

Annual Report 2004

For the year ended January 31, 2004



At a Glance

Products Handled		Business Environment																
Baby and Child Care	Breast-feeding-related products Baby bottles, baby bottle nipples, baby bottle cleansers and sterilizers, disinfecting equipment, baby bottle cleansing brushes, sterilized tongs, breast pads, breast pumps	<p>Pigeon's baby and child care business covers the full range of baby-related products, including breast-feeding- and weaning-related items, diapers, and skincare products, as well as provision of child-rearing support services. This is a core business that accounts for more than 80% of Pigeon's revenues. We are the industry leader in this category, and the Pigeon brand has earned a reputation for safety, peace of mind, and reliability.</p> <table><tr><td>Pigeon Home Products Co., Ltd</td><td>¥300 million</td></tr><tr><td>PHP Hyogo Co., Ltd.</td><td>¥240 million</td></tr><tr><td>PHP Ibaraki Co., Ltd.</td><td>¥222 million</td></tr><tr><td>Pigeon Singapore Pte. Ltd.</td><td>SGD1,670 thousand</td></tr><tr><td>Pigeon (Shanghai) Co., Ltd.</td><td>US\$750 thousand</td></tr><tr><td>Pigeon Industries (Thailand) Co., Ltd.</td><td>THB144 million</td></tr><tr><td>Thai Pigeon Co., Ltd.</td><td>THB122 million</td></tr><tr><td>Pigeon Hearts Co., Ltd.</td><td>¥100 million</td></tr></table>	Pigeon Home Products Co., Ltd	¥300 million	PHP Hyogo Co., Ltd.	¥240 million	PHP Ibaraki Co., Ltd.	¥222 million	Pigeon Singapore Pte. Ltd.	SGD1,670 thousand	Pigeon (Shanghai) Co., Ltd.	US\$750 thousand	Pigeon Industries (Thailand) Co., Ltd.	THB144 million	Thai Pigeon Co., Ltd.	THB122 million	Pigeon Hearts Co., Ltd.	¥100 million
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Weaning-related products Baby mugs, cooking equipment, feeding accessories, bibs, baby food, baby beverages																		
Skincare products Soaps, shampoos, oils, lotions, sunscreens, powders, baby wipes, wet tissues																		
Others Children's pharmaceuticals, digital thermometers, thermometer/barometers, scales, bathwater thermometers, child-safety goods, cotton swabs, toothbrushes, nail clippers, cooling pillows, cooling sheets, pacifiers, teething products, toys, bath toys																		
Child-rearing support services Operation of child-minding and daycare centers, babysitter dispatch services																		
Healthcare	Nursing care products Adult disposable diapers, incontinence pads and pants, diaper covers, waterproof sheets, pillows, abdominal wipes, body wipes, urine and fecal containers, shampoos, sterilizers, deodorizers, crockery, bibs, oral hygiene products, walkers	<p>Healthcare is an important part of Pigeon's "three-generation marketing" strategy. We believe that this business will become a key pillar in the Corporation's operations given the rapid growth of the nursing care</p> <table><tr><td>Pigeon Home Products Co., Ltd.</td><td></td></tr><tr><td>PHP Hyogo Co., Ltd.</td><td></td></tr><tr><td>Tahira Co., Ltd.</td><td>¥210 million</td></tr><tr><td>Pigeon Manaka Co., Ltd.</td><td>¥10 million</td></tr></table>	Pigeon Home Products Co., Ltd.		PHP Hyogo Co., Ltd.		Tahira Co., Ltd.	¥210 million	Pigeon Manaka Co., Ltd.	¥10 million								
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Nursing care services Nursing-care services in Tochigi Prefecture																		
Others	Women's care products Dietary supplements, maternity goods	<p>In this segment, the parent company sells general-use consumable products, as well as health foods supplied by Pigeon Home Products, a subsidiary,</p> <table><tr><td>Pigeon Home Products Co., Ltd</td><td></td></tr><tr><td>Pigeon Will Co., Ltd.</td><td>¥100 million</td></tr></table>	Pigeon Home Products Co., Ltd		Pigeon Will Co., Ltd.	¥100 million												
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Others Wet tissues																		

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

and Group Companies

Main Products

We were quick to establish an overseas presence, setting up a subsidiary in Singapore in 1978. Since then, we have formed manufacturing companies in Thailand, Indonesia, and China, enabling us to deliver products that meet the cultural attributes of various nations. Today, we are steadily increasing overseas sales, especially to Asia, as well as the Middle East and Europe. This segment is becoming a central driver of growth for the Pigeon Group.

100.0%	Manufacture of toiletry products
100.0%	Manufacture of Pigeon-brand nonwoven fabric products
86.5%	Manufacture of Pigeon-brand wet tissues
100.0%	Manufacture and sale of Pigeon's trademark maternity and infant products
100.0%	Manufacture and sale of Pigeon's trademark maternity and infant products
97.5%	Manufacture of Pigeon's trademark maternity and infant products
53.0%	Manufacture of Pigeon's trademark infant products
100.0%	Consignment operation of daycare and child-minding centers



Breast-feeding-related products



Weaning-related products



Skincare products

Baby and Child Care



Others



Child-rearing support services

market. Pigeon Manaka Co., Ltd., a subsidiary, provides home nursing care services. On February 2, 2004, Tahira Co., Ltd., a maker of nursing care products, became a subsidiary in this segment.

60.0%	Manufacture and sale of products for nursing care facilities
67.0%	Sale of Pigeon-brand nursing care products; provision of home nursing care services



Nursing care products



Nursing care services

Healthcare

and items supplied by other companies. Another subsidiary, Pigeon Will, mainly sells maternity undergarments supplied by affiliated companies.

