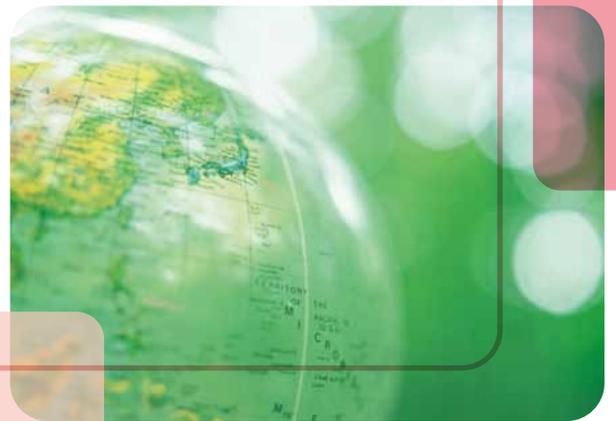


PIGEON

Annual Report 2013

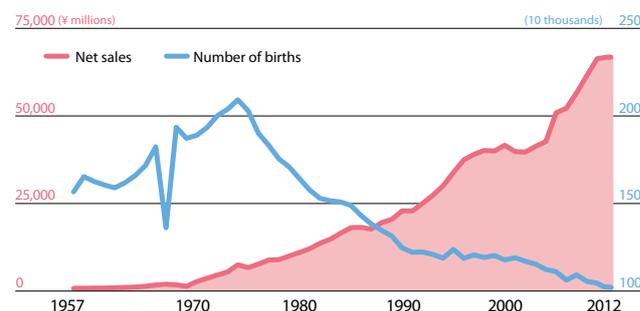
For the year ended January 31, 2013



PIGEON HISTORY

	1950 ~	1970 ~	1980 ~	1990 ~	2000 ~	2010 ~
Corporate	<ul style="list-style-type: none"> ▶1949 Dofu Boeki, Pigeon's predecessor, established ▶1952 Yuichi Nakata appointed President ▶1957 Pigeon Honyuki Honpo (Baby Bottle Manufacturing) Co., Ltd., established ▶1966 Name changed from Pigeon Honyuki Honpo Co., Ltd., to Pigeon Co., Ltd. 	<ul style="list-style-type: none"> ▶1973 Head office building in Kanda-Tomiyama-cho, Chiyoda-ku, Tokyo, constructed 	<ul style="list-style-type: none"> ▶1982 Pigeon Textiles (now Pigeon Will Co., Ltd.) established to manufacture and sell maternity wear ▶1983 Yoichi Nakata appointed President; Yuichi Nakata appointed Chairman ▶1985 Corporate identity based on the Pigeon philosophy of "Providing the gift of love to all" adopted ▶1985 Pigeon Home Products Co., Ltd., established ▶1988 Stores registered with the Securities Dealers Association of Japan (present-day JASDAQ) 	<ul style="list-style-type: none"> ▶1993 Joso Research Center (now Central Research Center) established ▶1995 Listed on the Second Section of the Tokyo Stock Exchange (July 7) ▶1996 Fukuyo Ibaraki Co., Ltd. (now PHP Ibaraki Co., Ltd.), joins the Pigeon Group ▶1997 Listed on the First Section of the Tokyo Stock Exchange 	<ul style="list-style-type: none"> ▶2000 Seiichi Matsumura appointed President and Chief Operating Officer ▶2002 PHP Hyogo joins the Pigeon Group ▶2006 Head office relocated to Nihonbashi-Hisamatsu-cho, Chuo-ku, Tokyo ▶2007 Akio Okoshi appointed President and Chief Operating Officer; Seiichi Matsumura appointed Chairman and Chief Executive Officer 	<ul style="list-style-type: none"> ▶2011 Formulation and implementation of 4th Mid-Term Management Plan ▶2013 Shigeru Yamashita appointed President and Chief Operating Officer; Akio Okoshi appointed Chairman and Chief Executive Officer
Domestic Baby & Mother Care Business	<ul style="list-style-type: none"> ▶1949 First baby bottle in Japan with wide cap (A-type) launched ▶1956 Baby and child care/related products launched ▶1963 Milk powder case and sponge brush for baby bottles launched ▶1966 Baby powder, first in a new range of baby hygiene products, launched 	<ul style="list-style-type: none"> ▶1975 World's first diaper liner made using binderfree manufacturing method launched ▶1975 Liquid cleanser for baby bottles and vegetables launched ▶1976 World's first rubber toothbrush for milk teeth launched ▶1977 P-type baby bottle for babies with poor sucking strength launched ▶1979 New-standard K-type baby bottle (still used today) launched 	<ul style="list-style-type: none"> ▶1982 MagMag training cup with adjustable tops for different ages launched ▶1985 Fit, Japan's first seamless breast pad, launched ▶1987 Chibion digital thermometer for babies launched ▶1988 Baby's natural sucking peristaltic motion revealed 	<ul style="list-style-type: none"> ▶1992 Baby Wipes launched ▶1993 Entry into baby food market ▶1994 UV Baby Skincare, first ultraviolet-ray skincare product for babies, released ▶1995 Baby bottle disinfectant Milkpon launched 	<ul style="list-style-type: none"> ▶2002 Wide neck Bonyu Jikkan bottles, which promote a baby's natural sucking peristaltic motion, launched ▶2003 Baby shoes designed using research on toddlers' walking patterns released 	<ul style="list-style-type: none"> ▶2010 Renewal of Bonyu Jikkan series of baby bottle nipples
Child Care Service Business				<ul style="list-style-type: none"> ▶1993 Pigeon Land Joso, child-minding center for infants, opened ▶1996 Pigeon Wendy, babysitter dispatch service, launched ▶1999 Pigeon Kids World Co., Ltd. (now Pigeon Hearts Co., Ltd.), established 	<ul style="list-style-type: none"> ▶2001 Operation of in-company child-minding facilities launched ▶2002 Operation of approval child-care center launched 	
Health & Elder Care Business		<ul style="list-style-type: none"> ▶1975 Habis Business Department, targeting the senior market, established 	<ul style="list-style-type: none"> ▶1983 Nursing care products under the Habinurse brand launched 		<ul style="list-style-type: none"> ▶2000 Pigeon Manaka Co., Ltd., established ▶2004 Tahira Co., Ltd. (now Pigeon Tahira Co., Ltd.), becomes part of the Pigeon Group ▶2007 Recoup brand of anti-aging products launched 	<ul style="list-style-type: none"> ▶2011 Pigeon Manaka Co., Ltd. launched day care service
Overseas Business	<ul style="list-style-type: none"> ▶1966 Exports to other countries started 	<ul style="list-style-type: none"> ▶1973 First overseas office established in Singapore ▶1978 Pigeon Singapore Pte. Ltd. established 		<ul style="list-style-type: none"> ▶1990 Thai Pigeon Co., Ltd., established ▶1996 Pigeon Industries Thailand Co., Ltd., established 	<ul style="list-style-type: none"> ▶2002 Pigeon Shanghai Co., Ltd., established ▶2004 Lansinoh Laboratories, Inc., in USA becomes part of the Pigeon Group ▶2006 Pigeon Manufacturing Shanghai Co., Ltd., established ▶2009 Established Pigeon India Pvt. Ltd., a sales subsidiary in India ▶2009 Established Pigeon Industries (Changzhou) Co., Ltd., in China 	<ul style="list-style-type: none"> ▶2010 Lansinoh Laboratories Medical Devices Design Industry and Commerce Ltd. Co. in Turkey established ▶2010 Lansinoh Laboratories, Inc. (the U.S.A.) acquires mOmma business ▶2011 Lansinoh Laboratories, Inc., in USA similarly acquired the earth friendly baby brand. ▶2011 Pigeon Malaysia Trading Sdn. Bhd., established ▶2012 DoubleHeart Co. Ltd. (Korea), established

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

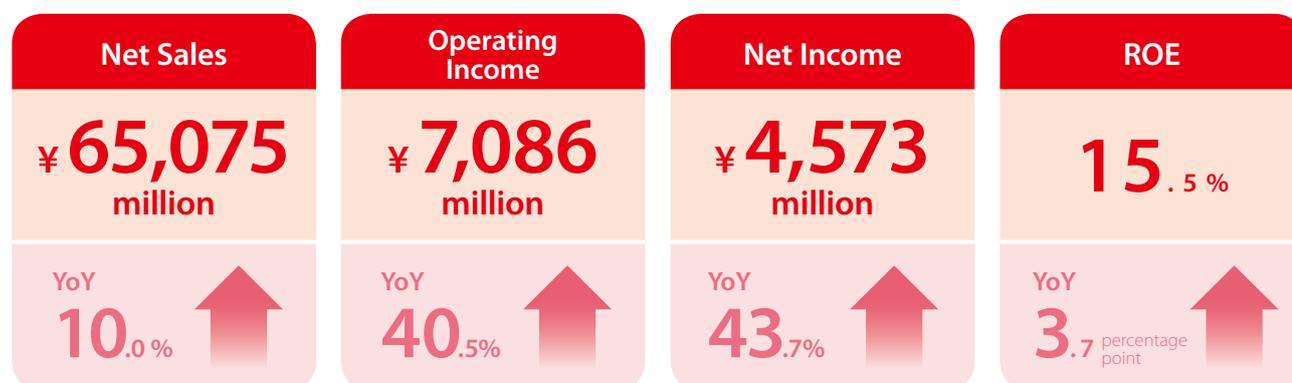


After reaching its peak in 1973, birthrate in Japan has been declining and reached about 1,060,000 newborns in 2005 or the total fertility rate of 1.26, which is the lowest ever point in the available statistics since 1947.

