

# Annual Report 2005

For the year ended January 31, 2005



# At a Glance

Products Handled		Business Environment
Baby and Child Care	<b>Breast-feeding products</b> Baby bottles, baby bottle nipples, baby bottle cleansers and sterilizers, disinfecting equipment, baby bottle cleansing brushes, sterilized tongs, breast pads, breast pumps	Pigeon's baby and child care business covers the full range of baby-related products, including breast-feeding products, baby food and feeding support products, diapers, and skincare products, as well as provision of child-rearing support services. This is a core business that accounts for 75% 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. We were quick to establish a presence in overseas markets, setting
	<b>Baby food and feeding support products</b> Baby mugs, cooking equipment, feeding accessories, bibs, baby food, baby beverages	
	<b>Skincare products</b> Soaps, shampoos, oils, lotions, sunscreens, powders, baby wipes, wet tissues	
	<b>Others</b> 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	
	<b>Child-rearing support services</b> Operation of child-minding and daycare centers, baby-sitter dispatch services	
Healthcare	<b>Nursing care products</b> 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	Healthcare is another important part of Pigeon's core business. We believe that this business will become a key pillar in the Corporation's operations given the rapid growth of the nursing care market. Pigeon Manaka Co., Ltd., a subsidiary, provides
	<b>Nursing care services</b> Nursing care services in Tochigi Prefecture	
Others	<b>Women's care products</b> Dietary supplements, maternity goods	In this segment, the parent company sells general-use consumable products, as well as health foods supplied by Pigeon Home Products, a subsidiary,
	<b>Others</b> Wet tissues	

Company name	Capitalization
Pigeon Home Products Co., Ltd.	¥300 million
PHP Hyogo Co., Ltd.	¥240 million
PHP Ibaraki Co., Ltd.	¥222 million
Pigeon Singapore Pte. Ltd.	SGD1,670 thousand
Pigeon (Shanghai) Co., Ltd.	US\$950 thousand
Pigeon Industries (Thailand) Co., Ltd.	THB144 million
Thai Pigeon Co., Ltd.	THB122 million
Pigeon Hearts Co., Ltd.	¥100 million
Lansinoh Laboratories, Inc.	US\$1

Pigeon Home Products Co., Ltd.	
PHP Hyogo Co., Ltd.	
Tahira Co., Ltd.	¥100million
Pigeon Manaka Co., Ltd.	¥10 million

Pigeon Home Products Co., Ltd.	
Pigeon Will Co., Ltd.	¥100 million

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



## and Group Companies

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. U.S.-based Lansinoh Laboratories, Inc., became a subsidiary in April 2004. Today, we are steadily increasing overseas sales, especially to Asia, as well as the Middle East, Europe, and North America. This segment is becoming a central driver of growth for the Pigeon Group.

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

## Main Products



**Breast-feeding products**



**Baby food and feeding support products**



**Skincare products**

## Baby and Child Care



**Others**



**Child-rearing support services**

home nursing care services. Pigeon will use the resources of Tahira Co., Ltd., which become a subsidiary in the previous fiscal year, to expand its nursing care business.

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



**Nursing care products**



**Nursing care services**

## Nursing Care

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

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



**Others**

## Others

(April 27, 2005)

# To Our Shareholders

We will seek to become a globally renowned corporation, fulfilling our role as a “lifestyle support” company with particular expertise in child rearing.

The fiscal year ended January 31, 2005, was the third and final year of Corporate Value Creation 21, the Pigeon Group’s first medium-term management plan for the 21st century. During the period, we steadily implemented key business initiatives and took advantage of synergies derived from our Groupwide strengths. At Pigeon, we regard corporate value as a combination of the values held by our main stakeholders—shareholders, customers, and employees. By raising corporate value while maintaining an appropriate balance among stakeholder groups, we will strive to become a corporation with a global presence.



Seiichi Matsumura  
President and Chief Operating Officer

A handwritten signature in black ink, reading "Seiichi Matsumura".

## Operating Environment and Performance

Despite a slowdown in growth in the second half of the year due to soaring oil prices and other factors, the Japanese economy generally expanded as corporations, encouraged by higher earnings, increased their capital expenditures. Personal consumption was also up, albeit modestly.

In this climate, the Pigeon Group aggressively implemented strategies outlined in Corporate Value Creation 21. We also built internal frameworks allowing swift, correct decision-making even in times of drastic changes in the business environment and the Group’s earnings structure. We also focused on reinforcing our cost-competitiveness.

In the baby and child care segment, our main business, business conditions were difficult amid continually declining prices, especially of consumables. Undaunted, we actively launched new products aimed at providing inspiration and happiness to women who are pregnant or raising children.

