

A N N U A L  
R E P O R T

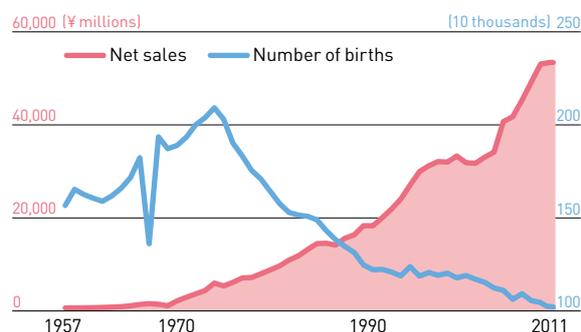
2012

For the year ended January 31, 2012

# PIGEON HISTORY

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

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

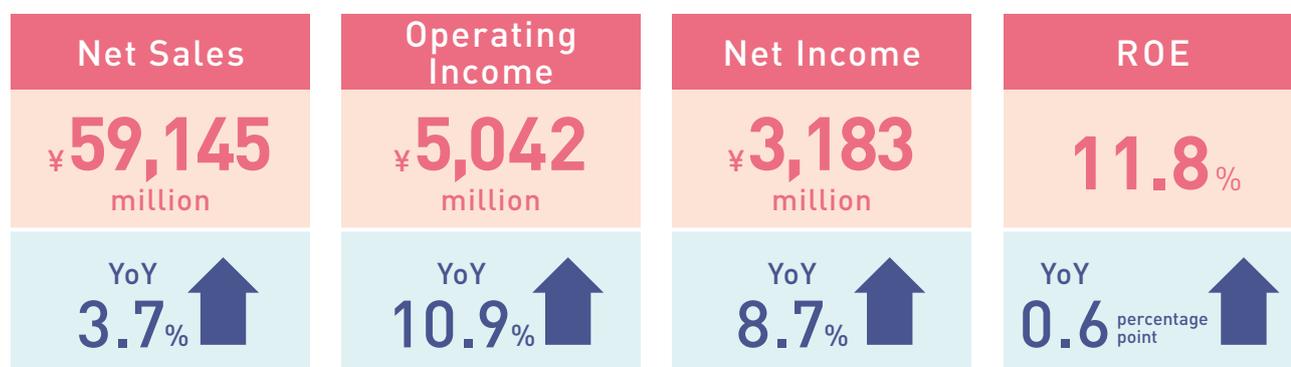


After reaching its peak in 1973, birthrate in Japan has been declining and reached about 1,060,000 newborns in 2005 or the total fertility rate of 1.26, which is the lowest ever point in the available statistics since 1947.

Although birthrate did recover somewhat since then, the figures calculated for 2010 show an annual number of newborns of about 1,071,000 or a total fertility rate of 1.39. This shows that the downward birthrate trend is still continuing.

In these conditions, Pigeon Group managed to achieve steady growth by focusing on business for the domestic market up to around 2000, and by expanding overseas sales since then. Also, Pigeon Group is actively expanding its business overseas.

# Consolidated Financial Highlights



## Three-Year Summary of Selected Financial Data

| Item                                    | Period | ¥ millions |          |          | US\$ thousands |
|-----------------------------------------|--------|------------|----------|----------|----------------|
|                                         |        | 2010       | 2011     | 2012     | 2012           |
| Net Sales                               | ¥      | 53,431     | ¥ 57,061 | ¥ 59,145 | \$ 760,805     |
| Gross Profit                            |        | 20,902     | 23,281   | 24,319   | 312,825        |
| Operating Income                        |        | 4,604      | 4,546    | 5,042    | 64,857         |
| Ordinary Income                         |        | 4,609      | 4,435    | 4,917    | 63,249         |
| Net Income                              |        | 2,840      | 2,928    | 3,183    | 40,944         |
| Total Assets                            | ¥      | 39,493     | ¥ 42,684 | ¥ 43,772 | \$ 563,056     |
| Total Liabilities                       |        | 13,229     | 15,640   | 15,836   | 203,705        |
| Cash Flows from Operating Activities    | ¥      | 4,964      | ¥ 3,206  | ¥ 4,212  | \$ 54,181      |
| Cash Flows from Investing Activities    |        | (2,105)    | (3,949)  | (1,871)  | (24,067)       |
| Cash Flows from Financing Activities    |        | (2,018)    | 886      | (1,776)  | (22,845)       |
| Net income per share (yen/U.S. dollars) | ¥      | 141.89     | ¥ 146.31 | ¥ 159.05 | \$ 2.0         |
| Net assets per share (yen/U.S. dollars) |        | 1,288.14   | 1,325.71 | 1,370.46 | 17.6           |
| ROA (%)                                 |        | 11.8       | 10.8     | 11.4     |                |
| ROE (%)                                 |        | 11.4       | 11.2     | 11.8     |                |

Notes: 1. Figures in U.S. dollars are calculated, for convenience only, at the exchange rate of ¥77.74=US\$1.0.

2. The number of shares for EPS is before adjustment for residual securities.

3. ROA is the ratio of ordinary income to total assets. ROE is the ratio of net income to shareholders' equity. The denominator for both is the average of the figures at the beginning and end of the fiscal year.

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# At a Glance

Consolidated Net Sales **¥59,145 million**

|                                      | Sales                                                                                            | Share of Net Sales                      | Products/Services                                                                                                                                                                        |
|--------------------------------------|--------------------------------------------------------------------------------------------------|-----------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Domestic Baby & Mother Care Business | <p>(¥ millions)</p> <p>25,000 24,145 24,047 24,895</p> <p>Jan.11 Jan.12 Jan.13 Target</p>        | <p><b>40.7%</b><br/>¥24,047 million</p> | <p>Breast feeding-related products/Weaning-related products/Skincare products/Women's care products/Other baby &amp; mother related products/IT business/Large-size product business</p> |
| Child Care Service Business          | <p>(¥ millions)</p> <p>7,000</p> <p>5,455 5,990 6,150</p> <p>Jan.11 Jan.12 Jan.13 Target</p>     | <p><b>10.1%</b><br/>¥5,990 million</p>  | <p>Child-rearing services/Operation of in-company child-minding facilities and daycare centers/Babysitter dispatch services/Preschool education services</p>                             |
| Health & Elder Care Business         | <p>(¥ millions)</p> <p>8,000</p> <p>6,503 6,469 7,014</p> <p>Jan.11 Jan.12 Jan.13 Target</p>     | <p><b>10.9%</b><br/>¥6,469 million</p>  | <p>Nursing care/Anti-aging products/Nursing care support services</p>                                                                                                                    |
| Overseas Business                    | <p>(¥ millions)</p> <p>30,000</p> <p>19,907 21,584 25,232</p> <p>Jan.11 Jan.12 Jan.13 Target</p> | <p><b>36.5%</b><br/>¥21,584 million</p> | <p>Baby &amp; mother related products</p>                                                                                                                                                |

## Overseas Net Sales ¥21,542 million

### Business Environment/Our Competitive Edge

The number of births in Japan is expected to reach a record low, falling from 1.071 million in 2010 to 1.057 million in 2011. Other challenges include buying restraint among the Group's target customers due to natural disasters and uncertainty about the future, as well as a firming trend towards low-priced products.

For half a century, we have conducted in-depth research into baby bottles. We have also engaged in research into early childhood development and persistently developed and improved products arising from such research.

#### [ Affiliated Companies ]

Pigeon Home Products Co., Ltd., Pigeon Will Co., Ltd., PHP Hyogo Co., Ltd., PHP Ibaraki Co., Ltd.

There are an increasing number of women who want children but who wish to keep working. Similarly, more and more women want to return to work while raising children. These factors are providing the impetus for the advancement of child-rearing support services, including the opening of child-minding centers and the enhancement and diversification of child-minding services.

#### [ Affiliated Company ]

Pigeon Hearts Co., Ltd.

In Japan, it is estimated that 25.2% of the total population, or one in every four Japanese, will be at least 65 years old by 2013. Accordingly, competing companies are launching new products and stepping up sales activities, while numerous companies are entering the market for the first time. Despite the challenges, Pigeon is building a presence in this field by deploying the strengths it has built in the baby and mother care business—track record, reputation for trust, and brand appeal.

#### [ Affiliated Company ]

Pigeon Home Products Co., Ltd., PHP Hyogo Co., Ltd., PHP Ibaraki Co., Ltd., Pigeon Manaka Co., Ltd., Pigeon Tahira Co., Ltd.

In recent years, China's annual childbirths have averaged around 15–20 million, which is 14–16 times the number of births in Japan. By contrast, with an average birthrate of 2.1 children per family, the United States is an advanced country with a relatively stable birthrate. Pigeon is advancing its overseas business, with particular emphasis on Asia, centering on China, and the United States, also also including emerging regions with strong growth prospects, such as Middle East, Southeast Asia, India, Russia, and Latin America.

In China, Pigeon Manufacturing (Shanghai) Co., Ltd. has been manufacturing various

#### [ Affiliated Company ]

Pigeon Singapore Pte. Ltd., Pigeon India Pvt. Ltd., Pigeon Malaysia (Trading) Sdn. Bhd., Pigeon (Shanghai) Co., Ltd., Pigeon Manufacturing (Shanghai) Co., Ltd., Pigeon Industries (Changzhou) Co., Ltd., Lansinoh Laboratories, Inc., Lansinoh Laboratories Medical Devices Design Industry And Commerce Ltd. Co., Pigeon Industries (Thailand) Co., Ltd., Thai Pigeon Co., Ltd., P.T. Pigeon Indonesia (an equity method subsidiary)

Accordingly, Pigeon is widely recognized as a leading brand of baby and mother care products that have captured a large share of the market and offer safety and peace of mind.

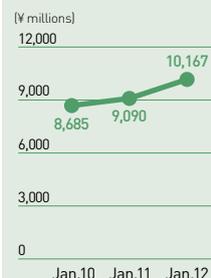
We also provide high-value added services and are strengthening direct communication with customers. This includes hosting maternity events all over Japan, as well as operating Pigeon.info, an Internet portal for word-of-mouth information about pregnancy and child care.

Through its provision of baby and mother care offerings, Pigeon has built a reputation for safe and reliable products. Deploying this brand strength, we are building a child-rearing support services business under the principle that "raising children comes first." By achieving a top-class domestic business scale and offering high-quality services, we are earning the trust of customers.

Pigeon plans to nurture its Health & Elder Care Business into a major pillar supporting its future vision. To this end, we are focusing on strengthening our business foundation and building a growth-oriented infrastructure. Here, our business revolves around two brands: the Recoup brand of products that support the active elderly and the Habinurse brand of nursing care products. Through these brands, we will work actively to address the growing market underpinned by Japan's aging society.

items, including skincare products, toiletries, and baby bottle nipples, since 2008. In 2011, we commenced full-scale operations at a new factory in Changzhou City, Jiangsu Province, making mainly breast pads and baby wipes. We are strengthening relationships with sales agencies in China. In the United States and Europe, meanwhile, we are broadening our core product category, centering on the mOmma brand of child care products, etc. in addition to the Lansinoh brand and started to tap new markets.