Although birthrate did recover somewhat since then, the figures calculated for 2011 show an annual number of newborns of about 1,057,000 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

	2011/1	2012/1	¥ millions	US\$ thousands
			2013/1	2013/1
Net Sales	¥ 57,061	¥ 59,145	¥ 65,075	\$ 751,617
Gross Profit	23,281	24,319	27,760	320,432
Operating Income	4,546	5,042	7,086	81,843
Ordinary Income	4,435	4,917	7,389	85,343
Net Income	2,928	3,183	4,573	52,818
Total Assets	¥ 42,684	¥ 43,772	¥ 48,538	\$ 560,614
Total Liabilities	15,640	15,836	16,173	186,798
Cash Flows from Operating Activities	¥ 3,206	¥ 4,212	¥ 7,656	\$ 88,427
Cash Flows from Investing Activities	(3,949)	(1,871)	(1,848)	(21,344)
Cash Flows from Financing Activities	886	(1,776)	(3,149)	(36,371)
Net Income per Share (yen/U.S. dollars)	¥ 146.31	¥ 159.05	¥ 228.53	\$ 2.6
Net Assets per Share (yen/U.S. dollars)	1,325.71	1,370.46	1,582.51	18.3
ROA(%)	10.8	11.4	16.0	
ROE(%)	11.2	11.8	15.5	

Notes: 1. Figures in U.S. dollars are calculated, for convenience only, at the exchange rate of ¥86.58=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.

Contents

PIGEON HISTORY	1	Health & Elder Care Business	13	Research & Development	21
Consolidated Financial Highlights	2	Overseas Business	15	Pigeon Group's ESG	23
Management Dialogue	3	China	16	Management's Discussion & Analysis	25
At a Glance	7	North America/Europe	18	Financial Data	27
Domestic Baby & Mother Care Business	9	Other Countries	19	Corporate Information	29
Child Care Service Business	12	International R&D System	20		

Management Dialogue



Shigeru Yamashita

President and Chief Operating Officer

✕ Akio Okoshi

Chairman of the Board and Chief Executive Officer

Transforming Pigeon into a true global brand

The position of President has been passed to Shigeru Yamashita from Akio Okoshi, a man who has always carried out his word.

This edition introduces a discussion between the new Chairman Okoshi and President Yamashita, as they seek to further increase Pigeon's corporate brand.

For a start, can I ask Mr. Okoshi about the reasons for selecting Mr. Yamashita as the new president of Pigeon?

Okoshi: My own personal management style has always emphasized "communication," "agreement," and "trust." Through the act of "communication," I have sought to reach "agreement" and do business based on a level of "trust." In the case of Mr. Yamashita, the quality of his work at the "trust" level has been very high. Moreover, he is well-versed in English and has a wealth of overseas business experience. These are important elements that will help Pigeon achieve global growth in the future. However, the greatest reason for choosing Mr. Yamashita to replace me is

his sincere personality. "Sincerity" is an integral part of Pigeon's DNA, but Mr. Yamashita shows sincerity in all aspects of his life, not only at work. This is his greatest attribute, in my opinion.

In introducing Mr. Yamashita to the investment community, I'd like to describe two events that left deep impressions on me. Mr. Yamashita had been president of Pigeon Industries (Thailand) Co., Ltd. (PIT). At that time, however, the products to produce were not determined, and Mr. Yamashita was selected as person capable of getting PIT up and running as a manufacturer. My impression was that he had earned a deep level of trust from management. As it turned out, he achieved outstanding success with PIT. Subsequently, PIT's

largest customer, Lansinoh Laboratories, Inc., got into business difficulties, and it was Mr. Yamashita who suggested M&A as a way to save Lansinoh. We posted him to Lansinoh, which was a member of the Pigeon Group. Serving as chairman, he turned Lansinoh around and put it on solid footing. The Pigeon Group at the time was not very large, so the savior of its largest customer though M&A made a major contribution to the Group's position. Drawing on his sincere personality, Mr. Yamashita executed his plan without failure. I'm confident that he will continue displaying his strengths, backed by his solid track record.

Can I get the thoughts of you both about the Group's new leadership structure?

Yamashita: When I first heard talk from Mr. Okoshi about becoming president, I felt very happy that my personality was well regarded after comprehensive consideration. By the same token, I felt nervous at the huge responsibilities I was about to assume. Mr. Okoshi has built up Pigeon, as a company and organization, through very strong leadership. He has raised the spirits of employees and left behind a remarkable legacy. Compared with him, I feel that I have only made a number of small contributions.



However, much is expected of me, and I will do my utmost to raise the value of Pigeon in the eyes of all stakeholders.

Okoshi: When I was appointed president, I had the same nervous feelings as Mr. Yamashita. However, I happened to join the company at the same time with the previous president, Mr. Matsumura, and the one before that, Mr. Nakata. It was an environment of friendly competition that included a sense of rivalry, but we were in the same boat, with the baton passing between us. However, Mr. Yamashita is a president from the new generation. Moreover, Pigeon itself has been transformed into a public company in the true sense of the word. The under his new-generation presidency, Pigeon faces an era unprecedented in its history, which will require a more global orientation. At the same time, we will need to build a more effective system of governance. If Mr. Yamashita displays his own style of leadership, however, I have no doubt he will succeed. In my role as chairman, I plan to give the president my total support.

Please describe what you plan to change, and don't plan to change, under the new management system?

Yamashita: I plan to continue following the "communication," "agreement," and "trust" principles put forth by Mr. Okoshi. These may even be reinforced, but will not be changed. However, there are some things created by Mr. Okoshi that I will change as the needs of the times dictate, even if they are performing well. Examples include systems that have become obsolete since the time of their creation. The key to Pigeon's success on a global scale will be its ability to strengthen its individual people. Ultimately, a company is made up of individuals, and empowering such individuals—fostering global human resources—is an urgent priority. In addition to nurturing Japanese personnel in global environments, we need to have powerful global headquarters systems, including performance evaluation standards for deploying overseas personnel and creation of career advancement paths. I recognize that we must also step up efforts in other areas, such as reassessing our supply chain from a global perspective.

Mr. Okoshi, looking back over your six years as president, what is your evaluation?

Okoshi: When I became president, I set two performance targets for achievement over the subsequent three terms, or six years: consolidated net sales of ¥80.0 billion and an operating margin of 10%. At the time, it seemed like it would take a long time to achieve, but we kept the faith and made it happen. During that time, our previous medium-term management plan—"Becoming a Global Company: Challenges and Independence"—advanced to the new plan, "Achieving Global Business Success through Company and Individual Competence." Over the past six years, I believe we have laid the foundation for Pigeon's growth as a truly global company. It is still only a foundation, however, just one step in a long road. Once we determine our ideal situation, we will leverage the foundation we have built and begin to see clearly what we need to do going forward.



Yamashita: Mr. Okoshi left behind a very impressive track record in terms of financial performance, business

structures, and employee morale. I also agree with his opinion that the past six-period was a step in preparation for Pigeon's further expansion. On a daily basis, I feel pressure to meet the expectations of shareholders about the future. Nevertheless, I will continue doing my best to ensure the renewed growth of Pigeon.

The year ending January 2014 is the final year of Pigeon's fourth medium-term management plan. What is your outlook for the year?

Yamashita: At present, we predict that we will surpass the targets for net sales and operating income set forth under the plan. Overseas business will be the main driving force, but we will also direct our energies into our domestic business.

In the Domestic Baby & Mother Care Business segment, we need to win against the competition in the current market, which is very mature. To prevail, we must pursue enhanced efficiency, enter new business fields, and launch new products. We are already putting effort into large-sized products, such as baby strollers and child seats, but we need to allocate significant management resources into such new businesses so that they can become a pillar of Group revenue. And if we can successfully establish a new business in Japan, that success can play a very helpful role in business advancement overseas. Meanwhile, our shareholders have great expectations about our overseas business. There are many markets that we have not addressed yet, so we are targeting rapid expansion. At home, however, we will embrace new challenges aimed at achieving continuous growth.

Can you share your thoughts about shareholder return?

Yamashita: In the current fiscal period, which is the final year of our fourth medium-term management plan, we will maintain our promise of a consolidated payout ratio of 50% or higher. This goes without saying. After that, the questions of how we should grow our business and how we should make investments will be given serious consideration as we formulate our fifth medium-term management plan. In any case, our top priority will be on further raising the corporate value of Pigeon. I will announce more details of my thoughts on shareholder return while addressing this priority.

Do you have any final comments for shareholders and other investors?

Okoshi: Pigeon's strength lies in its in-depth research into breastfeeding, unrivalled in the world, and its ability to use that research to develop baby bottles and nipples. In the first 24 months of life, the growing process of babies is universal worldwide. For this reason, our business model built up in Japan is succeeding in China, for example, without modification. We already have a good track record in replicating this process in other nations. We have a strong brand and highly reliable products that are unparalleled among our competitors. Armed with these attributes, we have a market that extends worldwide, and this is the key to realizing our growth vision.

To achieve our objectives, we will appoint people well-versed in English and with extensive overseas business experience to top positions and build an even higher level of management.

On the tracks laid by Mr. Nakata and Mr. Matsumura before me, I have built the foundation for the Pigeon locomotive to steam ahead. Going forward, I want to see that locomotive converted into a modernized, faster, and more reliable train. I hope you'll monitor our progress.

Yamashita: Following on from Mr. Okoshi's explanation, we are fortunate that the tracks laid by our predecessors were designed to handle a bullet train. My role is clear: To transform the train driven by Mr. Okoshi into such a bullet train. Having said that, we will not have it reach full speed just yet. The Pigeon Group now has a framework for generating solid profits. To reach the next level, we must move boldly, one step at a time, to further solidify that framework so it can provide global support. Then we can operate the Pigeon bullet train at top speed.

The sales of baby bottles and nipples which are our core competency field have just started in emerging regions, such as India and Russia. In addition, we are about to advance our operations in Europe and North America. With this understanding, I'm sure you can imagine the huge growth potential of our overseas business.