100.0%	Sale of maternity and infant products
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Women's care products



Others

Others

(As of February 2, 2004)

To Our Shareholders

Based on our corporate commitment, “providing the gift of love to all,” we are mobilizing our child-rearing business to support the lifestyles of families everywhere.

Message from the Management

We are leveraging the Pigeon brand and the quality of our management by stepping up our “three-generation marketing” strategy to build a high corporate profile that is recognized worldwide.

Results

The fiscal year ended January 31, 2004, was the second year of Corporate Value Creation 21, our medium-term management plan. During the year, we pursued aggressive management and sales strategies and built internal frameworks allowing swift, correct decision-making even in times of drastic changes in the business environment. We also focused on reinforcing cost-competitiveness by revamping the earnings structure of the entire Group.

In the child-rearing and healthcare markets, the trend of declining prices, especially for consumables, has started to bottom out. Nevertheless, business conditions remained generally difficult.

Consolidated net sales for the year totaled ¥34,156 million, up 3.3% from the previous year. Ordinary income grew 8.0%, to ¥2,504 million, and net income climbed 49.5%, to ¥1,270 million.

Corporate Value Creation 21: A Progress Report

As mentioned, the period under review was the second year of Corporate Value Creation 21, our management plan for the three years to January 2005. The plan incorporates Pigeon’s original “three-generation marketing” strategy targeting, babies, mothers, and the elderly. It was an important year in many respects. For a



Seiichi Matsumura
President and Chief Operating Officer

start, we employed an aggressive “selection and concentration” policy in realigning our asset portfolio, with the emphasis on maximizing corporate value. In fact, we sold practically all of our holdings of marketable securities, and we slashed interest-bearing debt from ¥4,513 million to ¥2,442 million.

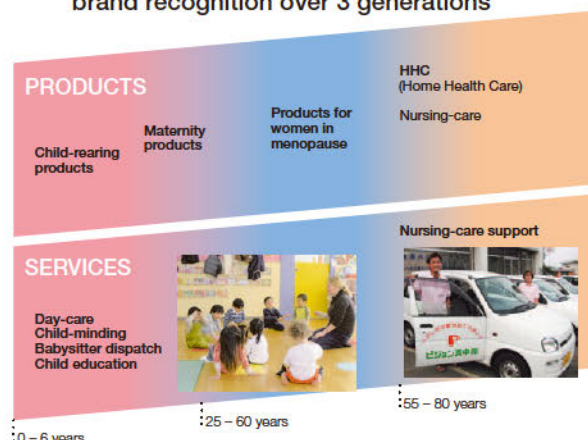
As a result, our asset-turnover ratio improved from 1.04 to 1.13 times, and the ratio of ordinary income to net sales grew from 7.0% to 7.3%. The ratio of ordinary income to total assets reached 8.1%, surpassing our 8% target one year earlier than planned. In summary, therefore, we made significant progress, both quantitatively and qualitatively, in improving our asset efficiency.

Consolidated Results (years ended January 31)

(¥ millions, %)				
Segment	2004	2003	Change	% change
Baby and child care	27,919	27,447	472	1.7
Healthcare	3,898	3,739	159	4.3
Others	2,338	1,870	468	25.0
Total	34,156	33,057	1,099	3.3

In the year under review, Pigeon’s maternity-related products business (previously included in the Baby and Child Care segment) became part of the women’s care category of the Others segment. This move was designed to strengthen the Corporation’s “three-generation marketing” strategy. The women’s care business, which includes dietary supplements in addition to maternity products, has evolved into an important domain in itself. In the latter half of the previous fiscal year, the Corporation undertook a reorganization, setting up a division to develop textiles, centering on maternity garments.

Expanding our business: Raising Pigeon-brand recognition over 3 generations



Pigeon's Growth Strategies

Based on its corporate commitment, "providing the gift of love to all," the Pigeon Group is dedicated to helping those in need—while pregnant, giving birth, and rearing children, as well as in old age. Our policy is to develop our business by delivering products and services that address the needs of these people. Fulfilling our role as a "lifestyle support company focusing on child rearing," we are leveraging the Pigeon brand and the quality of our management to build a high corporate profile that is recognized worldwide.

Targeting Renewed Growth

Amid a dramatically changing domestic business environment, characterized by low birth rates and an aging population, the Pigeon Group is focusing on three important growth areas: the child-rearing support business, the healthcare (previously "nursing care") business, and overseas business. By targeting its investment resources in these three areas, the Group is seeking to solidify its position and ensure renewed progress in the 21st century.

In the healthcare segment, Tahira Co., Ltd., which makes and sells nursing care products for the elderly, became a subsidiary in February 2004. We expect the nursing care market to expand considerably in line to Japan's aging

population. The purchase of Tahira as a developer, manufacturer, and seller of nursing care products will produce synergies with the parent company, which has strong consumer-oriented sales capabilities. We now have a broad enough presence to grow the healthcare business into the Group's No. 2 core operation, following baby and child care products. Healthcare products are expected to account for around 20% of consolidated net sales in the fiscal year to January 2005.

Going forward, we will also strengthen our focus on our child-rearing support business and overseas business. The following pages provide a detailed explanation of our strategies and activities in these businesses.