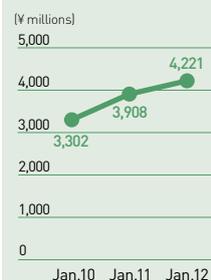
#### Overseas Sales



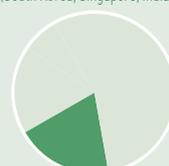
#### China (including Hong Kong)



47.3%  
¥10,167 million



#### Other Asia (South Korea, Singapore, India, etc.)



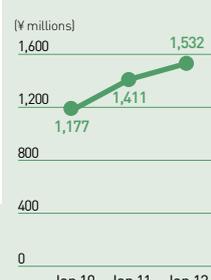
19.6%  
¥4,221 million



#### North America (United States, Canada, etc.)



17.8%  
¥3,842 million



#### Middle East (UAE, etc.)



7.1%  
¥1,532 million



#### Others (South Africa, United Kingdom, Panama, Germany, etc.)



8.2%  
¥1,776 million

\* Values in the yen equivalent:

\* Average rate:  
term ended 10/1 1\$=93.64 yen, 1 yuan=13.70 yen  
term ended 11/1 1\$=87.79 yen, 1 yuan=12.96 yen  
term ended 12/1 1\$=79.79 yen, 1 yuan=12.34 yen

# Interview

## with **the President**

### Our philosophy is based on “love.”

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



**Q:** What is your view of the Pigeon Group’s performance in the fiscal year ended January 31, 2012?

**A:** With the Great East Japan Earthquake in March, the floods in Thailand in October, and other external factors, the conditions of the Japanese economy this year posed significant challenges for the Pigeon Group.

Although we posted an extraordinary loss associated with the Great East Japan Earthquake, the impact of external environment was insignificant with revenue and earnings being largely in line with our earlier projections. As a result, consolidated net sales amounted to ¥59,145 million, up 3.7% from the previous year. Operating income increased 10.9% year-on-year, to ¥5,042 million, and ordinary income also rose 10.9%, to ¥4,917 million. Net income grew 8.7%, to ¥3,183 million.

The year under review was also the inaugural year of our Fourth Medium-Term Management, called “Independence As a Global Company.” The plan focuses on improving the profitability of existing businesses, building new growth platforms, and actively expanding businesses in overseas markets to ensure the growth of the Group’s operations. In the year under review, we began to see the fruits of earlier efforts made to establish a strong business foundation in China, a key market under the Plan. This represents an extremely important step with respect to both targeting further growth in China and efforts by the entire Group to establish itself as an independent global entity.

**Akio Okoshi**  
President and Chief Operating Officer

大越昭夫

**Q:** Can you explain the background to Pigeon's strong performance in China and its future strategy for this important market?

**A:** Pigeon began operating in China around 10 years ago. Since then, we have expanded our business activities in China through a process of repeated trial and error adapting to Chinese economic and social systems. The sales networks built up over this period, the promotional activities, etc. provided thorough brand control and enhanced organizational capabilities have been successful. Thanks to such efforts, Pigeon is now well known as a trusted brand among our Chinese customers.

In the year under review, Pigeon products generated rapid sales growth accompanying a surge in demand for glass baby bottles. Revenue in China also benefited from the rebuilding of our distribution system, together with steady sales of new products and other offerings.

On the production side, our new plant in Changzhou, Jiangsu Province, the Group's second plant in China, came on stream during the year. Helped by strong sales in China, the plant will turn a profit in its first year in operation. With sales growing at a pace exceeding initial estimates, in July 2012 we will begin construction of Phase II of the Changzhou Plant in order to increase production.

A major contributing factor behind our steady continued growth in China is the accumulation of know-how by the Company and its local distributors. Above all, however, we owe our success to the training of local employees, which has resulted in fostering and keeping a strong and highly competent workforce. Thanks to the Group's business in China, where the groundwork for future growth is already in place, sales in China have expanded to the point where today they account for roughly half of all overseas sales and 17% of the entire Group's net sales. We will build on this momentum to increase sales from around ¥10 billion in the year under review to ¥20 billion, and then further to ¥40 billion, thus transforming Pigeon into an independent and successful global company.

**Q:** What about other overseas businesses?

**A:** In North America and Europe, consolidated subsidiary Lansinoh Laboratories, Inc. sells products for breastfeeding mothers, including its mainstay range of breastfeeding-related products, centering breast creams, breast pads, and breast pumps. In the year

under review, Lansinoh entered in the preliminary stages of a full-scale deployment of the mOmma brand of child care products, which it acquired in 2010. The brand is regarded very highly by customers.

Targeting further business expansion, we welcomed HealthQuest Ltd. into the Pigeon Group in July 2011 (was merged later). HealthQuest is a distributor of the "earth friendly baby" brand and other natural organic skincare products, mainly in Europe.

In Asia, no direct personal or physical damages were incurred by the two production subsidiary companies of the Group in the region during the flood that followed the heavy rains hitting Thailand in October. Thai Pigeon Co., Ltd. dismembered and suspended operations for some time to ensure the safety of the local staff and adopt the necessary rain proofing measures, but returned to normal business operations in November. In India, our local sales subsidiary is working hard to establish a distribution structure and expand the number of retail stores stocking Pigeon products. It has also established dedicated Pigeon sections in retail stores. In Malaysia, we welcomed a local sales company into the Group in January 2011. That company has been working hard to expand its business activities under a new framework. In these and other emerging markets, we intend to use our Chinese business know-how, which combines our Japanese business model with local market characteristics, as a successful business example for overseas business development.

**Q:** How did the Domestic Baby & Mother Care Business segment perform in the year under review, and what are its strategies for the future?

**A:** Pigeon is well known throughout Japan as a leading brand of safe, reliable, and high-quality products. For half a century, they have been persistently developed and improved as a result of in-depth research into suckling movements and early childhood development. In the process, Pigeon has built up research and development capabilities that place unsurpassed emphasis on the growth and development of infants as its core competency.

In the year under review, we leveraged these strengths to launch new products in numerous markets. For example, we unveiled Skin Thermometer H20—Chibion Touch, which makes it possible to measure a baby's temperature in one second on the forehead without having to remove any of its clothing. We

# Interview

with **the President**

developed this product, which has been selling very well, because of the importance of measuring a baby's normal temperature as part of its health management. Other releases include Hajimete no Mask, a sanitary mask that can be used from age 18 months, and Onegai Origo, a water supplement that is Pigeon's first specified health food.

Another of our many new offerings that have drawn high praise in their respective markets is Salveje. This car seat can be used for newborns and older infants, and has been designed with comfort and safety in mind. Pigeon will continue developing and bringing to market excellent products such as these.

## Q: What can you tell us about the Child Care Service Business?

A: For the sustainable economic growth of Japan, with its progressively aging and low-birth-rate society, women who leave their jobs to marry, have children, and look after their families will be required to re-enter the workforce. We strongly believe that for businesses employing such women it will become more and more important to ensure their support. And we are constantly thinking of how the Group can be of help in this area.

As of January 31, 2012, the Group operated a total of 191 child-minding facilities, including six new facilities opened during the year under review. Going forward, we will continue the steady expansion of our child care business while making qualitative improvements to our services guided by the principle that "raising children comes first."

## Q: What has been happening in the Health & Elder Care Business?

A: It is estimated that in 2013 one in every four Japanese will be aged 65 years or older. As a consequence, many enterprises are venturing into the market for the first time, and competition is also intensifying. Pigeon's Health & Elder Care Business revolves around two brands: the Recoup brand of products for the active elderly, and the Habinurse brand of elder care products. Pigeon's success in this market is attributable to recognition of its product planning capabilities and advanced quality control systems, which draw on its track record in developing baby care products, as well as trust in the Pigeon brand.

During the year under review we focused our efforts on sales of new products and sales to facilities by Pigeon Tahira Co., Ltd. in the care products market. Pigeon Manaka Co., Ltd. established a daytime-care center in accordance with the move of its headquarters.

## Q: What strengths do you think are responsible for Pigeon's sustained healthy business results?

A: With a corporate philosophy based on "love," sincerity is the DNA that makes Pigeon function. We are truly proud of our research into the suckling movements of babies, dating back to Pigeon's founding. The Group's R&D, which always considers the best interests of babies, constitutes the core competency found within all its products.

On the personnel side, we have adopted an achievement-oriented system that encourages individual independence. This too has contributed to the fostering and retention of highly competent human resources who underpin our steady business growth. And I am not only talking about Japan. In China also we have been able to create a structure fostering excellent human resources that is showing results already. The organizational strength of the local staff is obtained. This is an extremely valuable strength when it comes to Pigeon's future growth.

## Q: Please outline the priorities for the current year ending January 2013 in the context of objectives of the Fourth Medium-Term Management Plan.

A: In the year ending January 2014, the final year of the plan, we are targeting net sales of ¥73.3 billion, which will require significant growth of the Group itself, backed by accelerated global expansion. In the meantime, we are targeting net sales of ¥64.3 billion in the current fiscal year, up 9.0% from the year under review.

Overseas business will be the main growth driver. In China, we will strive for further growth by reinforcing our brand and pursuing initiatives in promising business fields. We will also strengthen sales of new products and items made at our new plant in Changzhou. In Europe, we will steadily expand the mOmma brand and other new offerings. We will also work hard to increase market share in such countries as India, Malaysia, and South Korea. Because child development from birth through to around two years is the same the world over, we are confident that by

earnestly developing the existing Pigeon's marketing and branding strategy we can take our successful business model to overseas markets.

**Q:** Lastly, what is your message for stakeholders and other investors?

**A:** We feel that the year under review, the first year of the Fourth Medium-Term Management Plan, has already yielded healthy outcomes, especially for our business in China. In April 2012, we revised Pigeon's management system and introduced a system of executive managing officers. The purpose of these changes is to promote cooperation between management's decision-making and supervisory function and the actual execution of duties, as well as clarify the responsibilities of directors regarding execution of their duties.

The current year, ending January 31, 2013, will be my sixth year as president of Pigeon Corporation. I will do whatever I can to enable Pigeon to become an independent and successful global company. I look forward to your ongoing support and cooperation.



## Quantitative Targets

|                      | Jan.<br>2012 | Jan.<br>2013E | Jan.<br>2014E | Growth Rate (%)<br>(2014/2012) |
|----------------------|--------------|---------------|---------------|--------------------------------|
|                      | (¥ billions) |               |               |                                |
| Net Sales            | 59.1         | 64.3          | 73.3          | 128.5                          |
| Gross Profit         | 24.3         | 26.8          | 30.4          | 130.8                          |
| Operating Income     | 5.0          | 5.6           | 7.3           | 161.6                          |
| Ordinary Income      | 4.9          | 5.5           | 7.3           | 164.6                          |
| Net Income           | 3.1          | 3.3           | 4.4           | 150.3                          |
| EPS (yen)            | 159          | 164           | 219           |                                |
| Gross Margin (%)     | 41.1         | 40.8          | 41.5          |                                |
| Operating Margin (%) | 8.5          | 8.5           | 10.0          |                                |
| Ordinary Margin (%)  | 8.3          | 8.4           | 10.0          |                                |
| Net Margin (%)       | 5.4          | 5.0           | 6.0           |                                |
| ROA (%)              | 11.4         | 12.1          | More than 14% |                                |
| ROE (%)              | 11.8         | 11.7          | More than 14% |                                |

Notes: \* The number of shares for EPS is before adjustment for residual securities.

\* ROA is the ratio of ordinary income to total assets. ROE is the ratio of net income to shareholders' equity. The denominator for both is the average of the figures at the beginning and end of the fiscal year. (Both are estimates.)

E: Estimate

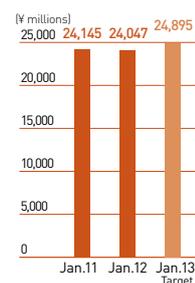
\* Jan. 2013E is published in March 2012.

