failed to translate into improved year-on-year results.

Overseas, the Group achieved significantly increased sales in most of its markets, notably in East Asia, centering on China.

In the child-rearing support category, we extended our track record as an operator of government-

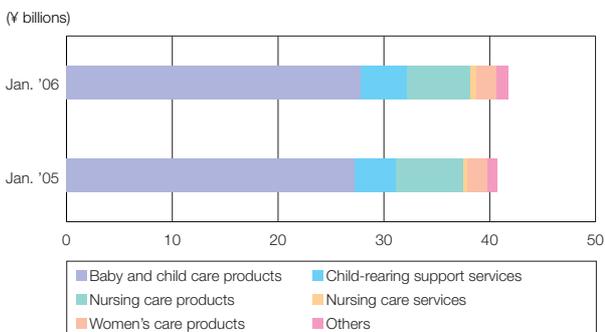
approved child-minding centers, and also made good progress in the area of in-company child-minding operations. As a result, this category generated higher year-on-year revenue.

In the healthcare segment, we achieved solid growth in nursing care services. Overall segment revenue, however, was down.

Consolidated net sales for the year totaled ¥41,747 million, up 2.5% from the previous year. Ordinary income fell 16.1% to ¥2,200 million, and net income declined 10.2% to ¥1,342 million.

For the fiscal year ending January 2008, the final year of Global 500, the Group has set the following consolidated financial targets: net sales of ¥50 billion, gross profit ratio of 39.5%, operating income ratio of 8.0%, ordinary income ratio of 7.5%, and return on assets (ordinary income to net assets) of 10.0%.

Pigeon's net sales (consolidated)



Relocation and Reorganization

Due to business growth in recent years, the Group's domestic operations have expanded beyond the capacity of its existing head office building. For this reason, in June 2006 the Group centralized its headquarters and the offices of several consolidated subsidiaries, (Pigeon Home Products Co., Ltd., Pigeon Will Co., Ltd., and Pigeon Hearts Co., Ltd.) that were previously spread over five locations, under a single roof—a rental office building in Tokyo's Nihonbashi district. We also undertook a corporate reorganization aimed at progressively expanding various Group businesses, rebuilding our domestic baby and child care business, and nurturing and growing our healthcare businesses. Our objective is to further enhance Groupwide operating efficiency and maximize synergies.



New headquarters building



"Shittokoi!" broadcast on the MBS/TBS television network
Broadcast live every Saturday morning from 7:30am to 9:25am.
The Pigeon Group sponsors the program and screens commercials.



1. Baby and Child Care

Performance

Sales in this segment amounted to ¥32,185 million, up 3.5% from the previous year. Segment operating income declined 10.6% to ¥4,197 million.

This is a core business segment, representing 77% of the Pigeon Group's consolidated net sales. The fundamental objective of our new medium-term business plan is to reinforce our unique position and competitive edge through relentless market penetration. In the period under review, the first year of the plan, prices of baby wipes and other consumables

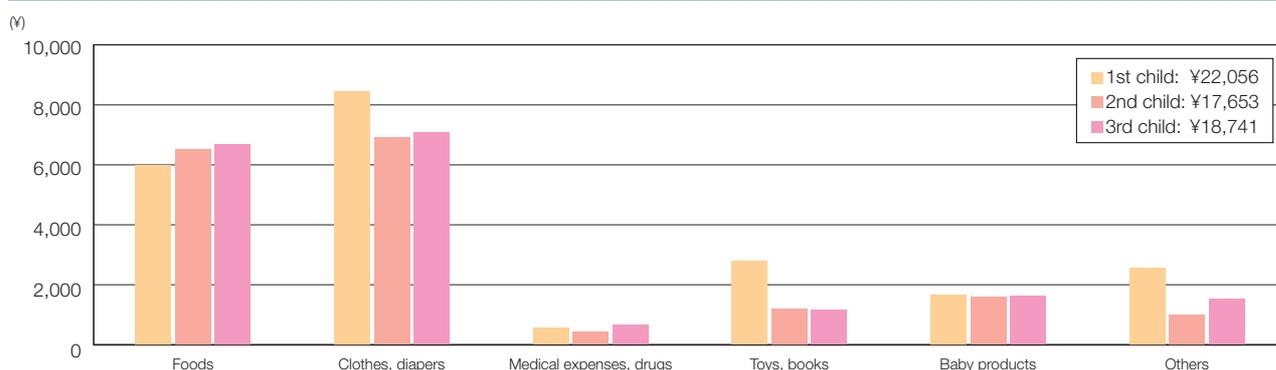
continued to fall. In response, we launched a new product with enhanced grime-removal features that also protects the delicate skin of babies. We set the price of the new product at a moderately high level and worked hard to ensure recognition of its superior performance through television commercials and other means. Despite these efforts, we could not achieve improved sales of baby wipes and were unable to maintain our market share.