●●● Average monthly expenditures per infant

(Source: Pigeon) (¥)

Products	1998	1999	2000	2001	2002
Powdered milk	1,813	1,711	1,836	1,798	1,630
Baby food	886	962	915	785	908
Cow's milk	658	609	557	514	372
Snacks	789	831	749	718	706
Other food	2,173	2,250	2,087	1,876	1,638
Subtotal (food)	6,319	6,363	6,144	5,691	5,255
Clothes (under, outer), shoes, etc.	3,937	3,685	3,741	3,435	3,763
Cloth diapers, diaper covers/liners, etc.	121	99	189	156	88
Disposable diapers	3,446	3,345	3,184	3,267	3,285
Cloth diaper rental	19	28	31	33	25
Subtotal (clothes, diapers)	7,523	7,157	7,145	6,891	7,160
Medical treatment, pharmaceuticals	931	1,047	781	748	564
Toys	1,237	1,281	1,270	1,235	1,538
Picture books	387	423	403	440	552
Subtotal (toys, picture books)	1,625	1,705	1,673	1,675	2,090
Breastfeeding/weaning crockery	247	241	284	308	259
Bathing/hygiene accessories	901	1,127	1,103	1,123	1,069
Subtotal (breastfeeding, weaning, bathing, hygiene)	1,148	1,368	1,387	1,431	1,328
Outdoor, furniture, beds, etc.	1,632	1,686	2,304	1,432	1,935
Total	19,176	19,326	19,434	17,869	18,331

●●● Size of Japanese market for home healthcare products (value of units shipped)

(Source: Pigeon) (¥ millions)

Products	2001	2002
Nursing care foods	48,850	50,150
Bibs	630	660
Medicine containers	330	340
Crockery, cutlery	1,660	1,700
Wheelchairs	5,200	5,550
Walkers	220	240
Walk-assisters	1,500	1,600
Walking sticks	20	20
Electric wheelchairs	480	570
Nursing care mattresses	980	1,020
Inflatable mattresses	400	440
Bath safety products (hand grips, rubber mats)	1,330	1,500
Waterproof sheets (disposable)	300	330
Waterproof sheets (reusable)	600	580
Adult body wipes (non-flushable)		280
Adult abdominal wipes (flushable)		250
Adult abdominal wipes (non-flushable)		200
Other adult wipes		240
Toilet deodorizers		5,440
Room deodorizers		4,780
Hand sterilizers		2,800

Products	2001	2002
Other sterilizers (not for humans)		1,880
Sterilizers (for humans)	430	470
Detergents		1,350
Dry shampoos		3,680
Other skincare products for nursing use (shampoos, soaps)		650
Denture care products	8,500	8,300
Disposable diapers (flat type)	7,500	7,310
Disposable diapers (shorts type)	17,350	17,510
Disposable diapers (adhesive-stop type)	10,980	11,000
Urine-absorbent pads (regular use)		9,140
Urine-absorbent pads (night/prolonged use)	14,120	5,800
Disposable diapers (nursing care use)	3,050	3,180
Incontinence pants (with absorption belt)	3,050	3,090
Incontinence pants (without absorption belt)	2,100	2,100
Diaper covers	2,000	2,220
Portable toilets (plastic)	1,960	2,000
Portable toilets (furniture-fitted)	860	920
Home safety accessories (hand-grips, ramps, platforms)	3,640	3,840
Underwear		2,520
Support garments		880
Pajamas		1,680

(All figures have been rounded down)

1. Child-Rearing Support Business

Basic Strategy

We are seeking to dramatically raise our market presence by taking advantage of brand synergies arising from our activities in two areas—manufacture and sale of baby and child care products, and our child-rearing support operations—both of which have evolved from many years of infant-related research. By capitalizing on these synergies, we intend to consolidate our competitive position.

To this end, on August 1, 2003, we transferred the operations of three businesses handled by the parent company—child-minding, daycare, and babysitter-dispatch services—to Pigeon Kids World Co., Ltd. (now Pigeon Hearts Co., Ltd.), a wholly owned subsidiary. The parent company and Pigeon Hearts are now spearheading the Group's child-rearing support business while maximizing the synergies that result.



Pigeon Land Joso

Child-Rearing Support

Pigeon Land Nerima Takanodai, a directly managed child-minding center, began operations in July 2003, having obtained official authorization from the Tokyo Municipal Government. It has since performed solidly.

Operating multiple child-minding centers provides beneficial experience and knowledge that can be applied elsewhere in our operations. The parent company ensures that such knowledge is transmitted across its network of centers. We also transmit the latest child-minding-related data and our accumulated know-how to our various centers.

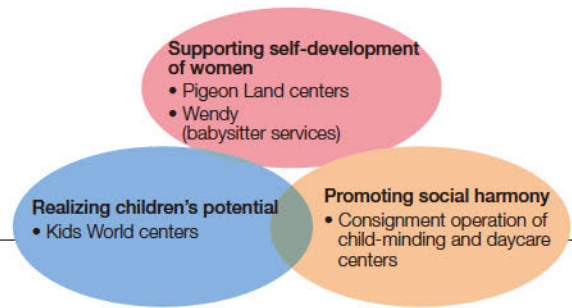
One of Pigeon's strengths is its ability to combine high quality with merits of scale. Taking advantage of this strength, we will seek to help improve the quality of child-minding throughout Japan. In recognition of our contribution, on April 1, 2004, we took over operations of in-hospital child-minding facilities run by the Mutual Aid Association of the Ministry of Health, Labor and Welfare (MHLW).

The objective of the Mutual Aid Association is to look after the welfare of national public servants. It is made up of employees from national government-run hospitals and nursing homes. Operation of in-hospital child-minding facilities is a key function of the Association, which has a long history in the child-rearing support field. In the spring of 2004, all of Japan's national hospitals and nursing homes were privatized, and the operation of their child-minding centers, numbering 116 in total, was entrusted to Pigeon. This is testimony to the high level of trust the government places in us.