\* Jan. 2014E is published in March 2011.

\* Growth rate is the value of Jan. 2014E

# Domestic Baby & Mother Care Business

## Sales of Domestic Baby & Mother Care Business



### Business Environment

In this segment, the Pigeon Group continued facing challenging market conditions, with no recovery in the number of births. The total number of births in Japan reached a record low of 1.057 million (estimated) in 2011, down from 1.071 million in 2010.

Moreover, our business remains impacted by buying restraint among our target customers due to natural disasters and future uncertainty, as well as a growing trend towards low prices. Other major changes affecting our business environment include an oligopoly of retailers and restructuring of wholesale distribution.

### Our Competitive Edge

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

### Business Strategy

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



Diverse assortment of baby & mother care-related products

### Existing Market Initiatives

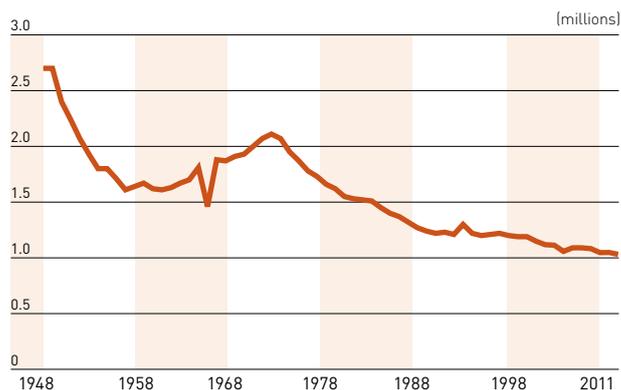
In breastfeeding and baby bottle products—a segment in which Pigeon enjoys a large market share — the company has been conducting further and more advanced research into infant development. We are working to further raise the appeal of our products and meet growing diversity among customer needs, such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

### New Market Initiatives

Amid changes in consumer purchasing behavior, the Pigeon Group is creating business models that are appropriate for such patterns. Our Pigeon Mall online shopping site is performing well. In large-sized products, a new category, in June 2011 we launched the Salveje child seat, which offers optimal safety and comfort and can even be used for newborn infants.

We will continue strengthening ties with Pigeon.info, the Group's core information website. At the same time, we are progressing as planned in forming ties with Rakuten, Yahoo! Japan, and Amazon Japan and taking advantage of opportunities in the mobile communication market. We are reaping the benefits of using direct communication activities to attract expectant mothers. We have increased the range of

### Number of Childbirths in Japan



Source: Ministry of Health, Labor and Welfare

support we provide for this group through the introduction of two new initiatives. One is the holding of “pre-maternity events” targeting women who plan to start a family in the near future. We have also begun holding “Mama classes” for women who have recently given birth. The membership of Pigeon.info, our website for word-of-mouth information designed to help women with pregnancy, childbirth, and child-rearing, continues to grow. With steadily increasing members, Pigeon.info has become one of the most popular sites of its type in Japan. Through such measures, we continue to ensure a high level of brand loyalty even though Pigeon’s customer base changes from year to year.

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

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

## Performance and Highlights

In the year under review, sales in the Domestic Baby and & Mother Care segment totaled ¥24,047 million, down 0.4% year-on-year. Segment operating income rose 1.8%, to ¥3,677 million.

We launched a host of exciting new products during the year. In February 2011, for example, we released the Mogutto Yasai series of single-meal retort-pouched baby foods enriched with vegetables; Body Massage Cream and Body Hikishime Gel, containing hyaluronic acid for skin care during pregnancy and after birth; Range de Mushi-Pan baby snacks prepared by simply mixing in milk or water; MagMag Baby and MagMag Spout training cups with improved sipper lids; and Sodachi Ouen Sandal Yochiyochi-Anyo/Tokotoko-Anyo, a selection of

baby sandals that cover all baby growth phases. In March 2011, we unveiled Mushi Kururin Oheya-ni-oku insect repellent made from natural ingredients, followed in June by the Salveje child seat, at which offers optimal safety and comfort and can be used even for newborn infants. In August, we launched Baby Laundry, a new series of laundry soaps that are gentle on the skin of mothers and babies; Skin Thermometer H20—Chibion Touch, which measures a baby’s temperature by placing it on the baby’s forehead; Baby Oil Jelly, a gel-type skin care product; Hajimete no Mask, a sanitary mask that can be used by infants from 18 months; Dental Paste (Medicated), a low-stimuli toothpaste that is easy to use during pregnancy; and Onegai Origo, a water supplement that is Pigeon’s first specified health food. In October 2011, we unveiled Baby Rhythm Breast Pump—Premium Electric Model, a high-performance breast pump that replicates lactation rhythms.

## Outlook

Most of all, the main reasons for the slow growth rate in segment sales in Japan were some external influences and low sales prices resulting from cutthroat competition. The birthrate in Japan is expected to remain mostly unchanged. To boost growth amid such conditions, Pigeon will deploy its strength in basic research to develop highly distinctive products and reinforce its existing product categories. We will also expand our presence in the market for large products, a new category in which we achieved good results to date, and other markets.

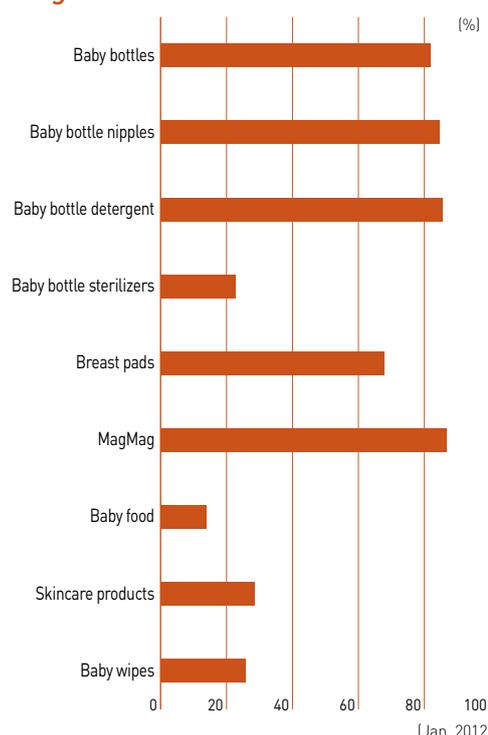
In addition, we will work to further strengthen store-based initiatives and enhance profitability by engaging closely with distributors and retailers. We will also make an active effort to put on the market several large-sized products and age-up products for children aged 2 and above. As a result of these efforts, we forecast that sales in the Domestic Baby & Mother Care Business segment will grow to ¥24.8 billion in the year ending January 2013.

## Average Monthly Expenditures per Infant

| Segment                                                        | 2007          | 2008          | 2009          | 2010          | 2011          |
|----------------------------------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Powdered milk                                                  | 1,457         | 1,460         | 1,233         | 1,188         | <b>1,203</b>  |
| Baby foods                                                     | 758           | 764           | 725           | 673           | <b>755</b>    |
| Cow’s milk                                                     | 328           | 418           | 281           | 245           | <b>259</b>    |
| Snacks                                                         | 553           | 545           | 560           | 536           | <b>494</b>    |
| Other (foods)                                                  | 1,950         | 1,702         | 1,346         | 1,296         | <b>1,380</b>  |
| Subtotal (foods)                                               | 5,047         | 4,889         | 4,145         | 3,940         | <b>4,094</b>  |
| Clothes (under, outer), shoes, etc.                            | 3,271         | 3,371         | 3,541         | 2,601         | <b>2,558</b>  |
| Cloth diapers, diaper covers/liners, etc.                      | 139           | 273           | 216           | 171           | <b>149</b>    |
| Disposable diapers                                             | 3,166         | 3,615         | 3,437         | 3,279         | <b>3,117</b>  |
| Cloth diaper rental                                            | 0             | 0             | 0             | 0             | <b>0</b>      |
| Subtotal (clothes, diapers)                                    | 6,576         | 7,259         | 7,193         | 6,051         | <b>5,824</b>  |
| Medical treatment, pharmaceuticals                             | 428           | 930           | 905           | 1,157         | <b>755</b>    |
| Toys                                                           | 1,265         | 1,390         | 1,190         | 1,145         | <b>1,313</b>  |
| Picture books                                                  | 389           | 351           | 425           | 384           | <b>469</b>    |
| Subtotal (toys, picture books)                                 | 1,654         | 1,741         | 1,615         | 1,530         | <b>1,783</b>  |
| Breastfeeding, baby food crockery                              | 396           | 358           | 342           | 315           | <b>324</b>    |
| Bathing/hygiene accessories                                    | 1,168         | 1,192         | 1,200         | 1,165         | <b>1,146</b>  |
| Subtotal (breastfeeding, baby food crockery, bathing, hygiene) | 1,564         | 1,550         | 1,542         | 1,480         | <b>1,470</b>  |
| Outdoor, furniture, beds, etc.                                 | 2,823         | 2,426         | 2,644         | 2,038         | <b>2,362</b>  |
| <b>Total</b>                                                   | <b>18,092</b> | <b>18,795</b> | <b>18,044</b> | <b>16,198</b> | <b>16,291</b> |

Source: Figures compiled by Pigeon.

## Domestic Market Share of Pigeon’s Main Products



From INTAGE Inc.’s POS national drug expansion/promotion value (amount of money per month)

# CLOSEUP

## Strengthening Direct Communication

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

### Events for Expectant Mothers



In the year under review, we held 28 events for expectant mothers, attracting around 1,900 people in total. This was despite a temporary suspension of such events following the Great East Japan Earthquake.

An addition, we held “pre-maternity events” on two occasions, targeting those preparing to become pregnant. On three occasions, we also hosted “Mama classes” for woman who have recently given birth.

### Pigeon.info



This is one of Japan’s most popular word-of-mouth community websites. It is designed to support the lives of women and their children through pregnancy, approaching childbirth, and when raising children.

<http://pigeon.info>

### Pigeon Mall



Our Pigeon Mall online shopping site forms a solid base for expanding sales of original Pigeon products, as well as new offerings.

<http://www.pigeonmall.jp>

## Healthy sales of Mamas & Papas products!

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



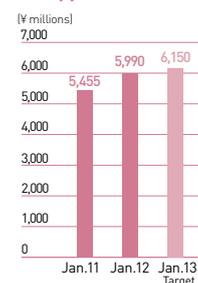
<http://www.mamasandpapas.jp>



Mamas & Papas mail order catalog

# Child Care Services Business

Sales of Child-rearing Support Services



## Business Environment

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

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

## Our Competitive Edge

Through its provision of baby and child-care offerings, Pigeon has built a reputation for safe and reliable products. Deploying this brand strength, we are building our Child Care Service Business under the principle that "raising children comes first." Today, the Pigeon Group provides a host of child-rearing



Child-minding center

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

## Business Strategy

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

## Performance and Highlights

In the year under review, sales in the Child Care Service Business segment amounted to ¥5,990 million, up 9.8% from the previous year. Segment operating income increased 29.3%, to ¥152 million.

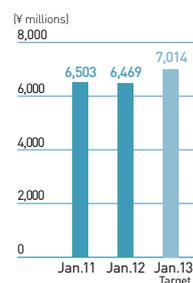
Operations at some facilities were suspended temporarily due to the Great East Japan Earthquake. From April 2011, however, we were newly entrusted to operate one licensed daycare center and five in-company child-minding facilities. As of January 31, 2012, therefore, the Group operated a total of 191 facilities, consisting of eight licensed/certified daycare centers, 166 child-care facilities in hospitals of the National Hospital Organization (independent administrative agency), 41 in-company child-minding facilities, and a number of early childhood education facilities.