In this context, I wish to foster Pigeon into a brand that is recognized globally in the true sense of the word. Our brand represents the core of our business. It helps us communicate with consumers and even has a psychological link. Pigeon has grown into the brand of choice for many consumers, not only in Japan but also in China. In a similar fashion, I want it to become the chosen brand in other markets as well. We look forward to the ongoing support of shareholders and other investors.



Quantitative Targets

(¥ billions)

	Jan. 2012	Jan. 2013	Jan. 2014E	Growth Rate (%) (2014/2011)
Net Sales	59.1	65.0	73.5	128.8
Gross Profit	24.3	27.7	31.0	133.2
Operating Income	5.0	7.0	7.8	171.6
Ordinary Income	4.9	7.3	7.8	175.9
Net Income	3.1	4.5	4.8	165.6
EPS (yen)	15.9	22.8	24.2	
Gross Margin (%)	41.1	42.7	42.2	
Operating Margin (%)	8.5	10.9	10.6	
Ordinary Margin (%)	8.3	11.4	10.6	
Net Margin (%)	5.4	7.0	6.6	
ROA (%)	11.4	16.0	15.6	
ROE (%)	11.8	15.5	14.8	

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.
 E: Estimate * Jan. 2014E is published in March 2013. * Growth rate is the value of Jan. 2014E

Profile of Shigeru Yamashita, President and COO

Birthplace Tokyo

Date of Birth February 14, 1958

Career Summary Mar. 1981: Graduated from the Faculty of Sociology, Rikkyo University Entered the Company.

Feb. 1997: President and Representative Director of PIGEON INDUSTRIES (THAILAND) CO., LTD.

July, 2004: President and Representative Director of LANSINOH LABORATORIES, INC.

Apr. 2007: Executive Officer / Division Manager of Overseas Business Div. at the Company.

Apr. 2009: Director / Division Manager of Overseas Business Div.

Jan. 2010: Director / Supervision of Overseas Business Div.

Apr. 2011: Managing Director / Supervision of Human Resources & General Affairs Div. / Supervision of Overseas Business Div. / Supervision of China Business Div.

Jan. 2012: Director, Managing Executive Officer / Division Manager of Overseas Business Div.

Jan. 2013: Director, Managing Executive Officer / Supervision of Overseas Business Div

Apr. 2013: President and COO / Supervision of Research & Development Div. (current position).

At a Glance

Consolidated Net Sales ¥ **65,075** million

	Sales	Sales; Share of Net Sales	Products; Services								
Domestic Baby & Mother Care Business	<p>(¥ millions)</p> <table border="1"> <tr><th>Year</th><th>Sales (¥ millions)</th></tr> <tr><td>Jan.12</td><td>24,047</td></tr> <tr><td>Jan.13</td><td>23,882</td></tr> <tr><td>Jan.14 Target</td><td>24,956</td></tr> </table>	Year	Sales (¥ millions)	Jan.12	24,047	Jan.13	23,882	Jan.14 Target	24,956	<p>36.7% ¥23,882 million</p>	<p>Breastfeeding-related products, weaning-related products, skincare products, feminine care products, other baby-related products, IT services, large-sized products</p>
Year	Sales (¥ millions)										
Jan.12	24,047										
Jan.13	23,882										
Jan.14 Target	24,956										
Child Care Service Business	<p>(¥ millions)</p> <table border="1"> <tr><th>Year</th><th>Sales (¥ millions)</th></tr> <tr><td>Jan.12</td><td>5,990</td></tr> <tr><td>Jan.13</td><td>6,388</td></tr> <tr><td>Jan.14 Target</td><td>6,435</td></tr> </table>	Year	Sales (¥ millions)	Jan.12	5,990	Jan.13	6,388	Jan.14 Target	6,435	<p>9.8% ¥6,388 million</p>	<p>Child-rearing services, operation of in-company child-minding facilities and daycare centers, babysitter dispatch services, preschool education services</p>
Year	Sales (¥ millions)										
Jan.12	5,990										
Jan.13	6,388										
Jan.14 Target	6,435										
Health & Elder Care Business	<p>(¥ millions)</p> <table border="1"> <tr><th>Year</th><th>Sales (¥ millions)</th></tr> <tr><td>Jan.12</td><td>6,469</td></tr> <tr><td>Jan.13</td><td>6,699</td></tr> <tr><td>Jan.14 Target</td><td>7,000</td></tr> </table>	Year	Sales (¥ millions)	Jan.12	6,469	Jan.13	6,699	Jan.14 Target	7,000	<p>10.3% ¥6,699 million</p>	<p>Elder care products, anti-aging products, elder care support services</p>
Year	Sales (¥ millions)										
Jan.12	6,469										
Jan.13	6,699										
Jan.14 Target	7,000										
Overseas Business	<p>(¥ millions)</p> <table border="1"> <tr><th>Year</th><th>Sales (¥ millions)</th></tr> <tr><td>Jan.12</td><td>21,584</td></tr> <tr><td>Jan.13</td><td>26,964</td></tr> <tr><td>Jan.14 Target</td><td>34,084</td></tr> </table>	Year	Sales (¥ millions)	Jan.12	21,584	Jan.13	26,964	Jan.14 Target	34,084	<p>41.4% ¥26,964 million</p>	<p>Baby & mother related products</p>
Year	Sales (¥ millions)										
Jan.12	21,584										
Jan.13	26,964										
Jan.14 Target	34,084										

Overseas Net Sales ¥26,964 million

Business Environment; Our Competitive Edge

The number of births in Japan is expected to fall from 1.057 million in 2011 to 1.033 million in 2012, the lowest level since statistics were first compiled in 1899.

For half a century, we have conducted in-depth research into babies' breastfeeding patterns and early childhood development and persistently developed and improved products arising from such research. Accordingly, Pigeon is widely recognized as a brand that delivers safety and peace of mind, capturing a large share of the market.

We also provide high-value-added services and are strengthening direct communication with customers. This includes hosting maternity

events all over Japan, as well as operating Pigeon.info, an Internet portal for word-of-mouth information about pregnancy and child care. These advancements are proving a major factor in the success of our overseas business.

[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. 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. Going forward, we will target ongoing improvements in business efficiency and reliability.

[Affiliated Company]

Pigeon Hearts Co., Ltd

In Japan, it is estimated that 26.8% of the total population, or one in every four Japanese, will be at least 65 years old by 2015. 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 amassed in the baby and mother care business—track record, reputation for trust, and brand appeal.

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. Going forward, we will further strengthen sales channels via institutions and entrench our core product categories, including the Habinurse brand of elder care products. In these ways, we will work actively to address the growing market underpinned by Japan's aging society.

[Affiliated Companies]

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 14–18 times the number of births in Japan. By contrast, with an average birthrate of 1.9 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, and also including emerging regions with strong growth prospects, such as Southeast Asia, India, Russia, and Latin America. In China, in addition to expanded sales, profitability has increased significantly due to our Shanghai Plant which began operation in 2008 (production items include skin care products,

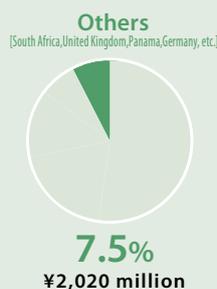
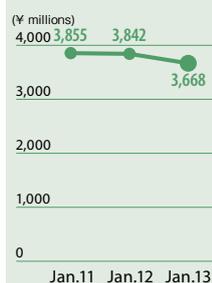
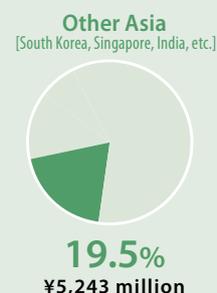
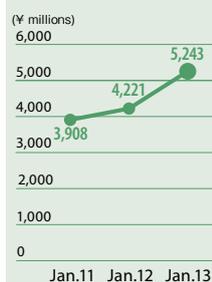
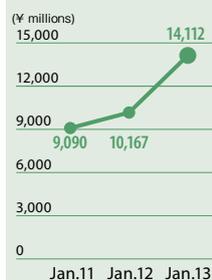
toiletries, baby bottle nipples, etc.), as well as to a new plant in Changzhou, Jiangsu Province began full-scale operation in 2011 (production items include nursing pads, baby wipes, etc.) in 2011. In North America and Europe, we seek steady growth through expansion of product categories.

[Affiliated Companies]

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., DoubleHeart Co. Ltd., Pigeon Industries (Thailand) Co., Ltd., Thai Pigeon Co., Ltd., P.T. Pigeon Indonesia (an equity-method subsidiary)

Overseas Sales

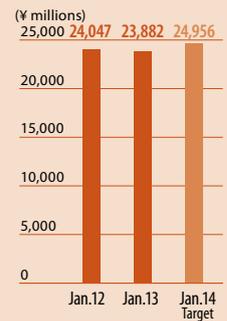
Share of Overseas Sales



* Values in the yen equivalent.
* Average rate (year ended January 31):
2011 US\$ 1.00 = ¥87.79; 1 yuan = ¥12.96
2012 US\$ 1.00 = ¥79.79; 1 yuan = ¥12.34
2013 US\$ 1.00 = ¥79.80; 1 yuan = ¥12.66

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 1.033 million (estimated) in 2012, down from 1.057 million in 2011. Major changes that continue to affect 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 the year under review, we focused on expanding our presence in new business domains, such as large-sized products. We also continued releasing numerous new products and sought to further strengthen our existing business in Japan through our ongoing direct communication policy.