●●● Pigeon Group's child-rearing support operations (as of May 31, 2004)

1. Pigeon Land child-minding centers ※ Pigeon Land Joso (Ibaraki Prefecture) ※ Pigeon Land Suita (Osaka Prefecture) ※ Pigeon Land Kashiwa (Chiba Prefecture) ※ Pigeon Land Rittou (Shiga Prefecture) ※ Pigeon Land Nerima Takanodai (Tokyo) ※ Pigeon Land Yukigaya (Tokyo) ※ Sanno Child-Minding Center (Tokyo)	3. In-company child-minding operations 13 locations (companies include Hitachi, Toyota, Mazda, and Vodafone Japan)
2. Child-minding operations within commercial facilities (under consignment) Isetan department store (Fuchu, Tokyo) Seibu department store (Ikebukuro, Tokyo) Hotel New Otani Osaka Aiku Hospital (Hiroo, Tokyo) Aeon Kawasaki Shopping Center (Kawasaki) Sogo department store (Yokohama) Korona World Ieisure centers (Sendai and Aomori) + 11 other locations	4. Child-minding operations within national government hospitals ※ 116 national hospitals around Japan
	5. Baby-sitter dispatch services Pigeon Wendy (services the Kanto, Kansai, and Nagoya areas)
	6. Kids World child-minding centers 35 locations around Japan

Note (※): Pigeon Land child-minding centers and centers within national government hospitals are operated by the parent company. All others are operated by Pigeon Hearts Co., Ltd.



Seeking to further raise the quality of our services, we have appointed dedicated supervisors at our facilities around the nation to provide backup to our child-minding operations. We are also employing information technologies to build a framework for providing efficient and comprehensive support across our network of child-minding centers and regional operations.

Pigeon Hearts

Pigeon Hearts Co., Ltd., a wholly owned subsidiary, is involved in the following areas:

- Operation of "Kids World" child-minding centers
- Dispatch of babysitters
- Provision of daycare services within commercial facilities
- Operation of in-company child-minding centers



Kids Station (child-minding facility within Vodafone Japan)

Now, we will describe some other areas in which Pigeon has earned high acclaim.

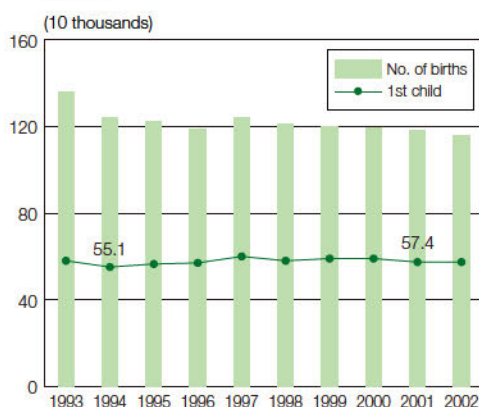
In Moriyama Ward of Nagoya City, a company called Nagoya Guideway Bus is building Yutori Line, Japan's first new bus-rail transportation system, aimed at enhancing access to the city's central business district. This major infrastructural project promises to boost the development of the area and open up new opportunities.

In March 2004, Pigeon Hearts started a new business in an effort to improve services for Yutori Line commuters and meet the needs of local residents. By providing a value-added component to the traditional "park and ride" concept, we created a new concept called "child-minding and ride." This is embodied in Pigeon Yutori Land, a new child-rearing support facility providing high-quality child-minding services and an infant education program. Through the facility, Pigeon Hearts is addressing many of the needs of local residents with respect to rearing children. Parents come to the parking area, leave their children at the center, and board the Yutori Line. As such, they can travel comfortably and avoid traffic jams.

Unrivaed Track Record

The scope of the Pigeon Group's child-rearing support operations is unparalleled in Japan. The parent company operates six child-minding facilities (including three licensed child-minding centers and one certified center), while Pigeon Hearts operates and provides know-how to 200 child-minding and daycare facilities, including in-company centers.

●●● Total no. of births; No. of 1st child births



Total monthly spending (1st child)	¥21,137
Total monthly spending (2nd child)	¥15,492

Pigeon Hearts Co., Ltd.

• Business concept

To realize the potential of children, support women's employment and the rearing of children, and promote social harmony.

• Business policy

Pigeon Hearts aims to be the dominant player in the rapidly expanding market for child-rearing support services. To this end, we will pursue top-level integration of all our child-rearing functions—from basic research to development, operation, and management—and thus further raise the quality of our services.

2. Overseas Business

Seeking to provide renewed impetus to Groupwide earnings, Pigeon is strengthening its international operations by building personnel development systems and forming strategic alliances with overseas institutions.

A key feature of our overseas business is the accumulated trust that customers place in our products and the Pigeon brand. Trust is a major factor affecting sales of our products, especially baby bottles, breast-feeding-related items, pacifiers, and toys. These and other Pigeon products are highly trusted, which is why they continue to sell well overseas.

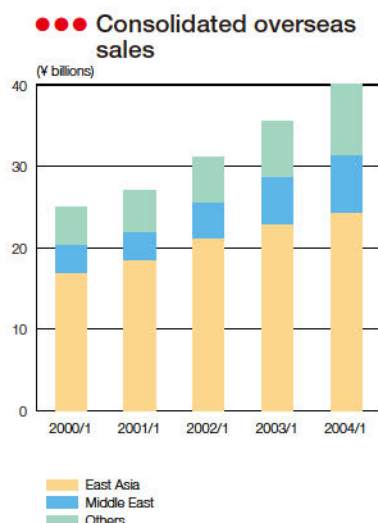
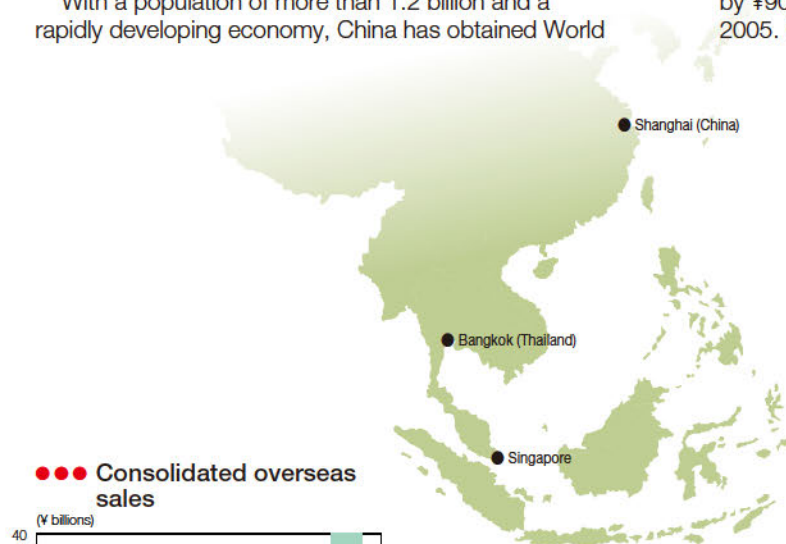
At present, the Pigeon Group's overseas sales amount to around ¥4.0 billion annually, of which about half are exports. Sales in South Korea, China, and the Middle East are particularly strong.