Average monthly expenditures per infant

(Source: Pigeon) (¥)

Products	2000	2001	2002	2003	2004	2005
Powdered milk	1,711	1,836	1,798	1,630	1,739	1,794
Baby foods	962	915	785	908	810	1,008
Cow's milk	609	557	514	372	473	378
Snacks	831	749	718	706	670	750
Others (foods)	2,250	2,087	1,876	1,638	1,608	2,371
Subtotal (foods)	6,363	6,144	5,691	5,691	5,300	6,301
Clothes (under, outer), shoes, etc.	3,685	3,741	3,435	3,763	3,483	4,081
Cloth diapers, diaper covers/liners, etc.	99	189	156	88	125	130
Disposable diapers	3,345	3,184	3,267	3,285	3,290	3,405
Cloth diaper rental	28	31	33	25	32	9
Subtotal (clothes, diapers)	7,157	7,145	6,891	7,160	6,929	7,625
Medical treatment, pharmaceuticals	1,047	781	748	564	516	521
Toys	1,281	1,270	1,235	300	1,289	1,358
Picture books	423	403	440	552	485	555
Subtotal (toys, picture books)	1,705	1,673	1,675	1,538	1,774	1,913
Breast-feeding/baby foods and feeding crockery	241	284	308	259	336	364
Bathing/hygiene accessories	1,127	1,103	1,122	1,069	1,237	1,262
Subtotal (breast-feeding, baby foods and feeding, bathing, hygiene)	1,368	1,387	1,431	1,328	1,572	1,626
Outdoor, furniture, beds, etc.	1,686	2,304	1,432	1,934	2,030	1,782
Total	19,326	19,434	17,869	18,331	18,122	19,768

Average monthly expenditures



Future Initiatives

Having reflected on marketing strategies adopted in the year under review, our strategy for the current fiscal year is to introduce products that address the various requirements of consumers, rejuvenate sales activities at the retail store level, and launch aggressive television commercial campaigns. We have already upgraded our lineup by unveiling a new baby wipe that leaves a refreshed feeling, in an effort

to restore our market share. At the same time, we will release television commercials and sponsor television programs, enhance merchandising at the retail store level, conduct maternity-related events, and promote our products to maternity hospitals. In these ways, we hope to strengthen the appeal of the Pigeon brand among consumers.

Main challenges for the year ending January 31, 2007

(1) Reposition our domestic baby and child care business

Raise brand value amid shrinking market

- Restore market share for baby wipes
- Raise our profile in retail stores
- Upgrade direct communications with customers

(2) Expand share of the Chinese market

- Reinforce our ability to develop products that closely match customer needs
- Develop our child-minding business
- Build a new skincare product manufacturing facility

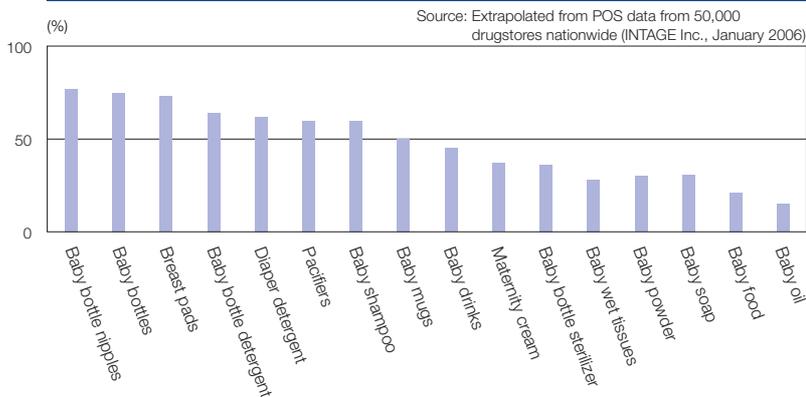


Store display



Store display

Domestic market share of Pigeon's main products

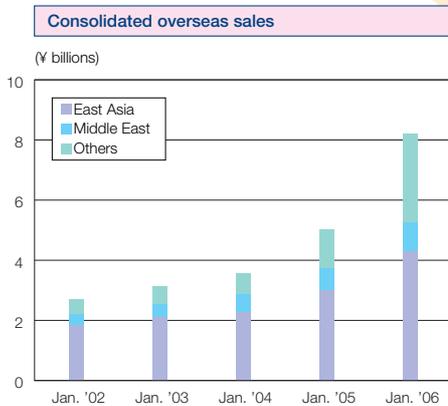


Maternity events

2. Overseas Business

Overview

The Group achieved significantly increased sales in most overseas countries, including such major markets as China, South Korea, and Taiwan. Sales of baby bottles and nipples and breast pads were particularly good. Main consolidated subsidiaries all reported improved performances. We attribute our favorable overseas business results to synergies derived from our overseas subsidiaries in the areas of production and sales.



China

China is an important overseas market, and Pigeon products sold in that nation account for a sizeable portion of our overseas sales. In the past two years, we have shifted our focus from the large cities on and near the eastern seaboard, such as Beijing, Shanghai, and Guangdong, to regional inland cities.