Diverse assortment of baby & mother care-related products

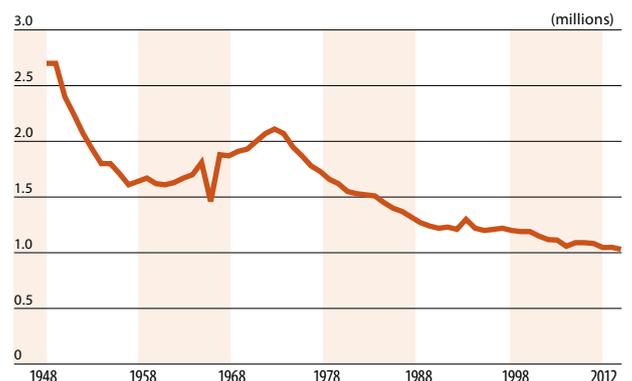
Existing Market Initiatives

We are conducting more in-depth research into the physical development of babies with the aim of further raising the appeal of our products. At the same time, we are addressing the diversifying needs of customers, including by providing products for children in an older age bracket than our traditional baby segment. We are also striving 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. In large-sized products, a new category, we launched the "SALVAJE" child seat in the previous fiscal year, in June 2011. In February 2012, we released the "SOLACICA", an A-shaped baby stroller with both forward- and rear-facing selections and a 50cm high-set position to avoid ground-level stress. In March 2012, we unveiled the "contento" baby stroller, with a rear-facing design and other functions to make babies feel calm. Our Pigeon Mall online shopping site is performing well. We will also 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. In the e-commerce business, in July 2012 we opened a Pigeon-brand store within Amazon.

Number of Childbirths in Japan



Source: Ministry of Health, Labor and Welfare

co.jp, a comprehensive online shopping site, enabling us to offer all of our products, from maternity items to baby-related products.

We are also emphasizing direct communication to strengthen our brand appeal. In this context, we hold maternity events around Japan, which is reaping benefits in terms of attracting pregnant women. In addition, we conduct “pre-maternity events” targeting women who plan to start a family in the near future, as well as ongoing “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 in 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.

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 & Mother Care Business segment totaled ¥23,882 million, down 0.7% year-on-year. Segment operating income declined 8.1%, to ¥3,379 million.

We launched a host of exciting new products during the year. In February 2012, for example, we released a bubble-bath series for babies 18 months and older, designed to make bathing experiences more enjoyable. For one-year-olds and above, we introduced a series of cakes that can easily be prepared in a microwave oven. We also launched a series of training chopsticks to help toddlers feed themselves. In August 2012, we

released our first line of furikake rice toppings for babies. The toppings come in two flavors: salmon/sesame and whitebait/ seaweed. For older babies, we unveiled the Angel&Girl series of hair-care products. And for babies who have trouble suckling directly from the mother, we introduced baby bottles and nipples specially designed for babies with cleft lips and/or palates. In December 2012, we launched Pigeon Organics, a series of organic skincare products for both mother and baby, with a total of 10 offerings.

Outlook

The birthrate in Japan is not expected to increase in the future. 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. At the same time, we will focus on steadily expanding our presence in the market for large-sized products, a category in which we have already launched new products. Meanwhile, we will work to build a position in other new fields, such as products for children aged 18 months and older and the “women’s wellness” business.

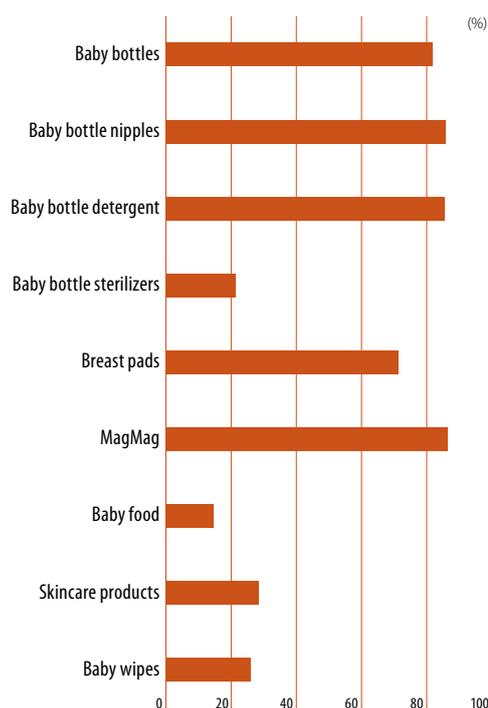
In addition, we will work to further strengthen store-based initiatives and continue enhancing profitability by engaging closely with distributors and retailers. Through these measures, we forecast that sales in the Domestic Baby & Mother Care Business segment will grow to ¥24.9 billion in the year ending January 2014.

Average Monthly Expenditures per Infant

Segment	2008	2009	2010	2011	2012
Powdered milk	1,460	1,233	1,188	1,203	994
Baby foods	764	725	673	755	645
Cow’s milk	418	281	245	259	354
Snacks	545	560	536	494	578
Other (foods)	1,702	1,346	1,296	1,380	1,632
Subtotal (foods)	4,889	4,145	3,940	4,094	4,203
Clothes (under, outer), shoes, etc.	3,371	3,541	2,601	2,558	2,483
Cloth diapers, diaper covers/liners, etc.	273	216	171	149	160
Disposable diapers	3,615	3,437	3,279	3,117	3,002
Subtotal (clothes, diapers)	7,259	7,193	6,051	5,824	5,646
Medical treatment, pharmaceuticals	930	905	1,157	755	705
Toys	1,390	1,190	1,145	1,313	1,240
Picture books	351	425	384	469	467
Subtotal (toys, picture books)	1,741	1,615	1,530	1,783	1,707
Breastfeeding, baby food crockery	358	342	315	324	292
Bathing/hygiene accessories	1,192	1,200	1,165	1,146	1,080
Subtotal (breastfeeding, baby food crockery, bathing, hygiene)	1,550	1,542	1,480	1,470	1,372
Outdoor, furniture, beds, etc.	2,426	2,644	2,038	2,362	2,087
Total	18,795	18,044	16,198	16,291	15,719

Source: Figures compiled by Pigeon.

Domestic Market Share of Pigeon’s Main Products



(Jan. 2013)

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

Close Up

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 48 maternity-related events, attracting around 3,300 people in total. These consisted of 39 events for expectant mothers, five “Mama classes” for woman who have recently given birth, and four “pre-maternity events” for those preparing to become pregnant.

✓ 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>

Pigeon-Brand Store Opened within Amazon Website

In July 2012, we opened a dedicated Pigeon-brand store within Amazon.co.jp, a comprehensive online shopping website. The store features a broad array of Pigeon products, 670 in total, ranging from maternity undergarments to large-sized products such as baby strollers, car seats. It is designed to make online shopping easy and enjoyable. For example, customers can conduct searches based on product category or life scene, such as when pregnancy is first verified, preparing for a baby’s arrival, and feeding the baby on mother’s milk.



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

Child Care Services Business

Sales of Child Care Services Business



At a Glance
Management Dialogue

Domestic Baby & Mother Care Business

Child Care Service Business

Health & Elder Care Business

Overseas Business

Research & Development

Pigeon Group's ESG

Management's Discussion & Analysis

Financial Data Corporate Information

Business Environment

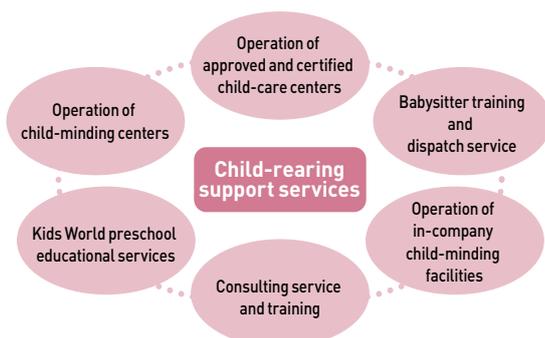
There are an increasing number of women who want children but who wish to keep working. Similarly, more and more women want to return to work while raising children. Despite a declining birthrate, the market for child-rearing support services is expanding. In particular, the number of children on waiting 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 "children's growth is first priority."

Today, the Pigeon Group provides a host of child-rearing support services that meet the varied needs of users. These include the operation of child-minding facilities, such as 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 Heartner Open College, our training facility for child-care workers and other staff members, we endeavor to uphold our reputation as a provider with unparalleled knowledge of babies and young children.

Performance and Highlights

In the year under review, sales in the Child Care Service Business segment amounted to ¥6,388 million, up 6.6% from the previous year. Segment operating income increased 19.7%, to ¥182 million.

In April 2012, we were newly entrusted to operate one licensed daycare center and three in-company child-minding facilities, and in May we were entrusted to open one more in-company facility. As of January 31, 2013, therefore, the Group operated a total of 195 facilities, consisting of nine licensed/certified daycare centers, 115 child-care facilities in hospitals of the National Hospital Organization (independent administrative agency), 45 in-company child-minding facilities, and a number of early childhood education facilities.

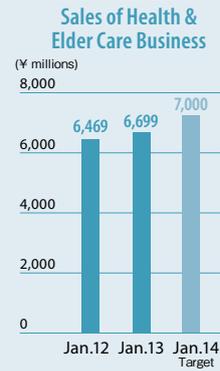
Outlook

The Pigeon Group will continue targeting enhanced efficiency and steadily 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 ¥6.4 billion in the year ending January 2014.



Child-minding center

Health & Elder Care Business



Business Environment

According to statistics released in February 2013, the population of Japanese aged 65 or older stood at 31,190,000 as of February 1, 2013. This represents a 510,000 increase from 30,680,000 in September 2012 (population estimates published by the Statistics Bureau of the Ministry of Internal Affairs and Communications). In Japan's progressively aging society, when baby boomers born between 1947 and 1949 begin to enter the 65-plus age bracket in 2015, it is estimated that this group's population will grow to 33,950,000 and that 26.8% of the total population, or one in every four Japanese, will be at least 65 years old. Moreover, the upward trend will continue after that. Although the number of elderly will start declining from around 2042, the percentage of elderly in the total population will rise further.