In Southeast Asia, Pigeon Industries (Thailand) Co., Ltd., a subsidiary, makes Pigeon-brand products and ensures the stable supply of those products to the quickly growing North American market. Key items made by that subsidiary include wet tissues and breast pads, which we have positioned as strategic products for the global market. For this reason, we have just completed capital spending of around ¥500 million to upgrade its facilities.

With a population of more than 1.2 billion and a rapidly developing economy, China has obtained World

Trade Organization (WTO) membership and will host the 2008 Olympic Games in Beijing. To secure a firm footing in such a quickly growing economy, we are steadily raising recognition of Pigeon as a high-end brand. Pigeon (Shanghai) Co., Ltd., a wholly owned subsidiary, was established in April 2002 to spearhead our sales activities in China and has greatly boosted our market share in that nation. We hope to strengthen and upgrade production in China in the future.

In North America, we have made solid progress to date, mainly in the OEM market. In April 2004, we formed an agreement with Lansinoh Laboratories, Inc., a well-known local maker of breast-feeding-related products. Under the agreement, Lansinoh will become a wholly owned subsidiary of Pigeon. Our intention here is to solidify our marketing presence in North America and secure sales channels with prominent retailers, thereby reinforcing sales of breast-feeding-related products in the region. In the past, we have done business with Lansinoh, and after the acquisition we will gradually integrate its operations into our own. Our management team believes that such a strategy will help maximize corporate value over the medium and long terms. The acquisition is expected to boost Pigeon Group net sales by ¥900 million, to ¥41.4 billion, in the year to January 2005. Ordinary income is forecast to rise to ¥2.7 billion.



Pigeon Industries (Thailand) Co., Ltd.



Baby Shop Zhuhai
(Guangdong Province, China)

3. The Future of Pigeon

Performance Targets

The fiscal year ending January 2005 is the final year of the Pigeon Group's medium-term management plan. We have set the following financial targets for this important year (consolidated figures).

Net sales	¥41.4 billion
Operating income	¥2.7 billion
Net income	¥1.6 billion

To meet these targets, the Pigeon Group is pursuing strategies that highlight each member's specific strengths while maximizing Groupwide synergies.

●●● Vision for 2010

Our vision for the Pigeon Group in the year to January 2010, just five years away, is shown below (consolidated figures).

Net sales	¥50 billion
Gross profit	¥20.0 billion
SG&A	¥15.0 billion
Operating income	¥5.0 billion
Ordinary income	¥4.0 billion

●●● Domestic market share of Pigeon's main products

Source: INTAGE Inc. (Estimates based on survey of 1,100 drugstores throughout Japan, March 2004)



Bird's-eye view of PHP Hyogo Co., Ltd.

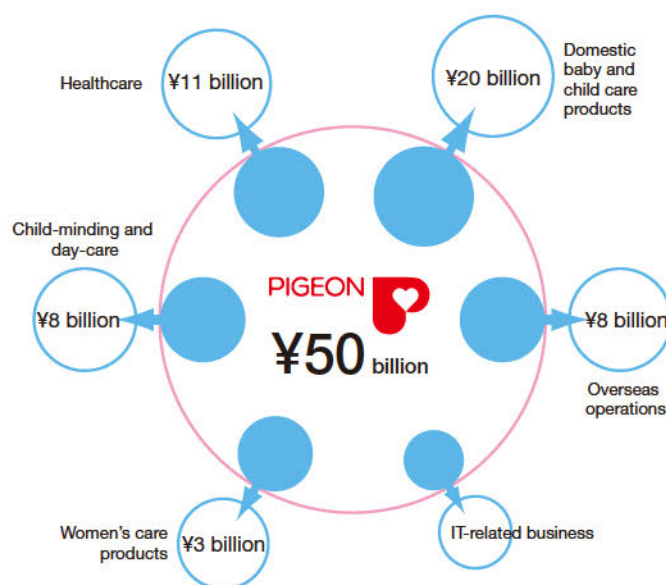


June 2004

Seiichi Matsumura
President and Chief Operating Officer

Seiichi Matsumura

●●● January 2010 Vision



Management's Discussion and Analysis of Operations

Corporate Group

The Pigeon Group consists of the Pigeon Corporation (the parent company), 11 consolidated subsidiaries, and two equity-method affiliates. The Group is engaged mainly in the manufacture and sale of baby care, child care, and healthcare products, as well as in the provision of child-rearing and healthcare support services.

Environment and Performance

In the first half of the year under review, the state of the Japanese economy was relatively uncertain, due to concerns about the impact of the Iraq war on the U.S. economy and the SARS outbreak on East Asian economies. Thanks to swift conclusions to both events, however, causes for concern gradually dissipated. As a result, the U.S. economy turned around and the Chinese economy expanded firmly in the second half of the period. This led to a slight recovery in capital investments and improved financial performances of Japanese companies and a steady, albeit modest, recovery in the domestic economy.