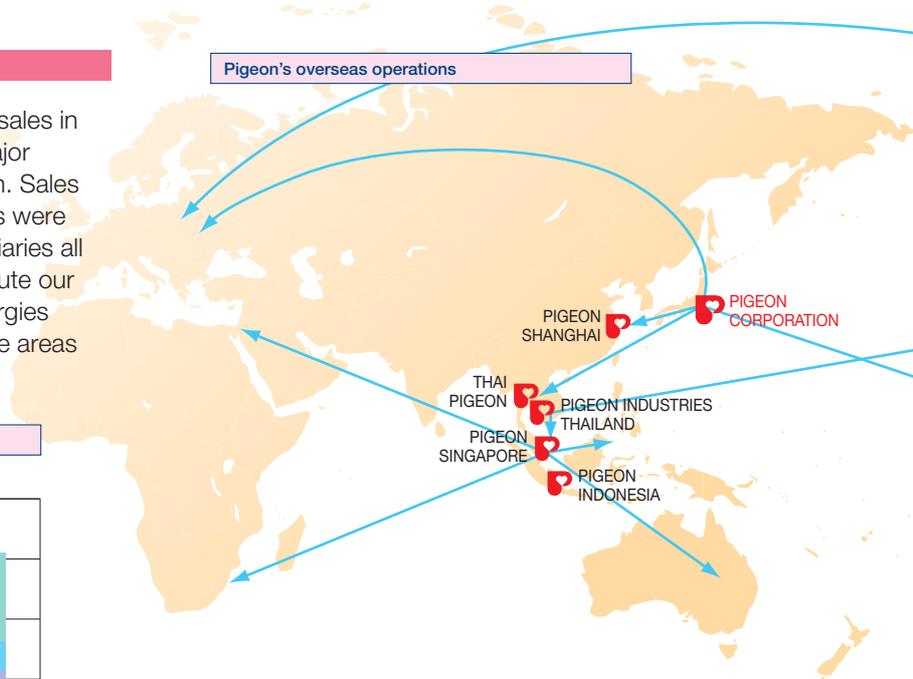
We have conducted an aggressive sales campaign to broaden the Pigeon brand profile. As a result, during the current fiscal year we have already increased the number of target sales areas in China to more than thirty provinces and cities. Going forward, we will reinforce our ability to develop products that closely match customer needs, while broadening our sales channels to include not only the wealthy but also the middle section of the market. We also plan to build a

skincare product manufacturing facility in the Qingpu District on the outskirts of Shanghai to ensure a stable supply of products and reduce costs.



Original products for China

Pigeon's overseas operations



Pigeon's sale operations in China



Pigeon (Shanghai) Co., Ltd.

Established:	2002
President:	Norimasa Kitazawa
Headquarters:	Shanghai



North America

North America is also a key overseas market, on a par with China. In the United States, where the birthrate is increasing, the Pigeon Group is represented by Lansinoh Laboratories, Inc., which became a consolidated subsidiary in 2004. That company has expanded its network of sales operations and is building a competitive market position, with annual sales growth exceeding 70% in the year under review. Its core product, a nipple care cream, has achieved an 85% market share. We expect further sales growth in the North American market, where the population growth is trending upward.

Lansinoh's local market share



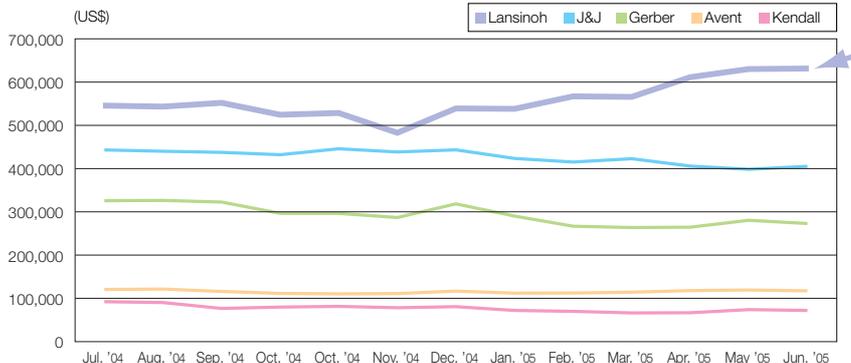
Source: Pigeon

Lansinoh Laboratories, Inc.

Established:	1984 (acquired by Pigeon on April 28, 2004)
CEO:	Gary R. Downing
President:	Shigeru Yamashita
Headquarters:	Alexandria, Virginia



Breast pads sales



Source: Pigeon

3. Child-Rearing Support

Overview

Pigeon has a strong track record as an operator of government-approved child-minding centers. In the year under review, we took over the operation of two more such facilities in Tokyo—one each in Ota Ward and Nerima Ward. In April 2004, all of Japan's national hospitals and nursing homes were privatized. Within these facilities are 113 child-minding centers that Pigeon now operates. During the year, we also made good progress in the area of in-company child-minding operations, opening centers within Yamaha Motor Co., Ltd., and other companies. As a result, the child-rearing support category generated increased year-on-year revenue.

The Law for Measures to Support the Development of the Next Generation was enacted in July 2003.

The law obligates national and regional government entities, as well as larger corporations, to create environments that are friendly to children and



Child-minding center

parenting over the 10-year period from April 2005. Given this background and the high expectations of society, we plan to further boost growth of our child-minding business in the future.

Outlook

For around 50 years, Pigeon has offered a variety of products developed through its multifaceted research related to babies. Know-how gained through this research is proving valuable in the child-minding and daycare areas. In the future, we will continue addressing social needs by expanding the scope of our operations while maintaining our focus on top-quality services.

Pigeon Hearts Co., Ltd.

(100% owned by Pigeon Corporation)

Established:	August 2003
President:	Tatsuya Sugo
Headquarters:	Chuo-ku, Tokyo
Business locations:	Nishinihon, Nagoya

Pigeon Group's child-rearing support operations

1. Child-minding centers

- ※ Pigeon Land Joso
- Pigeon Land Suita
- Pigeon Land Ritto
- ※ Pigeon Land Nerima Takanodai
- ※ Pigeon Land Yukigaya
- ※ The Sanno Child-Minding Center (Ota-ku)
- ※ Pigeon Land Fuchu
- ※ Higashi-Kamata Child-Minding Center (Ota-ku)
- ※ Hikarigaoka No.8 Child-Minding Center (Nerima-ku)
- ※ Uchikoshi Child-Minding Center (Nakano-ku)

2. In-company and in-hospital child-minding operations (consignment)

136 locations (113 national hospitals)

- ※ Government-approved standard facilities

3. Child-minding operations within commercial facilities

9 locations

4. Baby-sitter dispatch services

Pigeon Wendy
(services in the Kanto, Kansai, and Nagoya areas)

5. Kids World child-minding centers

30 locations

6. Others

Seminars for nurses and flight attendants
Management support for child-minding centers

Note: In addition to the above, Pigeon provides various training and management consulting services.