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 health and elder 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. 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

To date, we have advanced our health and elder care business through the Habinurse brand of elder care products and the Recoup brand of products for the active elderly. In the previous fiscal year, we restructured the organization of this segment by slimming down and concentrating managerial resources around the Habinurse brand of elder care products that are enjoying strong demand. We are now striving to improve the competitive power of our products by focusing on core categories.

The Habinurse brand of elder care products is a central part of Pigeon's elder care business, which was launched in 1975. 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.

As for the Recoup brand of anti-aging products, launched in August 2007, we will streamline our product lineup and concentrate on new sales channels, such as catalog and TV shopping.

Performance and Highlights

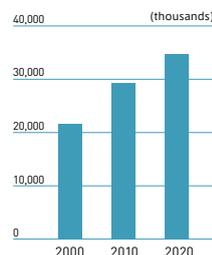
In the year under review, sales in the Health & Elder Care Business segment amounted to ¥6,699 million, up 3.6% from the previous year. Segment operating income declined 39.3%, to ¥212 million, due to increases in selling, general, and administrative expenses, reflecting a marketing strategy that tailors products to their most effective sales channels.

During the period under review, we launched a number of items in the Habinurse brand. In December 2012, for example, we unveiled the "Kaori Kakumei" series of toilet-use air fresheners with a new floral scent and longer-lasting deodorizing effect.

We also focused resources on consolidated subsidiary Pigeon Tahira Co., Ltd., which provides products for elder care facilities, and posted healthy sales of wheelchairs in the walking aid category. In June 2012, we released "Comfort Assister", a compact wheelchair designed to fit smaller women.

In December 2011, consolidated subsidiary Pigeon Manaka Co., Ltd. deployed its accumulated know-how in elder care support services to open a day care service center. The number of users of the center has been growing steadily ever since. Going forward, we will seek to launch products that reflect in-depth

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



Source: Figures compiled by Pigeon.

research into carefully targeted core categories. In addition, we will work to secure new sales channels and expand our business by focusing on elder care facilities.

In the Recoup brand of products for the active elderly, we advanced our business via such new sales channels, such as catalog and TV shopping. In February 2012, we launched "Walking support shoes LU".

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.

Going forward, we will rebuild our Group business operational system and enhance profitability by reinforcing sales activities centered on elder care facilities. We will also seek to launch

products derived from in-depth research into carefully targeted core categories. These products will form the cornerstone of our rigorous growth strategy.

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 2014.

Close Up

Pigeon Tahira Co., Ltd.

Pigeon Tahira Co., Ltd., which became a consolidated subsidiary in February 2004, sells products mainly to elder care facilities. It focuses on selling the Habinurse brand of elder care products. From basic materials to design and finishing, Pigeon Tahira incorporates the perspectives of users in its product offerings. 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. In addition to considering the condition and habits of the user, products sold by Pigeon Tahira also focus on the person's feelings.

Pigeon Manaka Co., Ltd.

Consolidated subsidiary Pigeon Manaka Co., Ltd. offers in-home 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. The company has a diverse range of services, including in-home care, in-home bathing, outpatient transportation, special equipment rental and sales, and home renovation, and its business is growing steadily. 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.



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.

We provide nursing care products which allow the elderly and other people who require nursing care to spend their days in comfort and happiness.



Supporting vitality at any age

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

We provide products to support a comfortable daily lifestyle for the active elderly.

Overseas Business

Business Overview

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. For the year, the Overseas Business segment posted sales of ¥26,964 million, up 24.9% from the previous year. Segment income jumped 63.4%, to ¥6,387 million. In addition to significantly higher revenue, this was due to an increase in gross profit stemming from improved utilization rates of production facilities, which compensated for a rise in selling, general, and administrative expenses. Accordingly, the Overseas Business segment accounted for 41.4% of consolidated net sales, a higher share than the Domestic Baby and & Mother Care Business segment.

Sales in China remained at a high level, growing 38.8% year-on-year (35.3% on a local-currency basis). Moreover, the ratio of Chinese sales to overseas sales increased to 52.4%, making China a propelling force for overall segment growth. Based on a policy targeting further business expansion in the huge Chinese market, 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 the 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. 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 take timely 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, Malasia, South Korea, etc.

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 in Changzhou. In Europe and North America, we will enhance our product categories and work in other ways to achieve steady growth. Through these initiatives, we forecast sales in the Overseas Business segment of ¥34.0 billion in the year ending January 2014. 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 and the China 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

Sales in 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 1.033 million babies are born annually, we feel it is possible to achieve annual sales in China of around ¥40 billion.

In 2012, Pigeon celebrated the 10th anniversary of full-scale entry into the Chinese market. In the beginning, we developed our business mainly in coastal areas around large cities, such as Shanghai and Beijing. More recently, however, we have broadened our coverage across all areas, including interior regions.

Our Position

The target for Pigeon's products is the "new rich" market. 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. Despite recent signs of a slowdown, economic growth in China continues at lightning speed, and we have steadily expanded our business through various measures. These include good timing of market entry, extensive face-to-face sales activities based on stable pricing that reflects sharp economic growth, and the high quality of our products, as well as increasing the number of stores and dedicated in-store Pigeon sections handling our offerings.

Business Strategies

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

In Chinese hospitals, for example, we have held various events, such as product exhibitions, product explanation forums, and child-care information sessions. In 2009, we opened Pigeon Breastfeeding Advice Offices in 34 hospitals as a joint project with China's Ministry of Health (41 hospitals as of the year ended January 2013). In these ways, we have stepped up our focus on brand appeal reinforcement. As of January 31,

2013, we have formed partnerships with more than 200 hospitals throughout the country in order to offer educational activities related to breastfeeding, including our Pigeon Breastfeeding Advice Offices.

With respect to manufacturing, 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. Under Phase II of plant construction, a new building is scheduled for completion in July 2013, whereupon we will begin upgrading and commissioning our various production equipment.

Pigeon's sales growth in China has been steady. With its products available at around 15,000 retail outlets, Pigeon is becoming widely recognized among customers as a highly reliable brand. We achieved a Chinese sales of ¥14.1 billion for the year ended January 2013. However, we can now envisage potential sales of ¥20 billion, and later more than ¥40 billion, in the future.

In China, we turned in 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. Recently, there have been concerns about anti-Japanese sentiment in China stemming from a territorial dispute. However, the impact on the Group's business in China has been minimal.

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 as well, seeking to further boost sales in China, we



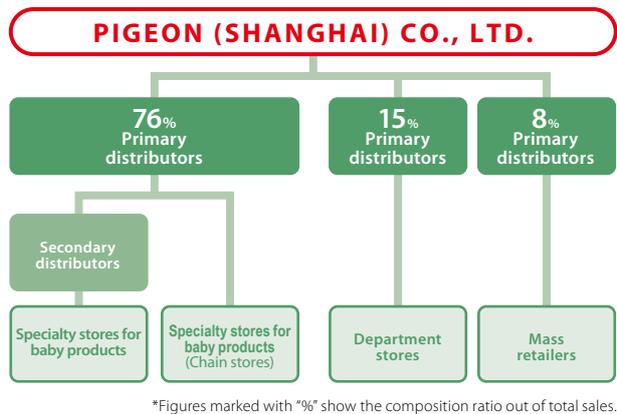
Uighur mothers receiving counseling in the Breastfeeding Advice Offices

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 counters within baby specialty stores, we are making steady sales progress in China's interior regions. As of January 31, 2013, a total of 2,425 such dedicated sections were in operation. 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



Sales Channel Expansion in China



Business Performance

In the year under review, sales in China totaled ¥14.1 billion, a significant 38.8% increase from ¥10.1 billion in the previous fiscal year.

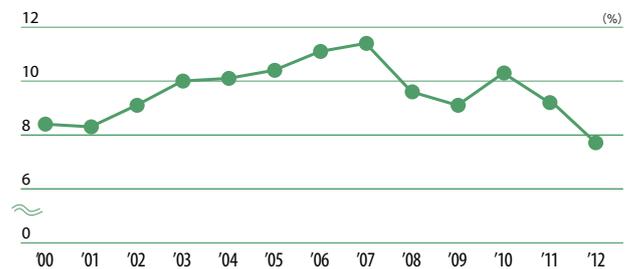
In China, we have finished rebuilding our distribution system and continue to maintain favorable relationships with distributors. Sales of new products are progressing well, and we are steadily expanding production at our two manufacturing bases in line with business growth. These factors have contributed significantly to improved profitability. During the year, we also continued educational activities related to breastfeeding in cooperation with China's Ministry of Health. We also focused on promotional activities, including live performances of maternity-oriented plays.

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. The Chinese government is also swift to take action, including public spending and consumption stimulatory measures. Over the long term, therefore, there is minimal cause for instability despite concerns about anti-Japanese sentiment in China stemming from a territorial dispute. For these reasons, Pigeon has not changed its view that China should remain a priority market.

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~).



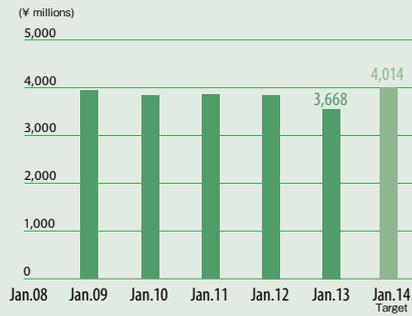
Pigeon counters in China



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

North America/ Europe

Sales in North America



Business Overview

With respect to total fertility rate and childbirth numbers, the United States is relatively stable among advanced countries. 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—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

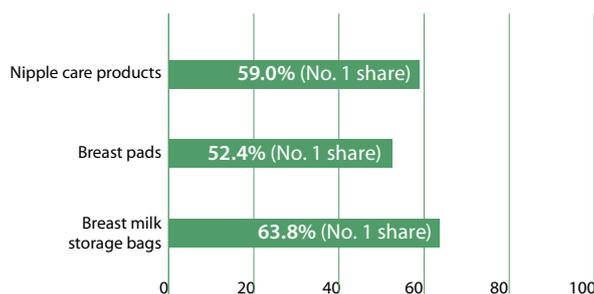


"Lansinoh" brand products



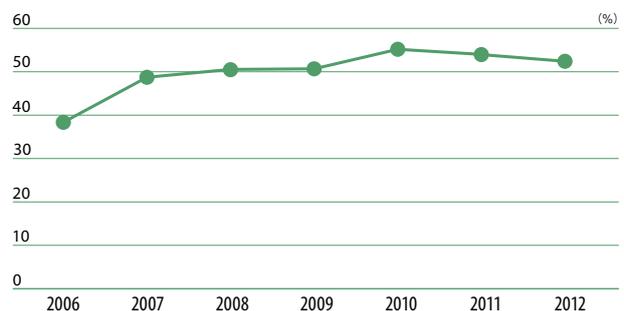
"mOmma" brand products

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



Source: Figures compiled by Pigeon (as of January 2012).