## Outlook

The Pigeon Group will continue advancing its Child Care Service Business, placing top priority on raising the quality of its service content. As a result, we forecast that sales in this segment will grow to ¥6.1 billion in the year ending January 2013.

# Health & Elder Care Business

Sales of Health & Elder Care Business



## Business Environment

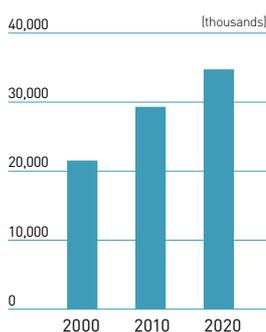
According to statistics released in March 2012, the population of Japanese aged 65 or older stood at 30,160,000. This represents a 410,000 increase from 29,750,000 in October 2011 (population estimates published by the Statistics Bureau of the Ministry of Internal Affairs and Communications). In Japan's progressively aging society, it is estimated that 25.2% of the total population, or one in every four Japanese, will be at least 65 years old by 2013. When baby boomers born between 1947 and 1949 begin to enter the 65-plus age bracket in two years' time, it is estimated that this group will grow by 2.3 million every year.

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

## Our Competitive Edge

Pigeon's healthcare and nursing care business revolves around two brands: the Habinurse brand of nursing care products and the Recoup brand of products that support the active elderly. Together, these two brands offer items in many product categories, including toileting, bathing, hygiene, meals, sleeping, and mobility. Pigeon's strengths in this segment lie in its ability to investigate unsatisfied customer demand, as well as its product planning capabilities and advanced quality control systems acquired in the course of developing baby care products. The Pigeon Group has two sales channels for health and elder care products: retail stores and institutions/hospitals.

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



Source: Figures compiled by Pigeon.

We also possess know-how and a proven track record in public information events and communication activities to support provision of health and elder care services.

## Business Strategy

In the healthcare and nursing care business, we plan to expand the business on the basis of two brands, the Habinurse brand of nursing care products, and the Recoup brand of products that support the active elderly.

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

We will slim down the product categories of Recoup that was launched in August 2007 and promote it through getting new sale channels, such as catalog and TV shopping.

## Performance and Highlights

In the year under review, sales in the Health & Elder Care Business segment amounted to ¥6,469 million, down 0.5% from the previous year. Segment operating income increased 213.8%, to ¥350 million, which is the result of the effective and efficient marketing measures adapted to peculiarities of the products and sale channels that were conducted in the segment resulting in a reduction of sales and administrative costs and, consequently, a major improvement of profitability.

During the term, we have restructured the organization of the segment by slimming down and concentrating the managerial resources around the Habinurse brand of nursing care products that are currently in great demand, striving to improve the competitive power of our products focusing on the core categories. As for the Habinurse brand, in February 2011 we unveiled Haguki ni Yasashii Brush and Fluoride Toothpaste Gel, a series of oral care products designed with the elderly in mind, and Yawarakai Kaijo Spoon, developed to help both care providers and care receivers at meal times. In the development of business for nursing homes, we put emphasis on our consolidated subsidiary Pigeon Tahira Co., Ltd. engaged in sales of products for elderly care and achieved particularly satisfactory sales in the walking aid category with wheelchairs. With the Recoup lineup brand, we worked on the development of new sales channels.

During this term, we developed the brand by expanding in new sales channels such as catalog and TV shopping, and launched Cloth Incontinence Pads (under the Recoup brand) that can be attached to regular underwear in February 2011.

## Outlook

The Group will continue expanding the scale of its Health & Elder Care Business segment, recognizing the important role of this business in boosting revenue and earnings.

We will rebuild our Group business operational system and strengthen the sales activities centering on our connections with care facilities. In addition, we will seek to launch products derived from in-depth research into carefully targeted core categories, improving the competitive power of our products and implementing active sales activities. At the same time, we will strive to expand our business by establishing new channels, such as online sales and TV shopping.

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

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

The Group plans to increase sales in this segment to ¥7.0 billion in the year ending January 2013.

# CLOSEUP

## Pigeon Tahira Co., Ltd.

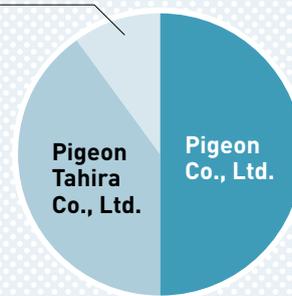
Pigeon Tahira Co., Ltd. makes and sells elder care products mainly to nursing-care facilities. Pigeon Tahira is currently focusing on the sales of products under the Habinurse brand of nursing care products, incorporating the perspectives of users in its products from basic materials to design and finishing. The company continues to sell new and exciting offerings based on an extensive knowledge of the situations and habits of its users, while attaching great importance to their feelings. For example, its clothes feature fashionable colors and styles that are indistinguishable from regular clothes. Pigeon Tahira also has its own range of sizes developed specifically to match the body shapes of the elderly, and adopts designs that do not place any pressure on the body.

## Pigeon Manaka Co., Ltd.

Pigeon Manaka Co., Ltd. offers inhome elder care support services and sells elder care products. Pigeon Manaka provides elder care services centered in Tochigi Prefecture, where its head office is located, as well as in Gunma and Ibaraki prefectures. (In November 2011, it moved its head office from Showa-cho to Hakomori-machi in Tochigi City). The company has a diverse range of services, including inhome care, in-home bathing, outpatient transportation, special equipment, home renovation, and guidance on elder care. In August 2011, it opened a new in-home care service center and inhome bathing service center in Tochigi Prefecture. Both locations are in. In December 2011, it opened a day service center called SanSan. Going forward, Pigeon Manaka will continue developing its business with the aim of providing consistently high-quality services to all people who require assistance.

Share of Sales (image)

Pigeon Manaka Co., Ltd.



Habinurse

## Making the latter stages of life cheerful and bright

Habinurse is all about tenderness, a brand that strives to ease the burden of the caregivers, at the same time offering better care to those on the receiving end of care.

In nursing care, the issue of utmost importance is to value the dignity of the elderly, but also to lessen the burden of those providing the care. Nursing care goods of Habinurse will make every day and every minute more comfortable, bringing tenderness to the hearts of caregivers and care-receivers alike.



Recoup

## Supporting vitality at any age

Recoup is a brand that aids people seeking to remain active in their old age.

Those of you who spend the old age energetically, trying to be healthy and live by your own values, enjoying every day of your lives... Some of you are still working, while some find a new purpose in life in contributing to the society through other activities, some participate in regional endeavors, some travel and see the world or their own country, while some find new and exciting hobbies. There is so much to do, so much to see! While being the time to treasure the past and the self you have fostered so far, senior age is also the time to embrace the new, find new things and activities that really appeal to you and have an exciting and colorful life! But make sure you don't forget to take good care of your heart and body.

# Overseas Business

● Group Companies  
● Branches

## Business Overview

Against a background of a sagging world economy, in the year under review the Pigeon Group continued devoting considerable managerial resources to its overseas business, which is positioned as a driver of Group growth. Accordingly, we reported healthy overseas sales, especially in China. In the year ended January 2012, the Overseas Business segment posted sales of ¥21,584 million, up 8.4% from the previous year. Segment income rose 4.4%, to ¥3,909 million. Accordingly, the Overseas Business segment accounted for 36.5% of consolidated net sales, a share that had continued to expand.

Sales in China remained at a high level, growing 11.8% year-on-year (17.5% on a local-currency basis). Moreover, the ratio of Chinese sales to segment sales increased to 47.3%, making China a propelling force for overall segment growth. We are working to build a framework enabling swift and appropriate execution of business strategies. In March 2011, we separated our China-related operations from the Overseas Business Division and established the China Business Division.

## Business Strategies

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

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

Another strength is teamwork with high-quality business partners. Since we began exporting to China in the 1990s, we have been fortunate to have reliable sales partners (primary distributors). To advance our overseas business, not only in China, it is extremely important that we build good relationships with local partners—including distributors and retailers—with excellent local knowledge. We are mindful that reviews and updates of our promotions and their results are in the best interests of our customers. Accordingly, we closely monitor market conditions, and timely take action where necessary.

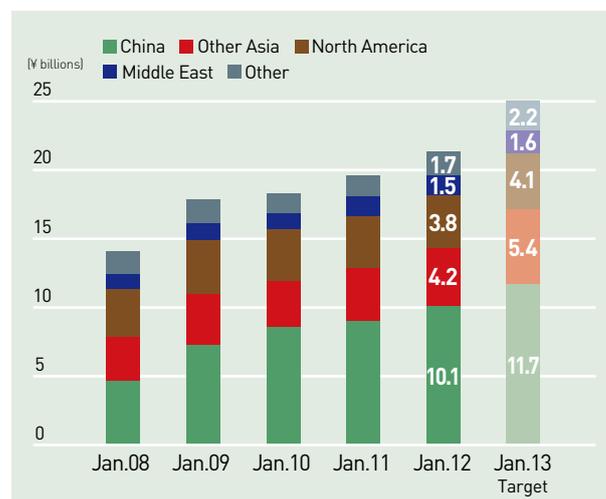
## Outlook

Under its Fourth Medium-Term Management Plan, the Group will invest aggressively to upgrade its overseas production system and strengthen its overseas business operational system. At the same time, we will more deeply cultivate and expand our presence in existing markets, such as China and North America, while enhancing our product categories. Meanwhile, we will actively tap other overseas markets, such as India, the Middle East, South Korea, and Latin America.

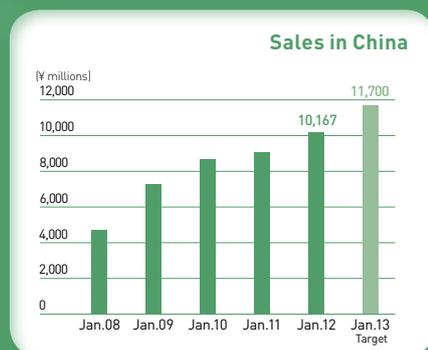
In the Chinese market, we will target renewed growth by strengthening brand appeal and embracing a growth-oriented business model. We will also emphasize new products and step up sales of products made at the new plant to Changzhou. In Europe and North America, we will aim for steady growth of mOmma and other brands slated for new business development. Through these initiatives, we forecast sales in the Overseas Business segment of ¥25.2 billion in the year ending January 2013.

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

## Overseas Business Sales by Region



# China



## Business Overview

With a population of around 1.3 billion, China's annual childbirths have averaged about 15–20 million over the past several years, which is 14–18 times the number of births of Japan. Pigeon is targeting the wealthiest 15%–20% of the market, representing 2–4 million people. Given that we generate around ¥24 billion from our baby and child care products business in Japan, where only 1.057 million babies are born annually, we feel it is possible to achieve annual sales in China of around ¥40 billion.

When we first entered China around 10 years ago, we developed our business mainly in coastal areas around large cities, such as Shanghai and Beijing. More recently, however, we have broadened our coverage across all areas, including interior regions.

## Our Position

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

In China, where economic growth continues at lightning speed, we have steadily expanded our business through various measures. These include good timing of market entry, extensive face-to-face sales activities based on stable pricing that reflects sharp economic growth and the high quality of our products, as well as increasing the number of stores and dedicated in-store Pigeon sections handling our offerings.