(As of April 1, 2006)

4. Healthcare

Performance

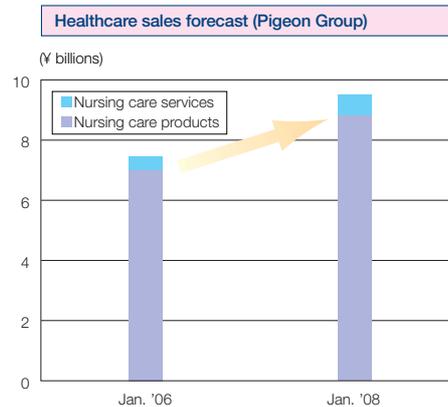
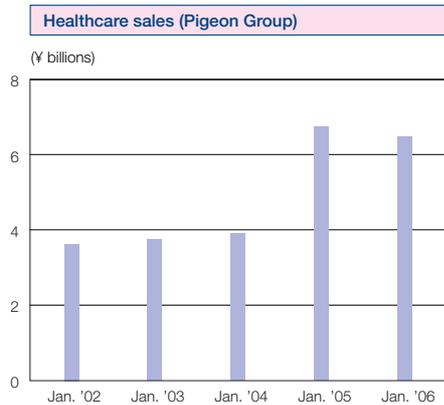
Sales in this segment slipped 4.2%, to ¥6,476 million, and operating income grew 18.5%, to ¥340 million.

During the year, we undertook proactive marketing efforts to raise market share and expand sales. For example, in the market for incontinence pads, a mainstay product, we introduced new items offering superior protection against lateral leakage.

Also involved in the healthcare business is Pigeon Tahira Co., Ltd., a consolidated subsidiary that makes lifestyle-enhancement products for the elderly. In the year under review, we created a framework

aimed at exploiting synergies with Pigeon Tahira in the areas of product development, sales, and distribution. Despite maintaining profitability, however, that company was unable to improve on its previous year's results.

Pigeon Manaka Co., Ltd., a consolidated subsidiary that provides nursing care services for the elderly, continued providing services while emphasizing close ties with its local communities in Tochigi Prefecture. That company expanded its operations and reported an improved performance as a result.



Pigeon Tahira Co., Ltd.

(77.9% owned by Pigeon Corporation)

Established: April 1971
(acquired by Pigeon on February 2, 2004)

President: Kimiyoshi Tanaka

Headquarters: Nakano-ku, Tokyo

Sales offices: Tokyo, Osaka, Fukuoka, Sapporo, Morioka, Nagoya, Hiroshima

Pigeon Manaka Co., Ltd.

(67.0% owned by Pigeon Corporation)

Established: October 2000

President: Yoshiho Morita

Headquarters: Tochigi City, Tochigi

Business operations: Tochigi, Sano, Kanuma, Ashikaga



Assist wheel



Incontinence pads



Int. Home Care & Rehabilitation Exhibition

5. Maternity Products and On-Line Shopping

Responding to the rapidly changing social environment, we launched a new on-line shopping service as part of our strategy to exploit new, fast-growing sales channels.

In September 2005, we launched Pigeon Maternity, an on-line shopping site for maternity products. Then, in February 2006, we replaced this site with a revamped, larger site called Pigeon Mall. The new site boasts a full lineup of more than 1,000 products, including maternity undergarments, clothes, goods, and supplements, as well as skincare products. Operated by Pigeon Home Products Co., Ltd., a consolidated subsidiary, its full range of products include new offerings from another subsidiary, Pigeon Will Co., Ltd. The aim of this new service is “to give women choices when bringing a new baby into their lives.”

In April 2006, we released a new concept stroller called Pidia, which is sold exclusively through Pigeon Mall. At the same time, we launched an official Pidia website featuring detailed consumer information on this exciting new product.

Pigeon Will Co., Ltd.

(100% owned by Pigeon Corporation)

Established:	1989
President:	Masaaki Kazaoka
Headquarters:	Chuo-ku Tokyo



Pigeon Mall
<http://www.pigeonmall.jp>



Pigeon Pure honey and herb teas



Official Pidia website
<http://www.pidia.jp>



Pidia AB Dual



Pidia Cargo

CSR Initiatives

Environmental Protection

More than 80,000 babies take part over 20 years: Huge contribution to protection of forests

Every year, Pigeon holds its “Newborn Baby Commemorative Tree-Planting Campaign.” The campaign is based on the premise that both babies and seedlings require warm and nurturing environments in order to grow and prosper. Pigeon launched the tree-planting campaign in 1986, with the aim of creating a green area for future generations of children while raising awareness about the protection of forests. We want to help as many people as possible experience the joy of raising children.

Held in a national forest near Hitachi-Omiya City, Ibaraki Prefecture, planted with Japanese cypress and other varieties, the 2006 tree-planting session was the 20th since the campaign began. Throughout this period, around 80,000 babies have participated in the events, and the total tree-planting area has grown to 27.76 hectares. Trees planted twenty years ago in the inaugural tree-planting session are now several times the height of an average adult.