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



Source: Figures compiled by Pigeon.

Performance and Outlook

In the year under review, sales in North America totaled ¥3,668 million, down 4.5% from the previous year (down 4.6% in local-currency terms). The decline stemmed mainly from delays in launching new products. In Europe, we expanded our lineup of

offerings for the breastfeeding-related market while increasing the number of retailers and stores handling our products. Going forward, the Pigeon Group will continue targeting proliferation of recently acquired brands. At the same time, we will launch new offerings and work in other ways to expand our product categories while realizing synergies with Lansinoh.

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 we established a new subsidiary in India that is building a distribution network, increasing the number of outlets handling our products, and establishing dedicated Pigeon counters in retail stores. In South Korea, we transformed our sales branch into a subsidiary in order to reinforce our structure and achieve business expansion. We also anticipate significant growth in Malaysia, where we transformed a local sales company into a subsidiary in January 2011.

Initiatives in Asia

Pigeon launched its business in South Korea in the 1980s, focusing primarily on exports from Japan. In February 2009, we changed our brand name for the local market to "DoubleHeart", which has since won high recognition mainly for its breastfeeding- and weaning-related products. Our branch office in South Korea, opened in July 2010, has been gathering information and conducting activities while also providing sales support. Seeking to reinforce our operations and achieve future business expansion, in August 2012 we transformed the sales branch into a subsidiary. Through the new subsidiary, we will work to further raise brand recognition and broaden our range of offerings through collaboration with local distributors. In Malaysia, our local sales company, now a Pigeon Group

member, will target business expansion while deploying our strong brand power and marketing expertise.

In India, the population has been growing at the rate of more than 10 million per year, reaching over 1.2 billion in March 2011. 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. In India, we have already expanded mainly in major cities such as Delhi and Mumbai. We are also implementing sales displays which are linked with the community. Since April 2010, we have engaged in full-scale activities in India. Initiatives include local procurement of skincare items and establishment dedicated Pigeon sections in retail stores. Going forward, we will work to reinforce our distribution system and expand our sales network, with the aim of achieving renewed business growth.

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 will advance our business, centering on our new distribution agency, appointed in 2010.



Pigeon sales display at a department store in Malaysia



Pigeon counters in India

Overseas Research & Development

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.

With respect to the physical development of babies, we divide the major themes of developing hand/foot motor function and developing mouth and other biological

functions into sub-themes for more in-depth research. Since it is necessary to gain a firm grasp of key research functions, these themes are overseen by the Central Research Center in Japan. By contrast, some products, such as breast pumps and other breastfeeding-related products, may have different features according to user ethnicity. In 2011, we opened a special section of the Central Research Center in Singapore, which collects and monitors statistical data relevant to breastfeeding-related products.

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. At present, we have regional product development bases in Shanghai and Singapore, which receive research personnel dispatched from Japan.

Development of products that reflect local needs is handled by local development departments, which monitor products being sold that are specialized for 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.

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. Final 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.



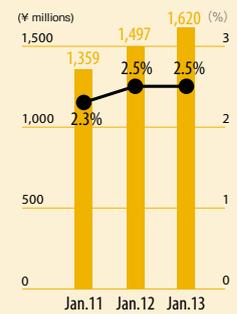
DoubleHeart booth at an event in South Korea



Sakura Skincare series of Pigeon Singapore

Research & Development

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



Our R&D Mission

At Pigeon, our R&D activities seek to constantly create the highest level of products. In particular, in the field of breastfeeding research, have continued to observe the behavior of infants for more than 50 years in an effort to clarify how infants drink when breastfeeding. Based on this observation, we consider it our mission to provide infants throughout the world with the best nipples for baby bottles. At the core of such R&D activities is our Central Research Center which was opened in 1991 in Tsukuba Mirai City, Ibaraki Prefecture.

When conducting breastfeeding research, we initially attached cameras to the bottom of baby bottles in order observe the movement of infants' tongues. Today, we use ultrasonic echo technology for such observation. In this way, changing times bring advances in technology and materials, thus leading to new discoveries and reform of existing products. Indeed, there is no end to our research themes.

Behavior observation is supported through product monitoring by nearby residents and by people throughout Japan. Additionally, in order to apply observation results to our products, it is essential that we cooperate with external partners such as pediatricians and other health-care professionals, university researchers, materials manufacturers and subcontractors.

Today, Pigeon's product group has expanded greatly. Our behavior observation has also broadened to include themes

such as maternity products and products for the elderly. Every day, we work our hardest to solve the problems of people leading a variety of differently lifestyles.

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.

Basic research on infants, the target of our baby and child care products, is handled by our basic research department in Japan. We also integrate research findings by coordinating individual research projects undertaken by our various overseas companies in Japan.

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.

Pigeon's core products—baby bottles and nipples—are the



A baby bottle which replicates the feel of breastfeeding —created from more than 50 years of breastfeeding research



The "Mag Mag" series celebrated its 30th anniversary in 2012

result of suckling-related research extending back more than 50 years since its establishment. We have been expanding our body of knowledge on the suckling movements established by Pigeon well before, 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.

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.

R&D Structure

R&D at Pigeon is spearheaded by the Central Research Center in Tsukuba Mirai City, Ibaraki Prefecture. Previously, the Center consisted of four entities: the Research & Planning Department, Product Development Department, Large-Sized Product Development Department, and Quality Control Department. In light of the Group’s ongoing global business advancement, however, we decided to make the quality control function more meticulous. Under a restructuring conducted in January

2013, therefore, we made the Quality Control Department independent, renaming it the Quality Control Division.

In addition to stationing researchers at our Central Research Center and domestic affiliated companies, the Development Department also stations researchers at overseas offices in countries such as China and Singapore. This increases our responsiveness to overseas markets.

The Research & Planning Department is responsible for both basic research and product planning. For around half a century, we have observed the development of babies and conducted research into such areas as breastfeeding, suckling actions, and physical growth. The Research & Planning Department uses the results of such work to engage in product planning internally. Due to expansion of our business domains, however, the Research & Planning Department has broadened its purviews to include non-baby-related items, such as maternity and elder care products.

The task of the Product Development Department is to transform the work of the Research & Planning Department into tangible form. A new product category that is capturing attention is large-sized products, such as baby strollers and car seats. Development of these products is handled by the Large-Sized Product Development Department, which is independent of the Product Development Department.

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 group gives priority to applications of patent, design and trademark filed in Japan, but also makes applications overseas while taking into consideration the areas where Pigeon plans to expand.

Going forward, Pigeon will further upgrade the functions of its R&D system while strengthening interaction with its various business departments.

In the future, we shall improve product design while maintaining a high level of functionality. At the same time, we shall pass on the DNA of our Central Research Center to regional development bases in China and Singapore, thus cultivating global personnel in the field of R&D.



Central Research Center (Tsukubamirai-city, Ibaraki)



Monitor Room

Pigeon Group's ESG

(Environmental, Social, Governance) Activities

Environmental Initiatives

27th 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 27th 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, about 1.5 hectares of the site is set aside for the campaign to commemorate the birth of children. Over the past 25 years, more than 100,000 babies joined our campaign, 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. In 2012, we were awarded as an "Environmentally Friendly Corporation" by Ibaraki Prefecture where "Pigeon Miwa no Mori" is located.



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 34th Dreams of Future Science Art Exhibition Encouragement Award for Kindergarten Pupils "Aromatic Bus" Fujiyama Nursery School (Yamagata Prefecture) Ai Otsuka

We at the Pigeon Group believe our business activities themselves entail an element of corporate social responsibility (CSR). Based on this fundamental understanding, we are pursuing initiatives aimed at contributing to the environment and society and enhancing corporate governance.

Social Contribution Activities in China

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

Following the Sichuan Earthquake of 2008, our local Chinese subsidiary Pigeon (Shanghai) Co., Ltd. provided various aid including donating funds for the reconstruction of a local elementary school. Construction of the school buildings proceeded smoothly, and an opening ceremony was held in December 2009 for the Pigeon Hope Elementary School in Meishan District of Sichuan Province. In 2010, we donated a school building to Huzhu Tu Autonomous County in Qinghai Province, in 2011 we donated a kindergarten building to Xinjiang Uygur Autonomous Region, and in 2012 we donated a school building to Yuping Dong Autonomous County in Guizhou Province. In October 2012, we held the groundbreaking ceremony for the 5th "Hope Elementary School" to be opened in the Guangxi Zhuang Autonomous Region. In 2011, we revisited the donated primary school in Sichuan Province and spent time interacting with the students and delivering donated school equipment. In the future, we plan to continually donate primary school buildings at the pace of one building per year.

Our exchange-related activities are ongoing. In May 2012, for example, we invited teachers and students to attend a ceremony in Shanghai, commemorating Pigeon's 10th anniversary of doing business in China. In the future, we plan to continually donate primary school buildings at the pace of one building per year.