The year in review was the second year of the period covered by the Pigeon Group's medium-term management plan, Corporate Value Creation 21. During the year, we pursued aggressive management and sales strategies and built internal frameworks allowing swift, correct decision-making even in times of drastic changes in the business environment. We also focused on reinforcing cost-competitiveness by revamping the earnings structure of the entire Group.

The trend of declining prices in the baby care and healthcare markets—the Group's principal areas of involvement—has started to bottom out. Nevertheless, business conditions remained generally difficult.

Consolidated net sales for the year totaled ¥34,156 million, up 3.3% from the previous year.

Despite higher selling, general, and administrative expenses, operating income rose 6.2%, to ¥2,651 million. This was mainly due to a significant reduction

in other expenses stemming from elimination of foreign exchange losses and lower interest expenses.

Return on equity (ROE) for the year was 7.0%, up from 4.9% in the previous term. The equity ratio rose 6.6 points, to 61.7%.

Net income climbed 49.5%, to ¥1,270 million, and net income per share rose to ¥63.59, from ¥43.02.

Profit Appropriation Policy

With respect to appropriating earnings, our policy is to actively return profits to shareholders. We do this by paying stable and ongoing cash dividends, with the emphasis on raising dividend levels where possible. Here, we take into account all relevant factors, such as corporate performance and dividend payout ratio. For the period under review, we declared a year-end dividend of ¥8.00 per share, bringing total annual dividends to ¥16.00 per share (after adding the ¥8.00 interim dividend).

Segment Review

Due to a reclassification of its operations in the year under review, the Group's maternity-related business, formerly part of the "Baby and Child Care" segment, is now included in the "Others" segment. Also, the "Nursing Care" segment has been renamed "Healthcare." The previous year's figures have been modified to reflect the reclassification and allow accurate year-on-year comparisons.

Baby and Child Care

Sales in this segment amounted to ¥27,919 million, up 1.7% from the previous year. Segment operating income grew 4.3%, to ¥5,171 million.

The trend of declining prices, especially of consumables, in this segment showed signs of bottoming out. However, our main customers—operators of drugstores and retail outlets specializing in baby products—accelerated the pace of new-store openings, leading to intense price competition that may continue in the future.

In response, Pigeon strove to further reinforce the competitiveness of its main retail customers by launching distinctive new products onto the market.

In child-rearing support services, Pigeon Land Nerima Takanodai, a directly managed child-minding center, began operating in July 2003, having obtained official authorization from the Tokyo Municipal Government. Also, we accelerated expansion of our in-company child-minding center operations on behalf of large corporations, such as Hitachi, Ltd., Toyota Motor Corp., Banyu Pharmaceutical Co., Ltd., Vodafone K.K., and Shinsei Bank, Limited.

In overseas markets, the SARS outbreak caused stagnation in exports to some regions. However, sales to South Korea and the Middle East were solid. Good performers included baby food, breast pads, baby bottle nipples, and baby wipes. Pigeon Industries (Thailand) Co., Ltd., a subsidiary, reported strong increases in production and sales of wet tissues and breast pads. That company also posted a major jump in OEM sales of breast pads. Going forward, we will strive to expand sales of wet tissues and breast pads as strategic products for the global market. Meanwhile, Pigeon (Shanghai) Co., Ltd., a wholly owned subsidiary, pursued sales activities designed to spread the use of Pigeon products in hospitals. Our aim here is to expand our share of the rapidly growing Chinese retail store market.

Healthcare

Sales in this segment rose 4.3%, to ¥3,898 million. Segment operating income totaled ¥324 million, compared with an operating loss of ¥113 million in the previous fiscal year.

Revenues in this segment derive mainly from sales of incontinence pads. Seeking to expand market share and boost segment revenues, we undertook aggressive sales activities in the year under review. These efforts enabled us to exceed our sales targets. Pigeon Manaka Co., Ltd., which provides healthcare dispatch services for the elderly, continued establishing close ties with its local communities in Tochigi Prefecture.

Others

Sales from other operations totaled ¥2,338 million.

Women's care products account for the bulk of revenues in this segment. During the year, we launched dietary supplements and herbal teas designed to enhance the comfort of women experiencing physical and spiritual changes associated with pregnancy. We also actively sold skincare products, including a cream to prevent stretch marks, to retail stores. Year-on-year sales grew dramatically as a result. Meanwhile, Pigeon Will Co., Ltd., a consolidated subsidiary, reaped the benefits of its aggressive sales activities. Consequently, both revenues and profits in this segment improved.

Projections

For the fiscal year to January 2005, the Group forecasts consolidated net sales of ¥41.4 billion (up 18.6%), ordinary income of ¥2.7 billion (up 7.8%), and net income of ¥1.6 billion (up 26.0%).

Cash Flows

Net cash provided by operating activities amounted to ¥2,156 million, down 34.9%. Principal causes of this decline included a major increase in employees' retirement benefits, losses on sales of securities, and a significant decrease in trade payables.

Net cash provided by investing activities totaled ¥374 million, compared with ¥961 million used in such activities in the previous year. Major contributing factors in this improvement included a substantial increase in proceeds from sales of investments in securities.

Net cash used in financing activities was ¥2,427 million, down 28.1%. This was mainly due to significant repayments of short- and long-term debt.

Cash and cash equivalents at the end of the year amounted to ¥3,223 million, up ¥86 million, or 2.7%, from a year earlier.