With assistance from Japan’s Forestry Agency, in 2004 we conducted a study on the impact of our commemorative tree-planting on forest protection. The study’s findings on the impact twenty years after planting are shown in the accompanying table.

Pigeon will continue promoting the “Newborn Baby Commemorative Tree-Planting Campaign” to spread the message of forest protection and share the joy of birth and raising children.



Commemorative trees

Environmental contribution (10 years)

Water resource preservation contribution

Water stored	118 swimming pools (each 25 x 10 x 1m) (total 29,266m ³)
Water purified	16,035 home-use water purification cartridges (6-month life) (total 29,266m ³)

※ Water stored briefly in forests flows slowly to other areas. This helps normalize river flows, alleviate floods and droughts, and purify water. These functions are calculated using levels of water infiltration that are higher in places where there are forests compared with deforested areas.

Landslide prevention contribution

Volume of soil preserved	19.12m-diameter cylindrical tank (6.7m high) (total 641m ³)
--------------------------	--

※ Soil in forests is covered with fallen leaves and vegetation, thus preventing soil degradation and runoff caused by rainfall. This function is calculated using sediment yields, which are lower in forested places than in deforested areas.

CO₂ absorption/storage contribution

CO ₂ absorption/ carbon-fixing	CO ₂ emitted by car (10km/l fuel efficiency) traveling 2.27 million km (56.7 times earth circumference) (total 526t of CO ₂)
--	---

※ Photosynthesis by trees in forests absorbs carbon dioxide present in the atmosphere and generates organic matter, which is then stored in tree trunks—a process that helps prevent global warming. This function can be quantified by measuring the growth of a tree trunk’s volume.



Recent photo of trees planted 20 years ago in the inaugural tree-planting event

Corporate Governance

Pigeon's corporate governance framework centers on its Board of Directors and Board of Corporate Auditors, as well as an internal auditing system. While the Board of Directors handles control and supervision, Pigeon also has a system of executive officers, responsible for execution of business. By separating the decision-making and supervision function from the business execution function, we are working to ensure sound corporate governance.

Compliance

As part of its risk management system, the Group has established an in-house compliance program. We have also produced a guidebook to help all Group employees understand and practice legal and ethical compliance. To enhance the efficacy of our compliance system, we have established a hotline within our internal reporting system, encouraging employees to speak up when they encounter problems.

Protecting Personal Information

The Pigeon Group is currently working to improve its information security and personal information protection systems, which it regards as crucial to the effective delivery of products, services, and information to customers. One key objective has been to acquire the Privacy Mark certification, bestowed by the Japan Information Processing Development Corporation (JIPDEC) upon businesses with appropriate mechanisms in place to protect personal information. To this end, we set up a Personal Information Protection Committee and formed a Groupwide organizational structure. As a result, we succeeded in obtaining certification in July 2005.



In-House Child-Rearing Support

As a leading company in the field of baby and child care, we are using our unparalleled diversity of knowledge to support child-rearing initiatives within the Pigeon Group. Our Child-Rearing Support System was created in 1984 and has since undergone numerous enhancements. In February 2006, we undertook an extensive revision, making the system more easily accessible to male employees with small children. In this way, we are responding to the child-rearing needs of our people.

Proactive Information Disclosure

Keen to enhance the transparency of our operations, we maintain proactive investor relations (IR) activities. These include semiannual information meetings to announce our business results, explain our medium-term business plan, and describe new products and businesses. We also regularly update our website and in 2004 launched overseas IR activities. In these ways, we strive to pursue swift and accurate information disclosure for all investors—both individual and institutional.

IR activities

IR tools	
Presentation materials for financial results and medium-term business plans (Japanese/English)	As appropriate
Annual reports (English)	Annually
Fact books (Japanese)	Annually
Information meeting materials for overseas investors (English)	Annually
Business reports	Semiannually
Financial data reports (Japanese/English)	Semiannually
Home page and communications site	http://www.pigeon.co.jp http://pigeon.info

IR activities	
Presentations of financial results	Semiannually
Presentations of medium-term business plans	As appropriate
Overseas investor forums and visits (Asia)	Annually
Domestic investor visits and small meetings	As appropriate
One-on-one meetings	Approx. 100 times per year

Management's Discussion and Analysis of Operations

Corporate Group

The Pigeon Group consists of the Pigeon Corporation (the parent company), 12 consolidated subsidiaries, and two equity-method affiliates. The Group is engaged mainly in the manufacture, purchase, and sale of baby care, child care, and nursing care products, as well as in the provision of child-rearing and nursing care services.

Environment and Performance

In the fiscal year under review, the Japanese economy benefited from a steady turnaround of overall consumption, which began in the spring of 2005. The turnaround was sparked by brighter consumer sentiment owing to improved employment conditions and higher worker incomes, which alleviated immediate concerns about the economy. Due to an extremely cold winter, some winter-related items sold out in shops, giving the economy a boost. However, rising prices of raw materials associated with growing crude oil prices failed to alleviate uncertainties about the direction of the economy, underscoring a less-than-optimistic outlook for the future.

In the domestic baby and child care segment, the Group's main business, we introduced into the market new products that highlight our originality and competitiveness, which we have built up to date. However, the trend of declining birthrates continued unabated, and price competition at the retail level for consumables, notably our baby wipes, remained intense, resulting in a difficult business environment.