Governance Initiatives

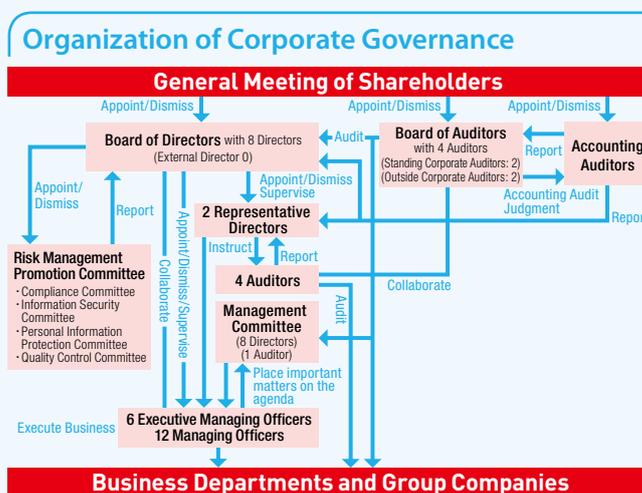
Corporate Governance System

Adhering to the Pigeon Group's corporate motto, "Only love nurtures love," all executives and employees of the Pigeon Group embrace a strong sense of ethics. They promote compliance-oriented management and are committed to helping Pigeon fulfill its corporate social responsibilities. To achieve sustained enhancement of corporate value, the Group is pursuing various initiatives to upgrade its corporate governance.

Pigeon's Board of Directors consists of eight members, none of whom are outside directors. We have adopted a corporate auditor system, with four corporate auditors, two of whom are outside corporate auditors. In 2000, we introduced a managing officer system to strengthen the business execution functions. Under this system, executive officers are responsible for management. In April 2012, we introduced a delegation-style executive officer system, with the aims of promoting two-way interaction between the management decision-making/corporate governance and business execution functions, as well as to clarify the responsibilities of directors and executive officers.

Promoting Compliance

Seeking to strengthen our compliance framework, we operate an internal reporting system, called Speak Up, as well as Pigeon Partners Line, a reporting system for our business partners available in both Japanese and English versions. We also have a system in place to swiftly address problems that are uncovered within or outside of the Group. This includes holding a Compliance Meeting to discuss appropriate responses and investigate the relevant circumstances, while protecting the identities of whistleblowers and their advisors.



Management's Discussion and Analysis

Business Environment and Performance

Business Conditions in Fiscal 2012

In fiscal 2012, ended January 31, 2013, the business environment for Japanese companies showed signs of a moderate turnaround, owing partly to measures to stimulate restoration following the Great East Japan Earthquake, which struck in March 2011. Personal consumption was weak, however, and the nation remained in a modest deflationary cycle, while employment conditions continued to be challenging. An improved export environment driven by the progressive decline of the yen, as well as effects of economic stimulus measures, gave rise to expectation of economic recovery. However, the issues of financial and currency-related instability in Europe remained unsolved, while the economic growth rate in China, heretofore a driver of the global economy, slowed down. Therefore, the risk of further downward pressure on the domestic economy remains real.

Under these conditions, the Pigeon Group reported an increase in revenue, centering on overseas operations, which benefited from a steady expansion of its business in China. For the year, consolidated net sales amounted to ¥65,075 million, up 10.0% from the previous year.

Income Statement Analysis

Gross profit increased 14.2% to ¥27,760 million, buoyed by improved utilization rates at our production facilities accompanying business growth. Since this growth rate was higher than that of net sales, operating income jumped 40.5%, to ¥7,086 million, and the operating margin climbed 2.4 percentage points, to 10.9%. Among non-operating items, we reported a foreign exchange loss, but also posted a foreign

exchange gain due to the yen's ongoing decline, leading to significantly improved income/expenses. Accordingly, ordinary income surged 50.3%, to ¥7,389 million.

In the previous fiscal year, the Group posted an extraordinary loss associated with the Great East Japan Earthquake. Due to the absence of such disaster-related losses in the year under review, net income rose significantly, up 43.7%, to ¥4,573 million.

Financial Position

Assets

As of January 31, 2013, Pigeon had consolidated total assets of ¥48,538 million, up ¥4,766 million (or 10.9%) from a year earlier. Within this amount, current assets increased ¥3,660 million (14.4%), while fixed assets rose ¥1,106 million (6.0%).

The major factor boosting current assets was a ¥3,280 million (45.0%) increase in cash and time deposits. The main reason for the rise in fixed assets was an increase in construction in progress associated with the commencement of Phase II construction of a plant by Pigeon Industries (Changzhou) Co., Ltd.

Liabilities

Total liabilities at fiscal year-end stood at ¥16,173 million, up ¥336 million (2.1%) from a year earlier. Within this total, current liabilities declined ¥766 million (6.2%), while long-term liabilities rose ¥1,103 million (31.9%).

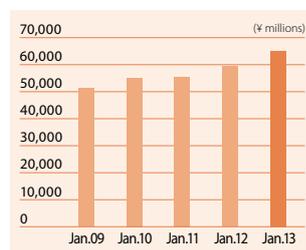
The main factors holding down current liabilities were an ¥843 million decrease in short-term debt and a ¥996 million decline in long-term debt due within one year. The main factor boosting long-term liabilities was a ¥562 million increase in long-term debt.

Sales by Segment (Consolidated)

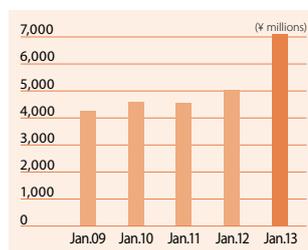
	Jan. 2012				Jan. 2013				
	Amount	Percentage(%)	Gross Margin(%)	Segment Profit	Amount	Percentage(%)	YoY Change(%)	Gross Margin(%)	Segment Profit
Registered amount	59,145	100.0%	41.1%	5,042	65,075	100.0%	110.0%	42.7%	7,086
Domestic Baby & Mother Care Business	24,047	40.7%	46.5%	3,677	23,882	36.7%	99.3%	46.8%	3,379
Child Care Service Business	5,990	10.1%	11.5%	152	6,388	9.8%	106.6%	11.4%	182
Health & Elder Care Business	6,469	10.9%	29.3%	350	6,699	10.3%	103.6%	30.6%	212
Overseas Business	21,584	36.5%	48.1%	3,909	26,964	41.4%	124.9%	50.6%	6,387
Other	1,052	1.8%	15.6%	138	1,140	1.8%	108.4%	15.2%	141

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



Net Assets

Consolidated net assets at fiscal year-end amounted to ¥32,365 million, up ¥4,429 million (15.9%) from a year earlier. This was due mainly to a ¥1,415 million adjustment on foreign currency statement translation and a ¥2,812 million (14.2%) increase in retained earnings.

Cash Flows

Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥7,656 million (compared with ¥4,212 million in the previous year). Main factors included ¥7,369 million in income before income taxes and a ¥585 million decrease in inventories.

Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥1,848 million (compared with ¥1,871 million in the previous year). Main factors included ¥1,745 million in acquisition of property, plant, and equipment.

Cash Flows from Financing Activities

Net cash used in financing activities was ¥3,149 million (compared with ¥1,776 million in the previous year). Main factors included a ¥1,337 million decline stemming from debt reduction, as well as ¥1,761 million in cash dividends paid.

As a result, cash and cash equivalents at fiscal year-end totaled ¥10,574 million up ¥3,280 million from a year earlier.

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 3.7 percentage points from a year earlier, from 11.8% to 15.5%. Return on assets (ROA) at fiscal year-end was 16.0%, up 4.6 percentage points from 11.4% 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 shareholder 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.

For the year, we paid an interim cash dividend of ¥44.00 per share (unchanged year on year) and a year-end dividend of ¥71.00 (from ¥44.00 at the previous year-end). This brought the total annual dividend to ¥115.00 per share of common stock (up ¥27.00 from the previous year), for a consolidated dividend payout ratio of 50.3%.

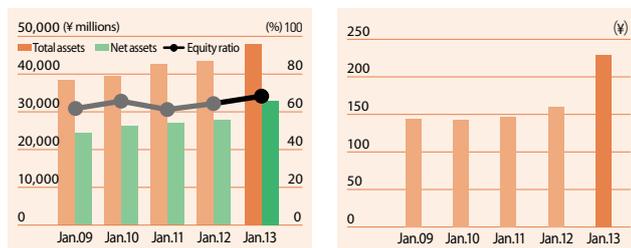
Outlook

The year under review was the second year of the Pigeon Group's Fourth Medium-Term Management Plan, entitled "Achieving Global Business Success through Company and Individual Competence", 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 existing 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 2014: net sales of ¥73.5 billion (up 12.9% year-on-year), operating income of ¥7.8 billion (up 10.1%), ordinary income of ¥7.8 billion (up 5.6%), and net income of ¥4.85 billion (up 6.0%).

(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.)