## Business Strategies

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

In Chinese hospitals, for example, we have held various events, such as product exhibitions, product explanation forums, and child-care information sessions. In 2009, we opened Pigeon Breastfeeding Advice Offices in 34 hospitals as a joint project with China's Ministry of



Uighur mothers receiving counseling in the Breastfeeding Advice Offices

Health. In these ways, we have stepped up our focus on brand appeal reinforcement. As of January 31, 2012, we have formed partnerships with 200 hospitals throughout the country in order to offer educational activities related to breastfeeding, including our Pigeon Breastfeeding Advice Offices.

Pigeon Manufacturing (Shanghai) Co., Ltd., established in Shanghai's Qingpu Industrial Zone in January 2008, has been manufacturing and assembling various products. These include silicon baby bottle nipples, detergents, and toiletries, as well as baby bottles. (A second facility was completed in 2009.) In January 2011, Pigeon Industries (Changzhou) Co., Ltd. started operations at its plant in Changzhou, Jiangsu Province, producing breast pads and baby wipes, etc. The new plant will be completed in the second work period, by July, 2013, and the production facilities will expand and start operating sequentially shortly afterwards.

Pigeon's sales growth in China has been steady. With its products available at around 14,000 retail outlets, Pigeon is becoming widely recognized among customers as a highly reliable brand. We recorded Chinese sales of around ¥10 billion for the year ended January 2012. Given healthy sales growth, however, we are now able to envisage sales of ¥20 billion in the future, rising further to over ¥40 billion.

We expect the large birthrate to continue for some time, and with disposable incomes rising among Chinese people in general, consumers are growing more and more conscious of product safety. We regard this as a positive factor that will underpin growth of our Chinese business. In addition to existing products, notably baby bottles and nipples and toiletries, we anticipate sharp growth in the market for consumables, such as breast pads and baby wipes, on a par with industrialized nations.

## Sales Development

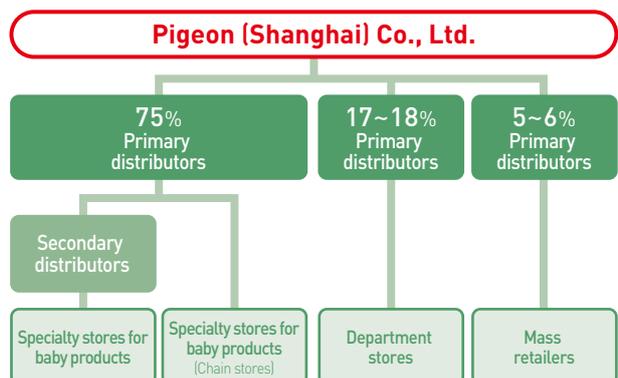
We are expanding ties with local distributors in order to develop our sales network across the entire nation. Through agreements with three primary distributors by sales channel and establishments of secondary distributors for baby specialty stores, we are steadily increasing the number of stores handling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

In the future also, seeking to further boost sales in China, we will continue rebuilding our distribution network by selecting and mobilizing both primary and secondary distributors.

## Expanding Our Sales Network

Through our focus on establishing dedicated Pigeon sections within baby specialty stores, we are making steady sales progress in China's interior regions. In the year under review, we increased the number of such dedicated sections for a total of around 2,139 at fiscal year-end. In addition to Shanghai, where we have a business base, we opened a branch in Beijing in 2008, and in Guangzhou in 2009. We will continue expanding our presence across the nation.

## Sales Organization



\*Figures marked with "%" show the composition ratio out of total sales.

## Business Performance

In the year under review, sales in China totaled ¥10.1 billion, a significant 11.8% increase from ¥9.0 billion in the previous fiscal year.

Assuming that the Chinese economy continues to grow at a high rate and that we are able to increase the rate of in-house

## Sales Channel Expansion in China



manufacturing at Pigeon's new factories, we are confident of even further business growth in China.

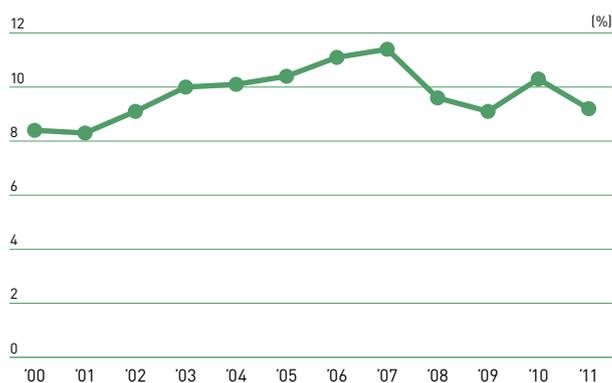
Pigeon Manufacturing (Shanghai) Co., Ltd. has been manufacturing and assembling products in China since 2008. In 2011, we commenced full-scale operations at Pigeon Industries (Changzhou) Co., Ltd., located in Changzhou, Jiangsu Province. That company, which makes breast pads and baby wipes, has performed very well, turning a profit in its first year of operation. It plans to start construction of a second facility in 2013 with a view to increasing production.

## Outlook

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

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

## GDP in China



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



Pigeon counters in China



PIGEON INDUSTRIES (CHANGZHOU) CO., LTD.  
Factory in Changzhou, Jiangsu Province, China

# China: A Message to Investors from Norimasa Kitazawa, President & CEO



President and CEO  
Pigeon (Shanghai) Co., Ltd

## Norimasa Kitazawa

**Q:** China has become the Pigeon Group's second largest market, accounting for 17% of total net sales. In your view, what are the strengths that underpin this growth?

**A:** There is, of course, the expansion of the market itself in China, owing to a high number of births and increasing disposable incomes. But there is also strong trust in the Pigeon brand, which is known for its reliable quality within the industry. Another major factor is widespread recognition of the brand. More than 14,000 retail stores in China carry the Pigeon range and more than 200 hospitals promote our products.

**Q:** No doubt you faced challenges in the process of building your strengths in China?

**A:** It is only now that we have a robust organization that can utilize the advantages of clearly defined work roles. When we first established a presence in China, a limited number of people had to undertake a wide variety of jobs. It was a repeated process of trial and error both for us and our distributors. Since then, we have adopted a personnel policy where competent employees are properly motivated by various measures including appointments to executive positions promoting two local employees to managing positions in 2011 alone. Despite going through tough times, sharing the experience of developing a new business had the effect of uniting the workforce and encouraged outstanding employees to stay for the long haul. Today, over 80% of those in management positions have worked for Pigeon for more than seven years. This is an important element for instilling Pigeon's DNA, and has contributed to the strong organizational structure we have today.

**Q:** What principles do you follow when doing business in China?

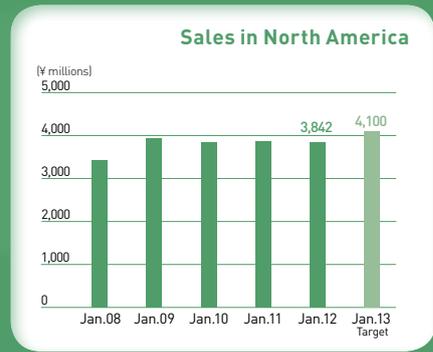
**A:** I suppose one would be to question what constitutes "common sense." Also, I apply the things I have learnt from my favorite books to running a business as well. I like reading biology-related books. The book I read the other day explained that cells in living creatures keep alternating between production and destruction. Cells have the mechanism of renewing themselves to maximize deleterious effects of disease and environment. This is what companies also need to do. Although it is not necessary to change the outline of Pigeon, inside the company we must always try new challenges such as developing new products and launching new projects. We at Pigeon will continue to be vigorous and proactive in our work.

**Q:** Lastly, please tell us about the outlook and future strategies for Pigeon's business in China.

**A:** Working together with local Chinese staff and distributors, we are focusing on brand control, product development, and strengthening communication with customers. The ultimate aim is to make Pigeon baby and child care products the preferred choice of Chinese households with babies and infants. In order to boost production at the Changzhou plant, which recorded a profit in its first year in operation, in July 2012 we will begin Phase II of the plant's construction project.

We want to double and then quadruple Pigeon's sales in China now that the business is generally on a firm footing, and turn it into the growth driver of the entire Pigeon Group.

# North America/ Europe



## Business Overview

With an average birthrate of 2.1 children per family, the United States is an advanced country with a relatively stable birthrate. Pigeon's sales are also rising steadily in the United States, with a population that is growing by around 4 million per year. Doctors in that nation generally recommend breastfeeding, so demand for breastfeeding-related products is rising.

In April 2004, Pigeon acquired Lansinoh Laboratories, Inc., based in Virginia, and transformed it into a subsidiary. Since then, Lansinoh has been building sales platforms in the United States and Europe based on medium- and long-term perspectives, and its products have garnered strong support.

In December 2010, Lansinoh took over business related to the mOmma brand of child care products, sold mainly in Europe, from Baby Solutions SA and Baby Solutions Italia Srl. Targeting further business expansion, in July 2011 we welcomed U.K. company HealthQuest (was merged later)—which sells the "earth friendly baby" brand and other organic/natural skincare products, mainly in Europe—into the Pigeon Group.



"earth friendly baby" brand products

## Pigeon's Position

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

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

In the year under review, we began preparing to sell the mOmma brand of baby-related products on a full scale in America. This brand has been well received by customers, with baby bottles proving especially popular.



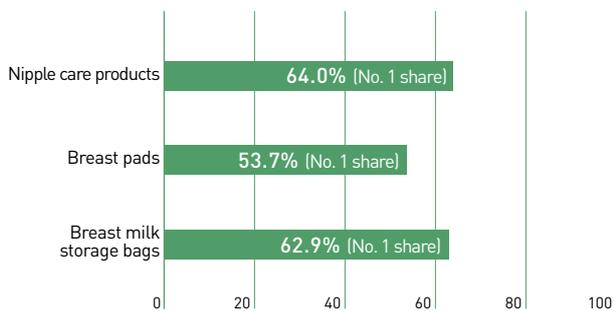
"Lansinoh" brand products



"mOmma" brand products

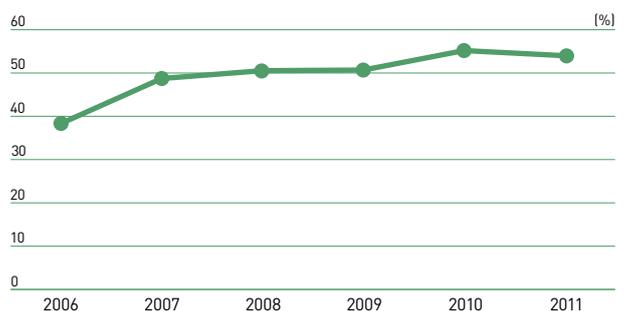
## Lansinoh Laboratories, Inc.: U.S. Market Share

(yearly average)



Source: Figures compiled by Pigeon (as of January 2011).

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



Source: Figures compiled by Pigeon.

## Performance and Outlook

Despite posting a significant 10.9% increase in sales in North America in local-currency terms, sales in yen terms remained for the most part on the same level at ¥384.2 million, due to the sharp appreciation of the yen. In Europe, we expanded our lineup of offerings for the breastfeeding-related market while increasing the number of retailers and stores handling our products. The Turkey subsidiary of Lansinoh Laboratories

(Lansinoh Laboratories Medical Devices Design Industry and Commerce Ltd. Co.) is concentrating on development and manufacture of breast pumps.

Going forward, the Pigeon Group will realize synergies between Lansinoh and recently acquired brands, such as mOmma and earth friendly baby, while expanding our product categories. We will also work together with Lansinoh to tap new markets in Latin America.