Financial Data

Consolidated Balance sheets

(January 31, 2003 and 2004)

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
ASSETS			
Current Assets:			
Cash and time deposits	¥ 3,137	¥ 3,223	\$ 30,389
Notes and accounts receivable	7,508	7,544	71,119
Marketable securities	0	0	0
Inventories	2,791	2,876	27,115
Other current assets	489	771	7,276
Total current assets	13,927	14,416	135,905
Fixed Assets:			
Tangible Fixed Assets	13,689	13,034	122,874
Intangible Fixed Assets	604	637	6,010
Investments and Other Assets	3,603	2,123	20,017
Investment securities	2,384	1,021	
Total fixed assets	17,906	15,795	148,902
Adjustments on foreign currency statement translation	—	—	—
Total Assets	¥ 31,833	¥ 30,212	\$ 284,807
LIABILITIES			
Current Liabilities:			
Notes and accounts payable	¥ 5,268	¥ 4,900	\$ 46,192
Accrued amount payable	1,026	1,187	11,199
Income taxes payable	708	145	1,376
Accrued employees' bonuses	338	337	3,180
Other current liabilities	3,036	2,300	21,684
Total current liabilities	10,376	8,871	83,631
Straight bonds	—	—	—
Long-Term Liabilities:			
Long-term borrowings	2,106	902	8,508
Other long-term liabilities	932	1,442	13,594
Total long-term liabilities	3,038	2,344	22,102
Total Liabilities	13,415	11,216	105,734
Minority Interests	865	348	3,286
SHAREHOLDERS' EQUITY			
Capital stock	5,199		
Additional paid-in capital	5,133		
Consolidated retained earnings	8,033		
Net unrealized gain on securities	(175)		
Adjustment on foreign currency statement translation	(341)		
Treasury stock	(296)		
Total shareholders' equity	17,553		
Capital stock		5,199	49,015
Additional paid-in capital		5,134	48,405
Consolidated retained earnings		8,976	84,620
Net unrealized gain on securities		(13)	(127)
Adjustment on foreign currency statement translation		(376)	(3,552)
Treasury stock		(273)	(2,574)
Total shareholders' equity		18,647	175,787
Total Liabilities and Shareholders' Equity	¥ 31,833	¥ 30,212	\$ 284,807

Note: Figures in U.S. dollars are calculated, for convenience only, at the exchange rate of ¥106.08=U.S.\$1.00.

Consolidated Statements of Income

(For the years ended January 31, 2003 and 2004)

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Net Sales	¥ 33,057	¥ 34,156	\$ 321,987
Operating Costs and Expenses:			
Cost of sales	19,782	20,317	191,581
Gross profit	13,274	13,838	130,406
Selling, general and administrative expenses	10,777	11,186	105,457
Operating income	2,497	2,651	24,998
Other Income	385	332	3,133
Other Expenses	563	479	4,518
Ordinary Income	2,319	2,504	23,613
Extraordinary Income	6	157	1,483
Extraordinary Loss	497	661	6,236
Income (Loss) before Income Taxes	1,828	2,000	18,860
Income Taxes	792	389	3,672
Adjustment for Corporate Tax	(17)	238	
Less: Minority Interest in Net Income of Consolidated Subsidiaries	203	101	(2,251)
Net Income	¥ 849	¥ 1,270	\$ 11,981

Note: Figures in U.S. dollars are calculated, for convenience only, at the exchange rate of ¥106.08=U.S.\$1.00.

Consolidated Statement of Cash Flows

(For the years ended January 31, 2003 and 2004)

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Cash Flows from Operating Activities	¥ 3,312	¥ 2,156	\$ 20,326
Cash Flows from Investing Activities	(961)	374	(3,527)
Cash Flows from Financing Activities	(3,375)	(2,427)	(22,882)
Translation Gain (Loss) Related to Cash and Cash Equivalents	9	(17)	(162)
Net Change in Cash and Cash Equivalents	(1,015)	85	818
Cash and Cash Equivalents at Beginning of Year	3,873	3,137	29,581
Net Change in Cash and Cash Equivalents Due to Newly Consolidated Companies	279	—	—
Net Increase in Cash and Cash Equivalents	—	—	—
Cash and Cash Equivalents at End of Year	¥ 3,137	¥ 3,223	\$ 30,389

Note: Figures in U.S. dollars are calculated, for convenience only, at the exchange rate of ¥106.08=U.S.\$1.00.

Consolidated Retained Earnings

(For the years ended January 31, 2003 and 2004)

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Balance at Beginning of the Term	¥ 7,697		
Deferred tax-effect adjustment	—		
Decrease in Consolidated Retained Earnings	514		
Cash dividends paid	312		
Bonuses directors and corporate auditors	2		
Net Income	849		
Balance at End of the Term	¥ 8,033		
<Additional paid -in capital>			
Balance at Beginning of the Term		5,133	48,394
Increase in additional paid in capital			12
Acquisition of treasury stocks		1	
Total		1	
Balance at End of the Term		5,134	48,405
<Retained earnings>			
Balance at Beginning of the Term		8,033	75,731
Increase in retained earnings			
Purchase of treasury stock		1,270	
Total		1,270	
Decrease in retained earnings			
Cash dividends paid		319	
Bonuses directors and corporate auditors		8	3,093
Total		328	
Balance at End of the Term		¥ 8,976	\$ 84,620

Note: Figures in U.S. dollars are calculated, for convenience only, at the exchange rate of ¥106.08=U.S.\$1.00.

Social Benefit Activities

Pigeon's commitment to the well-being of infants and "providing the gift of love to all" has remained unchanged since its establishment in 1957. We demonstrate this commitment by making the best products on the market and conducting education forums related to child-rearing.

In our product advertisements, we stress the importance of brushing children's teeth and setting aside ample time for feeding. These and other helpful suggestions are also part of the wealth of educational information available on our website.

The emergence of the nuclear family in the late 1970s sparked the widespread acceptance that child-rearing should be jointly undertaken by both parents. Quick to recognize this trend, Pigeon began offering special educational courses for men on child-rearing. Since then, we have also hosted maternity courses, "prenatal concerts," and other events to ensure that the latest information on child-rearing is always available.