In our overseas business, by contrast, we achieved improved year-on-year results in East Asia, especially China, as well as in North America and Europe. In China, our sales strategy—shifting the focus from sales in large coastal cities to introducing new products and building brand image in regional inland cities—proved successful, generating increased sales.

In the child-rearing support segment, we achieved a solid improvement in our performance due to ongoing privatization of public facilities, in which public child-minding centers are entrusting their operation to private entities. This segment also benefited from the Law for Measures to Support the Development of the Next Generation, enacted in April 2005, which facilitates the establishment of in-company child-minding operations.

Consolidated net sales for the year totaled ¥41,747 million, up 2.5% from the previous year. Ordinary income fell 16.1%, to ¥2,200 million, and net income declined 10.2%, to ¥1,342 million.

Looking at key performance ratios, return on equity (ROE) for the year was 6.7%, down from 7.7%, and return on assets (ROA) for the year was 6.4%, down from 8.1%. The equity ratio was 59.9%, up from 58.2%.

Profit Appropriation Policy

The Pigeon Group regards the return of profits to shareholders—made possible by ongoing improvements to Groupwide profitability—as an important management priority. Our policy is to make the most effective use of retained earnings. We actively invest these funds in growth areas, new businesses, and research and development, as well as in reinforcing our operating foundation by streamlining production facilities to lower costs and raise product quality. With respect to appropriating earnings, our policy is to actively return profits to shareholders. We do this by paying stable and ongoing cash dividends, with the emphasis on raising dividend levels where possible. For the year under review, we plan to distribute as dividends the equivalent of 30% of consolidated net income, for a dividends-on-equity ratio of 2%. We plan to pay annual dividends of ¥20.00 per share, including the ¥10.00 interim dividend already paid.

Segment Review

Baby and Child Care

Sales in this segment amounted to ¥32,185 million, up 3.5% from the previous year. Operating income declined 10.6%, to ¥4,197 million. This segment is classified into three categories: baby and child care services, overseas business, and child-rearing support services.

Baby and Child Care Services: In this category, the Group's principal area of business development, market conditions remained difficult as domestic birthrates declined and prices of consumables, especially baby wipes, continued falling. Under these conditions, we actively introduced new products as we sought to enhance the emotion and joy of customers, from giving birth to raising children. In the intense competitive market for baby wipes, we launched new products with enhanced grime-removal features, as well as a lotion that protects the

delicate skin of babies. We also sought to enhance name recognition among consumers via television commercials. However, these efforts failed to translate into improved year-on-year results.

Overseas Business: The Group achieved significantly increased sales in all overseas countries, including such major markets as China, South Korea, and Taiwan. Sales of baby bottles and nipples and breast pads were particularly good. Main consolidated subsidiaries—Pigeon Industries (Thailand) Co., Ltd., Thai Pigeon Co., Ltd., Pigeon Singapore Pte. Ltd., Pigeon (Shanghai) Co., Ltd., and Lansinoh Laboratories, Inc.—all reported improved performances. We attribute our favorable overseas business results to synergies derived from our overseas subsidiaries in the areas of production and sales. In China, we expanded our market presence by shifting our focus from large coastal cities to regional inland cities, reflecting an aggressive sales campaign to broaden the Pigeon brand profile.

Child-Rearing Support: Pigeon has a strong track record as an operator of government-approved child-minding centers. In the year under review, we took over the operation of two more such facilities—one each in Ota Ward and Nerima Ward. In April 2004, all of Japan's national hospitals and nursing homes were privatized. Within these facilities are 113 child-minding centers that Pigeon now operates. During the year, we also made good progress in the area of in-company child-minding operations, opening centers within Yamaha Motor Co., Ltd., and other companies. As a result, the child-rearing support category generated increased year-on-year revenue.

Healthcare

Sales in this segment slipped 4.2% to ¥6,476 million, and operating income grew 18.5% to ¥340 million.

During the year, we undertook proactive marketing efforts to raise market share and expand sales. In the market for incontinence pads, a mainstay product, we introduced new items offering superior protection against lateral leakage. Despite such efforts, however, our results fell short of our projections. Also involved in the healthcare business is Pigeon Tahira Co., Ltd., a consolidated subsidiary that makes lifestyle-enhancement products for the elderly. Our plan is to make healthcare a central part of the Pigeon Group's operations by exploiting synergies with Pigeon Tahira in the areas of product development, sales, and distribution. In the year under review, however, Pigeon Tahira's performance fell below the previous

year's level. Nevertheless, Pigeon Manaka Co., Ltd., a consolidated subsidiary that provides nursing care services for the elderly, continued providing services while emphasizing close ties with its local communities in Tochigi Prefecture. That company expanded its operations and reported an improved performance as a result.

Others

Sales from other operations totaled ¥3,085 million, up 7.8%. Operating income grew 12.3% to ¥283 million.

Pigeon Will Co., Ltd., a consolidated subsidiary that sells maternity undergarments, expanded its operations in the year under review. During the year, we reported increased sales of Folic Acid Plus (food with health claims), an easy-to-drink vitamin supplement combining all of the nutritional elements essential during pregnancy and breastfeeding into one tablet. This segment's overall performance improved as a result.

Outlook

The fiscal period to January 2007 is the second year of Global 500, our second medium-term business plan for the 21st century. For the year, we expect conditions to remain difficult in the domestic baby and child care business, with little prospect of recovery in the birthrate. In response, we will harness synergies among Group companies to maintain a framework conducive to increased revenues and earnings and thus maximize our corporate value on a global basis.