# Other Countries

## Business Strategies

In addition to China and North America, the Pigeon Group is actively entering new markets in order to expand its business. In Asia, we are upgrading our production base in Thailand, and our new subsidiary in India has commenced full-scale operations. For example, it is building a distribution network, increasing the number of outlets handling our products, and establishing dedicated Pigeon sections in retail stores. We anticipate significant growth in Malaysia, where we transformed a local sales company into a subsidiary in January 2011.

## Other Asia markets

The Pigeon Group is promoting the Double Heart brand in South Korea. Going forward, we will work to improve brand recognition and expand product categories through cooperation with distributors. In Malaysia, Pigeon Singapore Pte. Ltd. transformed a local sales company into a subsidiary in January 2011. The aim of this strategy is to expand our business in Malaysia by drawing on the strong brand power and marketing know-how developed in Singapore.

In 2011, the population of India reached 1,241,500,000 people, and has been growing at the rate of more than 10 million per year. More than half the population is under 25.

Although there are major discrepancies between rich and poor, considerable growth in the wealthy population is boosting the number of childbirths.

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

For some time, we have been promoting our business in India, centering on such major cities as New Delhi and Mumbai. In November 2009, consolidated subsidiary Pigeon Singapore Pte. Ltd. transformed its representative office in Mumbai, India, into a local subsidiary. The new company, Pigeon India Pvt. Ltd., has since commenced full-scale sales and marketing activities. It is also pursuing proactive initiatives in other areas. In April 2010, for example, it started local production of skincare items under contract, and has also established dedicated Pigeon sections in retail stores in that nation.

## Other Markets

In the Middle East, we will reinforce strategies related to our flagship product of baby bottles, while expanding other categories, such as skincare products.

In Russia, we established a new distributor in 2010, and are promoting our business.

## Strategic Areas in India



Pigeon counters in India

# International R&D System

## Overseas Business and R&D

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

The processes of physical development for newborn infants through to 24-month-old children are the same worldwide, regardless of ethnicity, culture, or environment. We can pursue research anywhere in the world. Pigeon has built an R&D organization permitting both vertically and horizontally integrated research according to each theme. The major themes of developing hand/foot motor function and developing mouth and other biological functions are divided into sub-themes. Since it is necessary to gain a firm grasp of key research functions, these themes are overseen by the Central Research Center in Japan.

## Localized R&D and Quality Control

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

Developing products that reflect local needs requires our local development department to oversee the monitoring of sold products specialized in each region. For example, our local development department in Pigeon (Shanghai) Co., Ltd. is responsible for the planning and development of items sold in China. The Central Research Center in Japan controls key products, such as baby bottles and baby bottle nipples,

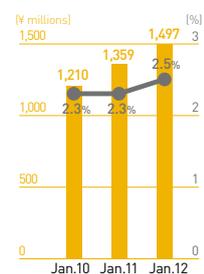
whereas our local department takes care of production and other aspects of technical development.

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

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

# Research & Development

R&D expenditure/  
R&D expenditure ratio to sales



## Our R&D Mission

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

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

## Basic Research and Achievements

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

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

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

We have been expanding our body of knowledge on the suckling movements established by Pigeon some time ago, which consists of the three principles of “adsorption,” “suckling,” and “swallowing.” One finding from this research has been applied to a new baby bottle nipple called Bonyu Jikkan. Launched in spring 2010, this new product allows babies to suckle in a more natural way. Bonyu Jikkan was released on the Chinese and also Singapore markets in 2011. Our hot-selling products such as skin thermometers and masks are also important achievements for Pigeon.

## R&D and Marketing Strategies

At Pigeon, we conduct R&D in order to develop products for babies, expectant mothers, and the elderly according to market needs. Our fundamental approach to product development focuses on the following three phases:

- (1) *creating new demand*
- (2) *implementing strategies for converting demand into products*
- (3) *creating products based on such strategies*

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

Under our R&D system, the four basic marketing strategies (product, price, place, and promotion) are established from the product planning stage. Consequently, a sales strategy is already in place when work on a new product has been completed. The system enables examination of any strategy-

related issues at the point when it has become clear whether sales are successful or not following the product's release. This framework forms the basis of Pigeon's product strategy, which centers on hypothesis testing.

## R&D Structure

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

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

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

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

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



Central Research Center (Tsukubamirai-shi, Ibaraki)



Skin Thermometer H20-CHIBION Touch



HAJIMETE no Mask

# Pigeon Group's ESG

## (Environmental, Social, Governance) Activities

### Environmental Initiatives

#### 26th Newborn Baby Commemorative Tree-Planting Campaign

In 1986, Pigeon launched the Newborn Baby Commemorative Tree-Planting Campaign and since 1987 it has held tree-planting drives on an annual basis, which this year saw its 26th anniversary. Under the slogan "Raising Children, Raising Trees: The Spirit Is the Same," the campaign seeks to share the emotion and joy of childbirth with as many people as possible. It also serves to create forests and environments that will remain into the children's future and this continued campaign will surely make people more conscious about the issues of environmental conservation.

Since then, the campaign resulted in around 5,000 broadleaf trees, including Japanese oaks, sawtooth oaks, and nettle trees, being planted each year at the Pigeon Miwa no Mori site in Hitachi-Omiya City in Ibaraki Prefecture. Each year, 1.5 hectares of the site is set aside for the campaign to commemorate the birth of children. Over the past 25 years, around 100,000 trees had been planted, and the first trees we planted now stand more 10 meters high. Moreover, some of the babies celebrated in the first tree-planting campaign are now mothers themselves who also participate, resulting in a three-generational involvement. Not only the newborns and their parents but also their sisters and brothers are recently coming to participate in the tree-planting events clearly showing the support of the community we have been able to amass by continuing the initiative for over a quarter of a century.



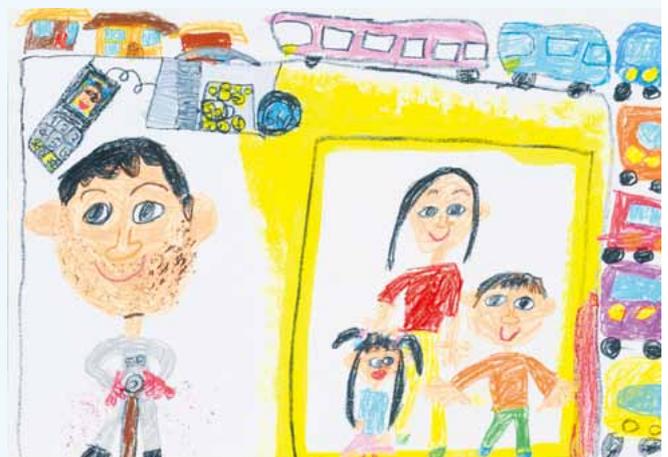
At tree-planting ceremony in the Baby's Birth Tree-Growing Campaign



### Social Initiatives

#### Children's Art Exhibition

Pigeon is a supporter of the Tomorrow's Science Children's Art Exhibition, which encourages children, our future world leaders, to freely express their visions of future science. The exhibition is hosted by the Japan Institute of Invention and Innovation (JIII). Our involvement stems from an endowment made to JIII by Pigeon founder Yuichi Nakata in order to help foster children's creativity. The endowment funds prize money presented every year by the Institute to kindergartens attended by children who win the JIII Chairman's Award or the Excellence Award in the Kindergarten Section.



Japan Institute of Invention and Innovation  
The 33rd Dreams of Future Science Art Exhibition  
Encouragement Award for Kindergarten Pupils  
Daddy, Ganbare Screen  
Ikukokai Kodomo-no-shiro Nursery School (Kaminoyama-shi, Yamagata)  
Mitsuki Kanamine



# Management's Discussion & Analysis

## Business Environment and Performance

### Business Conditions in Fiscal 2011

In the fiscal year under review, economic activity in Japan was significantly impacted by the Great East Japan Earthquake, which struck in March 2011. Subsequently, however, things have gradually improved, and even personal consumption is showing signs of recovery. Nevertheless, there are concerns about a deterioration in the business performances of Japanese corporations, as well as inherent risks that could suppress the domestic economy. These include economic retreat sparked by financial and currency-related instability in Europe, the yen's ongoing rapid appreciation, and large-scale damage to production facilities caused by major flooding in Thailand.

### Income Statement Analysis

Cost of sales increased 3.1% to ¥34,826 million. Buoyed by higher revenue, however, gross profit rose 4.5%, to ¥24,319 million—posting stronger growth than net sales.

Selling, general, and administrative (SG&A) expenses increased 2.9% to ¥19,276 million. This was due to costs associated with tapping new markets in our overseas business, cultivating new businesses in Japan, and effectively allocating expenditures in marketing and other activities. Within SG&A expenses, personnel expenses rose ¥453 million year-on-year, due to an increasing in employees engaged in cultivating new businesses. Despite making new capital investments aimed at expanding our overseas business, we sought to restrain costs by promoting in-house manufacturing, while maximizing the effectiveness of our marketing expenditures. As a result, operating income climbed 10.9%, to ¥5,04 million, and the operating margin rose 0.5 point to 8.5%. With non-operating income/expenses remaining practically unchanged year-on-year, ordinary income increased 10.9%, to ¥4,917 million.

For the year, the Group posted ¥213 million in extraordinary expenses, centering on costs for restoration of damaged facilities and disposal of damaged products related to the Great East Japan Earthquake. Nevertheless, net income increased 8.7%, to ¥3,183 million.

## Financial Position

### Assets

As of January 31, 2012, Pigeon had consolidated total assets of ¥43,772 million, up ¥1,087 million (or 2.5%) from a year earlier. Within this amount, current assets increased ¥1,280 million (5.3%), while fixed assets declined ¥192 million (1.0%).

The major factor boosting current assets was a ¥1,127 million (19.5%) rise in goods and products. The main reasons for the decrease in fixed assets were depreciation and amortization of goodwill.

### Liabilities

Total liabilities at fiscal year-end stood at ¥15,836 million, up ¥196 million (1.3%) from a year earlier. Within this total, current liabilities increased ¥155 million (1.3%), and long-term liabilities rose ¥40 million (1.2%).

The main factors boosting current liabilities were a ¥67 million (2.5%) rise in accrued account payable and a ¥142 million (25.4%) jump in income taxes payable.

### Net Assets

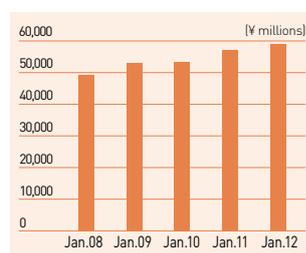
Consolidated net assets at fiscal year-end amounted to ¥27,935 million, up ¥891 million (3.3%) from a year earlier. This was due mainly to a ¥1,422 million (7.7%) increase in retained earnings, which contrasted with a ¥524 million (28.2%) decline in adjustment on foreign currency statement translation.