Tree-Planting Campaign to Commemorate Baby Births

Every year, we hold a tree-planting campaign to commemorate the birth of new babies. In addition to promoting reforestation, the campaigns emphasize the preciousness of newborn life and the importance of raising children to be healthy and strong. The campaigns also seek to foster harmonious interaction between regions, humans, and corporations for future generations.

Since the first tree-planting campaign in 1987, we have held 18 annual campaigns, with a total of around 73,000 babies participating. The tree-planting area, located in Miwamura, Ibaraki Prefecture, has expanded to cover more than 25 hectares.

Superior Baby Bottles

Pigeon's baby bottles and baby bottle nipples for newborns are widely used in hospitals. We also make special bottles and nipples for babies who have mouth impediments or trouble drinking from normal bottles. Since launching these products several decades ago, we have not raised their prices.



Tree-planting campaign (May 2004)

●●● Environmental contribution (over 10 years)

Contribution to water resource development

Volume of water saved	29,266m³ Equivalent to 188 swimming pools (each 25m x 10m x 1m)
Volume of water purified	29,266m³ Equivalent to 16,035 regular home-use water-purification cartridges

Erosion prevention

Volume of soil saved	641m³ Equivalent to cone-shaped pile 6.7m high and 19.12m in diameter
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Carbon dioxide absorption/fixation

Volume of CO ₂ absorbed/fixed	526t Amount of CO ₂ emitted by an automobile (10km/l fuel efficiency) traveling 2.2 million km (equivalent to 56.7 times around the world).
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Pigeon Environmental Report
(Tsukuba plant, April 2004)

Corporate Information

Corporate Data

(As of January 31, 2004)

Company name	Pigeon Corporation
Address	5-1, Kanda-Tomiyamacho Chiyoda-ku, Tokyo 101-8567
Phone	+81-3-3252-4111
Fax	+81-3-3252-9105
Website	www.pigeon.co.jp
Established	August 15, 1957
Paid-in capital	¥5,199,597 thousand
Fiscal year-end	January 31
Employees	366

Stock Data

(as of January 31, 2004)

Shares authorized	60 million
Shares issued	20,275,581
Treasury shares	281,564

Note: Treasury shares include 250,000 shares held for the Corporation's stock option plan.

Ten Largest Shareholders

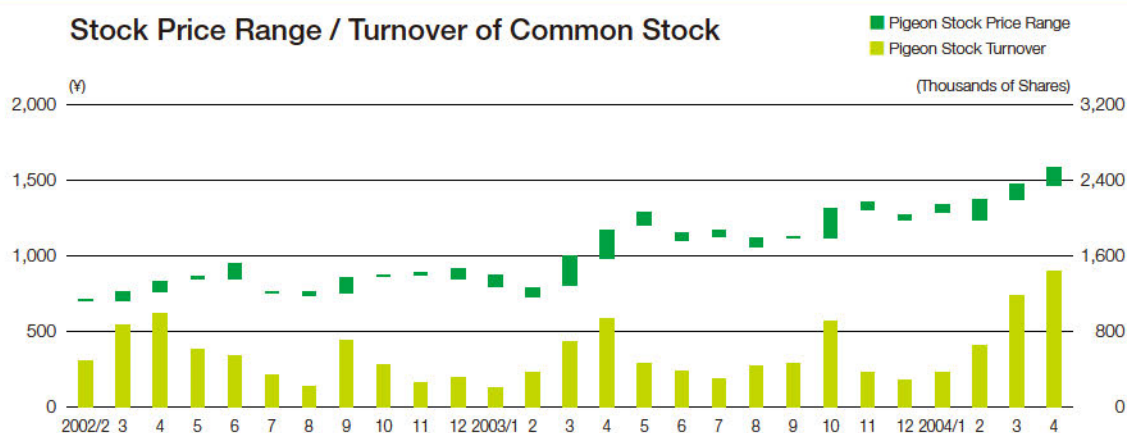
	Shares held (1,000s)	Ownership (%)
Yoichi Nakata	6,249	31.4
The Master Trust Bank of Japan, Ltd.	1,183	5.9
Trust & Custody Services Bank, Ltd.	900	4.5
Fukuyo Co., Ltd.	893	4.5
Japan Trustee Services Bank, Ltd.	736	3.7
Mitsui Asset Trust and Banking Company, Limited	558	2.8
Pigeon Corporation Employees' Stock Ownership Fund	450	2.3
Bank of New York Europe Ltd.	331	1.7
Goldman Sachs International	233	1.2
The Dai-ichi Mutual Life Insurance Company	223	1.1

Board of Directors, Auditors, and Officers

(As of April 28, 2004)

Chairman and Chief Executive Officer	Yoichi Nakata
President and Chief Operating Officer	Seiichi Matsumura
Senior Managing Director	Tetsuo Ogawa
Managing Director	Hiroko Shimada
Directors	Takashi Kurashima Mitsugu Takahashi Hisashi Katsuki Akio Okoshi
Standing Auditors	Akiyoshi Ushiki Hiroshi Ota
Statutory Auditors	Shigeru Sugino Shigeru Nishiyama
Managing Officers	Yasushi Takashima Tatsuya Sugo Akira Nagasaka Harumi Yamamoto Kazuhiko Ota Kimiyo Tanaka Tomoyuki Koizumi

Stock Price Range / Turnover of Common Stock



PIGEON CORPORATION

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Office

Ami-machi, Inashiki-gun, Ibaraki

Distribution centers

Ami-machi, Inashiki-gun, Ibaraki

Hitachiota-shi, Ibaraki

Kanzakicho, Kanzaki-gun, Hyogo

Research center

Yawaharamura, Tsukuba-gun, Ibaraki

Domestic sales offices

Sapporo, Sendai, Saitama, Tokyo, Nagoya,
Osaka, Hiroshima, Matsuyama, Fukuoka

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