For the year, we forecast consolidated net sales of ¥44.5 billion (up 6.6%), ordinary income of ¥2.6 billion (up 18.2%), and net income of ¥1.65 billion (up 45.3%). Compared with our non-consolidated forecasts, these figures represent a consolidation ratio of 1.48 times in the case of net sales, 3.25 times for ordinary income, and 2.06 times for net income—reflecting our success in harnessing the strengths of Pigeon Group companies.

During the year to January 2007, Pigeon will celebrate the 50th anniversary of its establishment. To thank our shareholders for their support, we plan to declare a commemorative dividend of ¥10.00 (including a ¥5.00 interim commemorative dividend), in addition to a regular dividend of ¥20.00 (including a ¥10.00 interim regular dividend), for total annual dividends of ¥30.00. That decision was made at the Board of Directors meeting, held on March 13, 2006.

Financial Data

Consolidated Balance Sheets (January 31, 2005 and 2006)

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
ASSETS			
Current Assets:			
Cash and time deposits	¥ 2,768	¥ 1,903	\$ 16,164
Notes and accounts receivable	8,597	7,643	64,911
Marketable securities	—	—	—
Inventories	3,427	4,437	37,686
Other current assets	951	1,275	10,835
Total current assets	15,744	15,260	129,597
Fixed Assets:			
Tangible Fixed Assets	13,299	13,358	113,445
Intangible Fixed Assets	3,170	3,035	25,778
Investments and Other Assets	2,167	2,284	19,398
Investment securities	1,067	1,214	10,312
Total fixed assets	18,637	18,677	158,622
Adjustments on foreign currency statement translation	—	—	—
Total Assets	¥ 34,382	¥ 33,937	\$ 288,219
LIABILITIES			
Current Liabilities:			
Notes and accounts payable	¥ 6,160	¥ 4,627	\$ 39,303
Accrued amount payable	1,258	1,840	15,627
Income taxes payable	753	439	3,729
Accrued employees' bonuses	517	484	4,118
Other current liabilities	2,428	4,182	35,522
Total current liabilities	11,119	11,574	98,300
Straight bonds	—	—	—
Long-Term Liabilities:			
Long-term borrowings	1,473	121	1,034
Other long-term liabilities	1,405	1,484	12,609
Total long-term liabilities	2,878	1,606	13,643
Total Liabilities	¥ 13,998	¥ 13,181	\$ 111,943
Minority Interests	¥ 386	¥ 443	\$ 3,768
SHAREHOLDERS' EQUITY			
Capital stock	¥ 5,199	¥ 5,199	\$ 44,158
Additional paid-in capital	5,145	5,146	43,709
Consolidated retained earnings	10,149	11,052	93,864
Net unrealized gain (Loss) on securities	(5)	38	325
Adjustment on foreign currency statement translation	(431)	(204)	(1,733)
Treasury stock	(60)	(920)	(7,814)
Total shareholders' equity	19,997	20,312	172,508
Total Liabilities and Shareholders' Equity	¥ 34,382	¥ 33,937	\$ 288,219

Note: Figures in U.S. dollars are calculated, for convenience only, at the exchange rate of ¥117.75=US\$1.00.

Financial Data

Consolidated Statements of Income (For the years ended January 31, 2005 and 2006)

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Net Sales	¥ 40,719	¥ 41,747	\$ 354,541
Operating Costs and Expenses:			
Cost of sales	25,047	26,112	221,761
Gross profit	15,672	15,634	132,780
Selling, general and administrative expenses	12,957	13,419	113,969
Operating Income	2,714	2,215	18,811
Other Income	339	364	3,094
Other Expenses	431	378	3,218
Ordinary Income	2,621	2,200	18,688
Extraordinary Income	168	56	481
Extraordinary Loss	177	72	619
Income before Income Taxes	2,613	2,184	18,549
Income Taxes	980	682	5,796
Adjustment for Corporate Tax	46	92	789
Less: Minority Interest in Net Income of Consolidated Subsidiaries	91	66	562
Net Income	¥ 1,494	¥ 1,342	\$ 11,402

Note: Figures in U.S. dollars are calculated, for convenience only, at the exchange rate of ¥117.75=US\$1.00.

Consolidated Statement of Cash Flows (For the years ended January 31, 2005 and 2006)

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Cash Flows from Operating Activities	¥ 4,286	¥ 1,765	\$ 14,993
Cash Flows from Investing Activities	(2,850)	(1,668)	(14,170)
Cash Flows from Financing Activities	(1,881)	(1,018)	(8,650)
Translation Gain (Loss) Related to Cash and Cash Equivalents	(9)	56	481
Net Change in Cash and Cash Equivalents	(455)	(864)	(7,345)
Cash and Cash Equivalents at Beginning of Year	3,223	2,768	23,510
Net Change in Cash and Cash Equivalents Due to Newly Consolidated Companies	—	—	—
Net Increase in Cash and Cash Equivalents	—	—	—
Cash and Cash Equivalents at End of Year	¥ 2,768	¥ 1,903	\$ 16,164

Note: Figures in U.S. dollars are calculated, for convenience only, at the exchange rate of ¥117.75=US\$1.00.