## Sales by Segment (Consolidated)

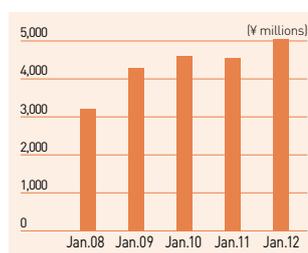
|                                      | Jan. 2011 |               |                 |                | Jan. 2012 |               |               |                 |                |
|--------------------------------------|-----------|---------------|-----------------|----------------|-----------|---------------|---------------|-----------------|----------------|
|                                      | Amount    | Percentage(%) | Gross Margin(%) | Segment Profit | Amount    | Percentage(%) | YoY Change(%) | Gross Margin(%) | Segment Profit |
| Registered amount                    | 57,061    | 100.0%        | 40.8%           | 4,546          | 59,145    | 100.0%        | 103.7%        | 41.1%           | 5,042          |
| Domestic Baby & Mother Care Business | 24,145    | 42.3%         | 45.2%           | 3,611          | 24,047    | 40.7%         | 99.6%         | 46.5%           | 3,677          |
| Child Care Service Business          | 5,455     | 9.6%          | 12.2%           | 117            | 5,990     | 10.1%         | 109.8%        | 11.5%           | 152            |
| Health & Elder Care Business         | 6,503     | 11.4%         | 28.6%           | 111            | 6,469     | 10.9%         | 99.5%         | 29.3%           | 350            |
| Overseas Business                    | 19,907    | 34.9%         | 48.7%           | 3,745          | 21,584    | 36.5%         | 108.4%        | 48.1%           | 3,909          |
| Other                                | 1,050     | 1.8%          | 15.0%           | 135            | 1,052     | 1.8%          | 100.2%        | 15.6%           | 138            |

The consolidated segment profits are adjusted (they are all unclassifiable expenses), and are posted as operating income in the consolidated statements of income.

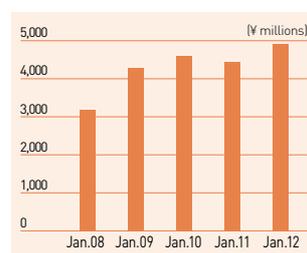
### Net sales



### Operating income



### Ordinary income



### Net income



## Sound Financial Position

At fiscal year-end, the Group had ¥7,293 million in cash and time deposits. Although interest-bearing debt increased year-on-year, it ended the period at ¥4,898 million. The equity ratio also remained high, ending the year at 62.7%.

## Cash Flows

### Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥4,212 million (compared with ¥3,206 million in the previous year). Main factors included a ¥1,019 million increase in inventories and ¥1,313 million in income taxes paid, offset by ¥4,723 million in income before income taxes and ¥1,595 million in depreciation.

### Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥1,871 million (compared with ¥3,949 million in the previous year). Main factors included ¥1,416 million in acquisition of property, plant, and equipment and ¥327 million in acquisition of purchase of investments in subsidiaries resulting in change in scope of consolidation

### Cash Flows from Financing Activities

Net cash used in financing activities was ¥1,776 million (compared with net cash provided by financing activities of ¥886 million in the previous year). Main factors included ¥9,530 million in repayments of short-term debt, ¥1,020 million in repayments of long-term debt, and ¥1,758 million in cash dividends paid, offset by ¥9,516 million in proceeds from short-term debt and ¥1,073 million in proceeds from long-term debt.

## ROA and ROE

Seeking to improve profitability and capital efficiency, Pigeon uses return on equity (ROE) as a key performance indicator. At the fiscal year-end, ROE was up 0.6 percentage point from a year earlier, from 11.2% to 11.8%. Return on assets (ROA) at fiscal year-end was 11.4%, up 0.6 percentage point from 10.8% a year earlier.

## Profit Appropriation Policy

The Pigeon Group regards the return of profits to shareholders as an important management priority. Our policy is to actively return profits to shareholders through the appropriation of

retained earnings and other means, while reinforcing our financial position based on considerations of medium-term changes in business conditions and the Group's business strategies. In addition to strengthening our financial position, we effectively use retained earnings in a number of ways to fortify our operational base and improve future Group earnings. These include investing in new businesses and research and development, as well as investing in production facilities to raise production capacity, reduce costs, and enhance product quality.

With respect to specific goals of return, under our Fourth Medium-Term Management Plan we were targeting a consolidated total shareholder return of more than 50%. To this end, we are striving to further strengthen and upgrade measures for returning profits to all shareholders.

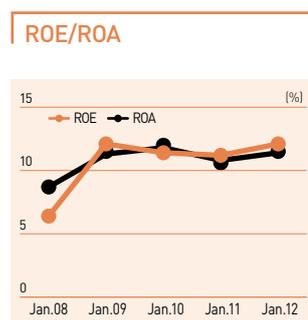
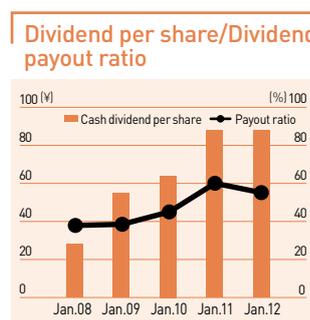
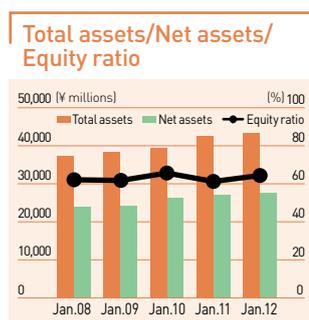
Based on this policy, we paid an interim cash dividend of ¥44.00 per share, and we declared a year-end dividend of ¥44.00. This brings the total annual dividend to ¥88.00 per share (¥88.00 per share of common stock), for a dividend payout ratio of 55.3%.

## Outlook

The year under review was the first year of the Pigeon Group's Fourth Medium-Term Management Plan, entitled "Independence As a Global Company," covering the three-year period ending January 2014. Under the plan, in the Domestic Baby & Mother Care Business, we will expand and upgrade our product categories while broadening our presence in Internet mail-order and other new businesses. In the Health & Elder Care Business, we will deepen our involvement in core product categories and open new sales channels, with the aims of improving profitability of existing businesses and expanding our presence in new product fields and sales channels. In the Overseas Business, we will make proactive investments aimed at upgrading our production system and strengthen our business operational framework. In existing markets, such as China and North America, we will target deeper market penetration and broaden our presence by reinforcing our product categories. At the same time, we will actively cultivate new markets, such as India, the Middle East, South Korea, and Latin America.

We have set the following consolidated performance targets for the year ending January 2013: net sales of ¥64.3 billion (up 8.7% year-on-year), operating income of ¥5.65 billion (up 12.0%), ordinary income of ¥5.55 billion (up 12.9%), and net income of ¥3.3 billion (up 3.7%).

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



ROA is the ratio of ordinary income to total assets. ROE is the ratio of net income to shareholders' equity. The denominator for both is the average of the figures at the beginning and end of the fiscal year.

# Financial Data

## Consolidated Balance Sheets (January 31, 2011 and 2012)

| Item                                                 | Period | ¥ millions |         | US\$ thousands |
|------------------------------------------------------|--------|------------|---------|----------------|
|                                                      |        | 2011       | 2012    | 2012           |
| <b>Assets</b>                                        |        |            |         |                |
| <b>Current Assets</b>                                |        |            |         |                |
| Cash and Time Deposits                               |        | 6,827      | 7,293   | 93,813         |
| Notes and Accounts Receivable                        |        | 9,874      | 9,993   | 128,544        |
| Goods and Products                                   |        | 4,549      | 5,332   | 68,588         |
| Other Current Assets                                 |        | 2,911      | 2,823   | 36,313         |
| Total Current Assets                                 |        | 24,162     | 25,443  | 327,283        |
| Tangible Fixed Assets                                |        | 15,409     | 15,058  | 193,697        |
| Intangible Fixed Assets                              |        | 1,188      | 1,285   | 16,529         |
| Investments and Other Assets                         |        | 1,924      | 1,985   | 25,534         |
| Investment Securities                                |        | 1,316      | 1,344   | 17,288         |
| Total Fixed Assets                                   |        | 18,521     | 18,329  | 235,773        |
| Total Assets                                         |        | 42,684     | 43,772  | 563,056        |
| <b>Liabilities</b>                                   |        |            |         |                |
| <b>Current Liabilities</b>                           |        |            |         |                |
| Notes and Accounts Payable                           |        | 3,984      | 3,758   | 48,341         |
| Accrued Account Payable                              |        | 2,687      | 2,755   | 35,439         |
| Income Taxes Payable                                 |        | 561        | 704     | 9,056          |
| Accrued Employees' Bonuses                           |        | 537        | 587     | 7,551          |
| Other Current Liabilities                            |        | 4,455      | 4,577   | 58,876         |
| Total Current Liabilities                            |        | 12,227     | 12,382  | 159,275        |
| Long-Term Borrowings                                 |        | 1,615      | 1,642   | 21,122         |
| Long-Term Liabilities                                |        | 1,798      | 1,812   | 23,308         |
| Total Long-Term Liabilities                          |        | 3,413      | 3,454   | 44,430         |
| Total Liabilities                                    |        | 15,640     | 15,836  | 203,705        |
| <b>Shareholders' Equity</b>                          |        |            |         |                |
| Capital Stock                                        |        | 5,199      | 5,199   | 66,877         |
| Additional Paid-in Capital                           |        | 5,180      | 5,180   | 66,632         |
| Retained Earnings                                    |        | 18,451     | 19,873  | 255,634        |
| Net Unrealized Gain (Loss) on Securities             |        | 11         | 10      | 129            |
| Adjustment on Foreign Currency Statement Translation |        | (1,861)    | (2,386) | (30,692)       |
| Treasury Stock                                       |        | (447)      | (448)   | (5,763)        |
| Minority Interests                                   |        | 510        | 507     | 6,522          |
| Total Net Assets                                     |        | 27,044     | 27,935  | 359,339        |
| Total Liabilities and Net Assets                     |        | 42,684     | 43,772  | 563,056        |

Note: Figures in U.S. dollars are calculated, for convenience only, at the exchange rate of ¥77.74=US\$1.00.

## Consolidated Statements of Income (For the years ended January 31, 2011 and 2012)

| Item                                                         | Period | ¥ millions |        | US\$ thousands |
|--------------------------------------------------------------|--------|------------|--------|----------------|
|                                                              |        | 2011       | 2012   | 2012           |
| Net Sales                                                    |        | 57,061     | 59,145 | 760,805        |
| Cost of Sales                                                |        | 33,780     | 34,826 | 447,980        |
| Gross Profit                                                 |        | 23,281     | 24,319 | 312,825        |
| Selling, General and Administrative Expenses                 |        | 18,734     | 19,276 | 247,955        |
| Operating Income                                             |        | 4,546      | 5,042  | 64,857         |
| Other Income                                                 |        | 372        | 373    | 4,798          |
| Other Expenses                                               |        | 484        | 499    | 6,419          |
| Ordinary Income                                              |        | 4,435      | 4,917  | 63,249         |
| Extraordinary Income                                         |        | 20         | 19     | 244            |
| Extraordinary Losses                                         |        | 86         | 213    | 2,740          |
| Income before Income Taxes                                   |        | 4,369      | 4,723  | 60,754         |
| Income Taxes                                                 |        | 1,331      | 1,463  | 18,819         |
| Adjustment for Corporate Tax                                 |        | 21         | (10)   | (129)          |
| Minority Interest in Net Income of Consolidated Subsidiaries |        | 88         | 87     | 1,119          |
| Net Income                                                   |        | 2,928      | 3,183  | 40,944         |

Note: Figures in U.S. dollars are calculated, for convenience only, at the exchange rate of ¥77.74=US\$1.00.