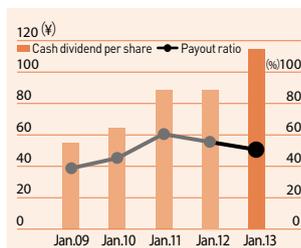
Total assets/Net assets/Equity ratio



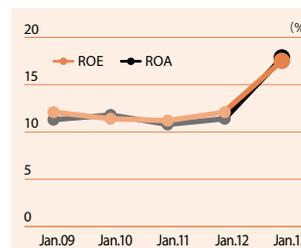
Net income per share



Dividend per share/Dividend payout ratio



ROE/ROA



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

Item	Period	¥ millions					US\$ thousands
		2009	2010	2011	2012	2013	2013
Assets							
Cash and Time Deposits		5,972	6,905	6,827	7,293	10,574	122,130
Notes and Accounts Receivable		10,118	8,757	9,874	9,993	10,540	121,737
Inventories		4,641	—	—	—	—	0
Goods and Products		—	4,358	4,549	5,332	4,816	55,625
Other Current Assets		898	2,250	2,911	2,823	3,171	36,625
Total Current Assets		21,630	22,272	24,162	25,443	29,103	336,140
Tangible Fixed Assets		13,308	14,039	15,409	15,058	16,208	187,203
Intangible Fixed Assets		1,544	1,230	1,188	1,285	1,176	13,583
Investments and Other Assets		1,923	1,950	1,924	1,985	2,051	23,689
Investment Securities		1,268	1,336	1,316	1,344	1,420	16,401
Total Fixed Assets		16,777	17,221	18,521	18,329	19,435	224,474
Total Assets		38,407	39,493	42,684	43,772	48,538	560,614
Liabilities							
Notes and Accounts Payable		4,674	4,311	3,984	3,758	3,864	44,629
Accrued Account Payable		2,341	2,238	2,687	2,755	3,179	36,717
Income Taxes Payable		426	682	561	704	1,134	13,098
Accrued Employees' Bonuses		522	531	537	587	606	6,999
Other Current Liabilities		3,278	2,929	4,455	4,577	2,832	32,710
Total Current Liabilities		11,243	10,694	12,227	12,382	11,615	134,153
Long-Term Borrowings		1,319	1,000	1,615	1,642	2,204	25,456
Long-Term Liabilities		1,520	1,535	1,798	1,812	2,353	27,177
Total Long-Term Liabilities		2,839	2,535	3,413	3,454	4,557	52,633
Total Liabilities		14,083	13,229	15,640	15,836	16,173	186,798
Shareholders' Equity							
Capital Stock		5,199	5,199	5,199	5,199	5,199	60,049
Additional Paid-in Capital		5,180	5,180	5,180	5,180	5,180	59,829
Retained Earnings		15,484	17,044	18,451	19,873	22,686	262,024
Net Unrealized Gain (Loss) on Securities		0	7	11	10	26	300
Adjustment on Foreign Currency Statement Translation		(1,493)	(1,203)	(1,861)	(2,386)	(970)	(11,204)
Treasury Stock		(442)	(446)	(447)	(448)	(450)	(5,198)
Minority Interests		396	482	510	507	693	8,004
Total Net Assets		24,324	26,264	27,044	27,935	32,365	373,816
Total Liabilities and Net Assets		38,407	39,493	42,684	43,772	48,538	560,614

Note: Figures in U.S. dollars are calculated, for convenience only, at the exchange rate of ¥86.58=U \$51.00.

Consolidated Statements of Income

Item	Period	¥ millions					US\$ thousands	
		2009	2010	2011	2012	2013	2013	
Net Sales		53,092	53,431	57,061	59,145	65,075	751,617	
Cost of Sales		32,927	32,528	33,780	34,826	37,314	430,977	
Gross Profit		20,164	20,902	23,281	24,319	27,743	320,432	
Selling, General and Administrative Expenses		15,895	16,298	18,734	19,276	20,674	238,785	
Operating Income		4,269	4,604	4,546	5,042	7,086	81,843	
Other Income		406	409	372	373	656	7,577	
Other Expenses		381	404	484	499	352	4,066	
Ordinary Income		4,293	4,609	4,435	4,917	7,389	85,343	
Extraordinary Income		16	4	20	19	7	81	
Extraordinary Losses		289	448	86	213	26	300	
Income before Income Taxes		4,020	4,165	4,369	4,723	7,369	85,112	
Income Taxes		1,041	1,299	1,331	1,463	2,128	24,578	
Adjustment for Corporate Tax		(26)	(89)	21	(10)	526	6,075	
Minority Interest in Net Income of Consolidated Subsidiaries		150	115	88	87	140	1,617	
Net Income		2,854	2,840	2,928	3,183	4,573	52,818	

Note: Figures in U.S. dollars are calculated, for convenience only, at the exchange rate of ¥86.58=US\$1.00.

Consolidated Statement of Cash Flows

Item	Period	¥ millions					US\$ thousands	
		2009	2010	2011	2012	2013	2013	
Cash Flows from Operating Activities		4,206	4,964	3,206	4,212	7,656	88,427	
Cash Flows from Investing Activities		(1,279)	(2,105)	(3,949)	(1,871)	(1,848)	(21,344)	
Cash Flows from Financing Activities		(110)	(2,018)	886	(1,776)	(3,149)	(36,371)	
Translation Gain (Loss) Related to Cash and Cash Equivalents		(618)	91	(220)	(622)		7,184	
Net Change in Cash and Cash Equivalents		2,197	932	(77)	465	3,280	37,884	
Cash and Cash Equivalents at Beginning Year		3,775	5,972	6,905	6,827	7,293	84,234	
Cash and Cash Equivalents at End of Year		5,972	6,905	6,827	7,293	10,574	122,130	

Note: Figures in U.S. dollars are calculated, for convenience only, at the exchange rate of ¥86.58=US\$1.00.

Corporate Information

Corporate Data (As of January 31, 2013)

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	937 (non-consolidated)(Total employees of the Group 3,304)

Board of Directors, Auditors and Officers (As of April 25, 2013)

Executive Advisor and Member of the Board	Yoichi Nakata	Managing Officers	Tsutomu Matsunaga <i>(Division Manager of Corporate Administration Div.)</i>
Chairman of the Board and CEO	Akio Okoshi		Hiroyasu Maki <i>(Division Manager of Accounting & Finance Div.)</i>
President and COO	Shigeru Yamashita		Takatoshi Urakari <i>(Division Manager of Human Resources & General Affairs Div.)</i>
Director, Senior Managing Executive Officer	Takashi Sakuma		Yusuke Nakata <i>(Division Manager of Research & Development Div.)</i>
Director, Managing Executive Officers	Eiji Akamatsu		Shinobu Iwamoto <i>(Division Manager of Quality Control Div.)</i>
	Norimasa Kitazawa <i>(Division Manager of China Business Div.)</i>		Nobuyuki Hashimoto <i>(Division Manager of Domestic Baby & Mother Care Business Div.)</i>
Director, Junior Managing Executive Officers	Kazuhiisa Amari <i>(Division Manager of Logistics Div.)</i>		Koji Ishigami <i>(Division Manager of Health & Elder Care Business Div.)</i>
	Yasunori Kurachi		Hiroyuki Masunari <i>(Division Manager of Overseas Business Div.)</i>
Standing Corporate Auditors	Yasushi Takashima		Ken Kaku <i>(Deputy Division Manager of China Business Div.)</i>
	Hiroki Yuda		Takanori Tsuru <i>(Division Manager of Child Care Service Business Div.)</i>
Outside Corporate Auditors	Shigeru Nishiyama		Isao Kosaka <i>(President of PIGEON SINGAPORE PTE.LTD.)</i>
	Shuji Idesawa		Tadashi Itakura <i>(President of THAI PIGEON CO.,LTD.)</i>

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.
- DoubleHeart Co. Ltd.
- Pigeon Industries (Thailand) Co., Ltd.
- Thai Pigeon Co., Ltd.

Equity Method Affiliate

- P.T. Pigeon Indonesia

Stock Data (As of January 31, 2013)

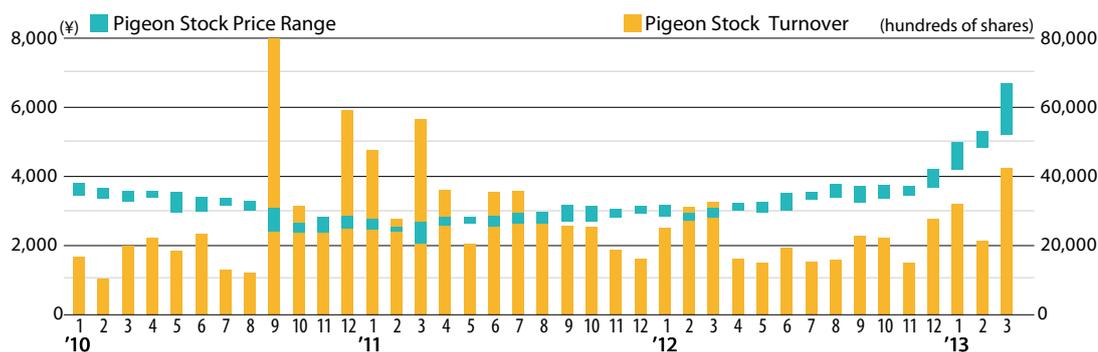
- Shares Authorized 60 million
- Shares Issued 20,275,581
- Number of Shareholders 6,684
- Treasury Stock 262,109

Ten Largest Shareholders (As of January 31, 2013)

Shareholder's Name	Shares Held (thousands)	Ownership* (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	2,578	12.9
Yoichi Nakata Japan	1,876	9.4
Japan Trustee Services Bank, Ltd. (Trust Account)	1,567	7.8
BBH Matthews Asia Dividend Fund	1,501	7.5
Mizuho securities Co., Ltd.	516	2.6
State Street Bank and Trust Company	454	2.3
Deutsche Securities Inc.	423	2.1
Chase Manhattan Bank NA London	394	2.0
Japan Trustee Services Bank, Ltd. (Trust Account 9G)	387	1.9
BNP Paribas Sec Service London JAS Aberdeen Investment Funds ICVC Agency Lending	326	1.6

* Percentage of Ownership figures are based on 20,013,472 shares (20,275,581 shares issued and outstanding, minus 262,109 shares of treasury stock).

Stock Price Range/Turnover of Common Stock



PIGEON CORPORATION

(Securities Code: 7956)

Head Office: 4-4, Nihonbashi-Hisamatsucho,
Chuo-ku, Tokyo 103-8480, Japan

TEL: +81-3-3661-4200

TEL: +81-3-3661-4188 (Investor Relations Department/Direct)

FAX: +81-3-3661-4320

www.pigeon.co.jp



Printed in Japan