Consolidated Retained Earnings (For the years ended January 31, 2005 and 2006)

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
<Additional Paid-In Capital>			
Balance at Beginning of the Term	¥ 5,134	¥ 5,145	\$ 43,699
Increase in additional paid-in capital			
Purchase of treasury stock	10	1	9
Total	10	1	9
Balance at End of the Term	5,145	5,146	43,709
<Retained Earnings>			
Balance at Beginning of the Term	8,976	10,149	86,198
Increase in retained earnings			
Net income	1,494	1,342	11,402
Total	1,494	1,342	11,402
Decrease in retained earnings			
Cash dividends paid	321	439	3,736
Bonuses to directors and corporate auditors	—	—	—
Total	321	439	3,736
Balance at End of the Term	¥ 10,149	¥ 11,052	\$ 93,864

Note: Figures in U.S. dollars are calculated, for convenience only, at the exchange rate of ¥117.75=US\$1.00.

Corporate Information

Corporate Data

Company name	Pigeon Corporation
Address	4-4, Nihonbashi-Hisamatsucho, Chuo-ku, Tokyo 103-8480
Phone	+81-3-3661-4200
Fax	+81-3-3661-4320
Website	www.pigeon.co.jp
Established	August 15, 1957
Paid-in capital	¥5,199,597 thousand
Fiscal year-end	January 31
Employees	968

Stock Data (As of January 31, 2006)

Shares authorized	60 million
Shares issued	20,275,581
Number of shareholders	11,537

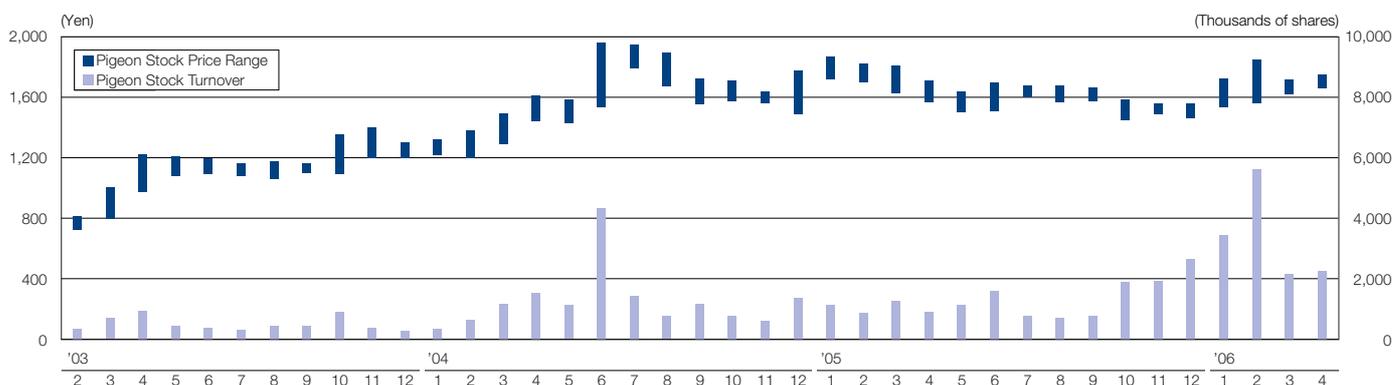
Ten Largest Shareholders (As of January 31, 2006)

	Shares held (1,000s)	Ownership (%)
Yoichi Nakata	4,743	23.39
Japan Trustee Services Bank, Ltd. (Trust Account)	1,157	5.71
The Master Trust Bank of Japan, Ltd. (Trust Account)	688	3.40
Mitsui Asset Trust and Banking Co., Ltd.	547	2.70
Goldman Sachs International	530	2.62
The Bank of New York (Luxembourg), SA	487	2.40
Pigeon Corporation Employees' Stock	440	2.17
Fukuyo Co., Ltd.	350	1.73
Dresdner Kleinwort Wasserstein (Japan) Limited	285	1.41
Nippon Life Insurance Company	228	1.13

Board of Directors, Auditors, and Officers (As of April 27, 2006)

Chairman and Chief Executive Officer	Yoichi Nakata
President and Chief Operating Officer	Seiichi Matsumura
Senior Managing Director	Tetsuo Ogawa
Managing Director	Akio Okoshi
Directors	Takashi Kurashima Hisashi Katsuki Kazuhiko Ota
Standing Auditors	Hiroshi Ota Humio Irobe
Statutory Auditors	Shigeru Nishiyama Shuji Idesawa
Managing Officers	Harumi Yamamoto Takashi Sakuma Katsumi Oyabu Yasushi Takashima Yasunori Kurachi Hiroki Yuda Kazuhisa Amari Tomoyuki Koizumi Isao Kosaka Tatsuya Sugo

Stock Price Range / Turnover of Common Stock



PIGEON CORPORATION

Head office

4-4, Nihonbashi-Hisamatsucho, Chuo-ku, Tokyo 103-8480

Tel: +81-3-3661-4200

+81-3-3661-4188 (Investor Relations)

Fax: +81-3-3661-4320

Office

Ami-machi, Inashiki-gun, Ibaraki

Distribution centers

Ami-machi, Inashiki-gun, Ibaraki

Hitachiota-City, Ibaraki

Kamikawacho, Kanzaki-gun, Hyogo

Research center

Tsukubamirai-City, Ibaraki

Domestic sales offices

Sapporo, Sendai, Saitama, Tokyo, Nagoya,

Osaka, Hiroshima, Matsuyama, Fukuoka

URL <http://www.pigeon.co.jp>