## Consolidated Statements of Changes in Shareholders' Equity

|                                                                 | Shareholders' Equity |                 |                   |                |                            | Accumulated other comprehensive income                |                                         |                                              | Minority Interests | Net Assets  |
|-----------------------------------------------------------------|----------------------|-----------------|-------------------|----------------|----------------------------|-------------------------------------------------------|-----------------------------------------|----------------------------------------------|--------------------|-------------|
|                                                                 | Capital              | Capital Surplus | Retained Earnings | Treasury Stock | Total Shareholders' Equity | Profit/Loss on Deferred Valuation of Other Securities | Foreign Currency Translation Adjustment | Total accumulated other comprehensive income |                    |             |
| Balance at January 31, 2011                                     | 5,199,597            | 5,180,246       | 18,451,368        | (447,673)      | 28,383,538                 | 11,237                                                | (1,861,586)                             | (1,850,348)                                  | 510,847            | 27,044,037  |
| Changes during Period                                           |                      |                 |                   |                |                            |                                                       |                                         |                                              |                    |             |
| Distribution of Earnings                                        | —                    | —               | (1,761,247)       | —              | (1,761,247)                | —                                                     | —                                       | —                                            | —                  | (1,761,247) |
| Net Income                                                      | —                    | —               | 3,183,406         | —              | 3,183,406                  | —                                                     | —                                       | —                                            | —                  | 3,183,406   |
| Acquisition of Treasury Stock                                   | —                    | —               | —                 | (1,007)        | (1,007)                    | —                                                     | —                                       | —                                            | —                  | (1,007)     |
| Changes during Period Not Related to Shareholders' Equity (net) | —                    | —               | —                 | —              | —                          | (1,163)                                               | (524,932)                               | (526,096)                                    | (3,411)            | (529,507)   |
| Total Changes During Period                                     | —                    | —               | 1,422,159         | (1,007)        | 1,421,152                  | (1,163)                                               | (524,932)                               | (526,096)                                    | (3,411)            | 891,644     |
| Balance at January 31, 2012                                     | 5,199,597            | 5,180,246       | 19,873,527        | (448,680)      | 29,804,691                 | (10,073)                                              | (2,386,518)                             | (2,376,445)                                  | 507,436            | 27,935,682  |

Note: Fraction of less than one thousand yen are discarded.

# Financial Data

## Financial Indicators (January 31)

| Item                                            | Period | 2008     | 2009     | 2010     | 2011     | 2012     |
|-------------------------------------------------|--------|----------|----------|----------|----------|----------|
| <b>Profitability</b>                            |        |          |          |          |          |          |
| Gross Margin (%)                                |        | 37.9     | 38.0     | 39.1     | 40.8     | 41.1     |
| Operating Margin (%)                            |        | 6.5      | 8.0      | 8.6      | 8.0      | 8.5      |
| Ordinary Margin (%)                             |        | 6.5      | 8.1      | 8.6      | 7.8      | 8.3      |
| ROA (Operating Income to Total Assets) (%)      |        | 8.7      | 11.3     | 11.8     | 11.1     | 11.7     |
| ROA (Ordinary Income to Total Assets) (%)       |        | 8.7      | 11.3     | 11.8     | 10.8     | 11.4     |
| ROE (Return on Equity) (%)                      |        | 6.4      | 12.1     | 11.4     | 11.2     | 11.8     |
| Cost of Sales Ratio (%)                         |        | 62.1     | 62.0     | 60.9     | 59.2     | 58.9     |
| <b>Stability</b>                                |        |          |          |          |          |          |
| Current Ratio (%)                               |        | 160.7    | 192.4    | 208.3    | 197.6    | 205.5    |
| Fixed Ratio (%)                                 |        | 77.2     | 70.1     | 66.8     | 69.8     | 66.8     |
| Equity Ratio (%)                                |        | 62.4     | 62.3     | 65.3     | 62.2     | 62.7     |
| Interest Coverage Ratio (times)                 |        | 91.4     | 56.1     | 96.2     | 59.3     | 67.2     |
| Interest-Bearing Debt to Total Assets Ratio (%) |        | 7.5      | 8.4      | 6.3      | 11.4     | 11.2     |
| <b>Efficiency</b>                               |        |          |          |          |          |          |
| Total Assets Turnover (times)                   |        | 1.4      | 1.4      | 1.4      | 1.4      | 1.4      |
| Receivables Turnover (days)                     |        | 71.9     | 69.6     | 59.8     | 63.2     | 61.7     |
| Inventory Turnover (days)                       |        | 52.9     | 51.4     | 49.5     | 49.7     | 57.4     |
| Accounts Payable Turnover (days)                |        | 62.2     | 51.8     | 48.4     | 43.1     | 39.4     |
| <b>Growth Ratios</b>                            |        |          |          |          |          |          |
| Sales Growth Ratio (% YoY)                      |        | 8.7      | 7.8      | 0.6      | 6.8      | 3.7      |
| Ordinary Income Growth Ratio (% YoY)            |        | 15.7     | 35.1     | 7.3      | -3.8     | 10.9     |
| <b>Other Indices</b>                            |        |          |          |          |          |          |
| Net Income per Share (yen)                      |        | 73.90    | 142.75   | 141.89   | 146.31   | 159.05   |
| Shareholders' Equity per Share (yen)            |        | 1,173.88 | 1,195.45 | 1,288.14 | 1,325.71 | 1,370.46 |
| Cash Dividend per Share (yen)                   |        | 28.0     | 55.0     | 64.0     | 88.0     | 88.0     |
| Payout Ratio (%)                                |        | 37.9     | 38.5     | 45.1     | 60.1     | 55.3     |
| Total Payout Ratio (%)                          |        | 37.9     | 38.5     | 45.1     | 60.1     | 55.4     |
| Shares Issued (thousand)                        |        | 20,275   | 20,275   | 20,275   | 20,275   | 20,275   |
| Dividend to Equity (%)                          |        | 2.5      | 3.2      | 5.0      | 5.5      | 6.1      |
| Number of Employees                             |        | 2,087    | 2,226    | 2,318    | 2,678    | 2,963    |

Note: Except net income per share, shareholders' equity per share, cash dividend per share, shares issued, and number of employees, the amounts are rounded off at the second decimal place.

## Consolidated Statement of Cash Flows (For the years ended January 31, 2011 and 2012)

| Item                                                         | Period | ¥ millions |         | US\$ thousands |
|--------------------------------------------------------------|--------|------------|---------|----------------|
|                                                              |        | 2011       | 2012    | 2012           |
| Cash Flows from Operating Activities                         |        | 3,206      | 4,212   | 54,181         |
| Cash Flows from Investing Activities                         |        | (3,949)    | (1,871) | (24,067)       |
| Cash Flows from Financing Activities                         |        | 886        | (1,776) | (22,845)       |
| Translation Gain (Loss) Related to Cash and Cash Equivalents |        | (220)      | (98)    | (1,261)        |
| Net Change in Cash and Cash Equivalents                      |        | (77)       | 465     | 5,981          |
| Cash and Cash Equivalents at Beginning Year                  |        | 6,905      | 6,827   | 87,818         |
| Cash and Cash Equivalents at End of Year                     |        | 6,827      | 7,293   | 93,813         |

Note: Figures in U.S. dollars are calculated, for convenience only, at the exchange rate of ¥77.74=US\$1.00.

# Corporate Information

## Corporate Data (As of January 31, 2012)

Company Name — Pigeon Corporation  
 Address — 4-4, Nihonbashi-Hisamatsucho, Chuo-ku,  
 Tokyo 103-8480, Japan  
 Phone +81-3-3661-4200  
 Fax +81-3-3661-4320  
 URL — <http://www.pigeon.co.jp>  
 Established — August 15, 1957  
 Paid-in Capital — ¥5,199,597 thousand  
 Fiscal Year-End — January 31  
 Business — Manufacture, sales, import and export  
 of baby and child care products, maternity  
 items, women's care products, home  
 healthcare products, nursing care products,  
 etc.; operation of child-minding centers  
 Employees — 928 (non-consolidated)  
 (Total employees of the Group 2,963)

## Stock Data (As of January 31, 2012)

Shares Authorized — 60 million  
 Shares Issued — 20,275,581  
 Number of Shareholders (includes odd-lot shares) — 7,157  
 Treasury Stock — 261,696

## Consolidated Subsidiaries

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

## Equity Method Affiliate

- P.T. Pigeon Indonesia

## Board of Directors, Auditors and Officers

(As of April 26, 2012)

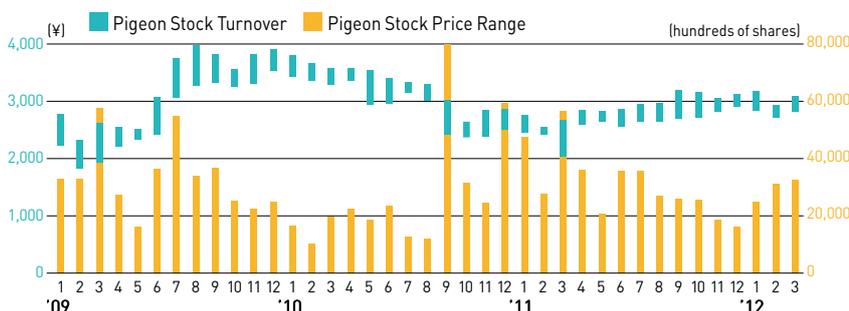
Executive Advisor and Member of the Board — Yoichi Nakata  
 Chairman of the Board and CEO — Seiichi Matsumura  
 President and COO — Akio Okoshi  
 Director, Senior Managing Executive Officer — Takashi Sakuma  
 Director, Managing Executive Officers — Kazuhiko Ota  
(Division Manager of Overseas Business Div.) Shigeru Yamashita  
 Director, Junior Managing Executive Officers — Kazuhisa Amari  
 Hiroki Yuda  
(Division Manager of Human Resources & General Affairs Div.) Eiji Akamatsu  
(Division Manager of China Business Div.) Norimasa Kitazawa  
 Standing Corporate Auditors — Katsumi Oyabu  
 Yasushi Takashima  
 Outside Corporate Auditors — Shigeru Nishiyama  
 Shuji Idesawa  
 Managing Officers —  
(Division Manager of Corporate Administration Div.) Tsutomu Matsunaga  
(Division Manager of Accounting & Finance Div.) Hiroyasu Maki  
(Division Manager of Research & Development Div.) Yusuke Nakata  
(Division Manager of Domestic Baby & Mother Care Business Div.) Yasunori Kurachi  
(Division Manager of Health & Elder Care Business Div.) Koji Ishigami  
(Division Manager of Child Care Service Business Div.) Takanori Tsuru  
(Division Manager of Logistics Div.) Shinobu Iwamoto  
 Isao Kosaka  
 Tadashi Itakura

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

## Ten Largest Shareholders (As of January 31, 2012)

| Shareholder's Name                                   | Shares Held<br>(thousands) | Ownership<br>(%) |
|------------------------------------------------------|----------------------------|------------------|
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 2,688                      | 13.26            |
| Yoichi Nakata Japan                                  | 1,976                      | 9.75             |
| Japan Trustee Services Bank, Ltd. (Trust Account)    | 1,929                      | 9.52             |
| BBH Matthews Asia Dividend Fund                      | 1,381                      | 6.81             |
| Japan Trustee Services Bank, Ltd. (Trust Account 9G) | 660                        | 3.26             |
| JP Morgan Chase & Co. bank 385174                    | 527                        | 2.60             |
| Deutsche Securities Inc.                             | 423                        | 2.09             |
| Chase Manhattan Bank NK London                       | 342                        | 1.69             |
| Pigeon Corporation Employees' Stock                  | 331                        | 1.64             |
| Northern Trust Company AVFC Fidelity Funds           | 295                        | 1.46             |

## Stock Price Range/Turnover of Common Stock



## PIGEON CORPORATION

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