During the year, we steadily expanded our presence in the child-rearing support segment, taking advantage of market deregulation and our competitive edge. We also improved our performance overseas, centering on China and elsewhere in East Asia.

The healthcare segment, however, faced very challenging conditions in the wake of ongoing price declines for consumables and other products.

Consolidated results (years ended January 31)

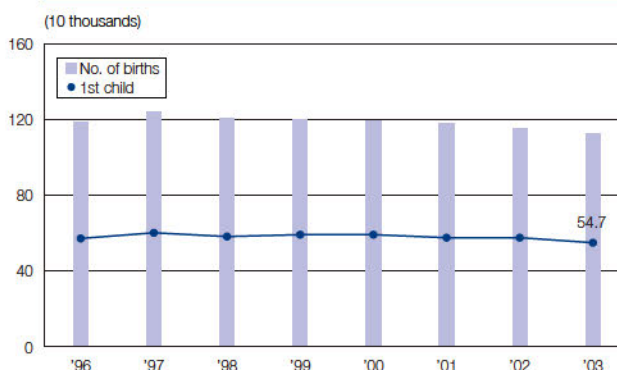
(¥ millions)				
Segment	2005	2004	Change	% change
Baby and child care	31,100	27,919	+3,181	+11.4
Healthcare	6,758	3,898	+2,859	+73.8
Others	2,860	2,338	+522	+22.3
Total	40,719	34,156	+6,563	+19.2



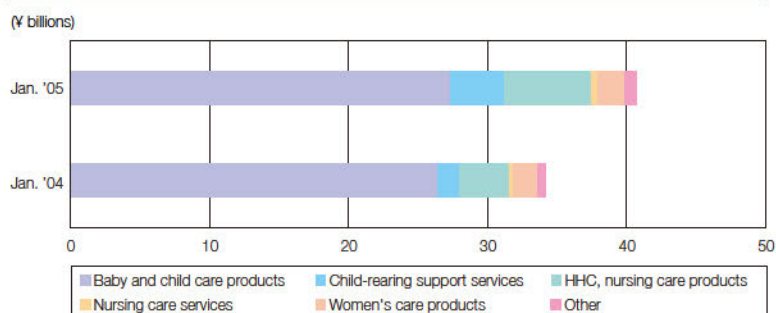
As a result, the Group reported improvements in revenue and earnings for the period. Consolidated net sales totaled ¥40,719 million, up 19.2% from the previous year. Ordinary income grew 4.7%, to ¥2,621 million, and net income climbed 17.6%, to ¥1,494 million.

Under Corporate Value Creation 21, we were targeting nonconsolidated net sales of ¥31.5 billion, consolidated net sales of ¥38.2 billion, an ordinary income ratio of 8%, and consolidated ROA (ratio of ordinary income to total assets) of 8%. Our actual final-year results were nonconsolidated net sales of ¥30.3 billion, consolidated net sales of ¥40.7 billion, an ordinary income ratio of 6.4%, and consolidated ROA of 8.1%. Although we achieved our goals for consolidated revenue and asset efficiency, therefore, we have challenges ahead of us in terms of profit ratios.

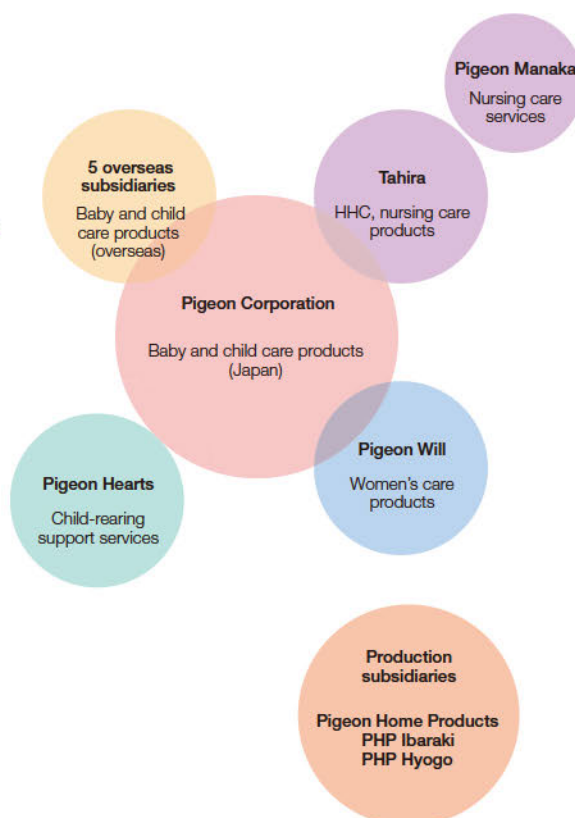
Number of births: 1st child



Pigeon's net sales (consolidated)

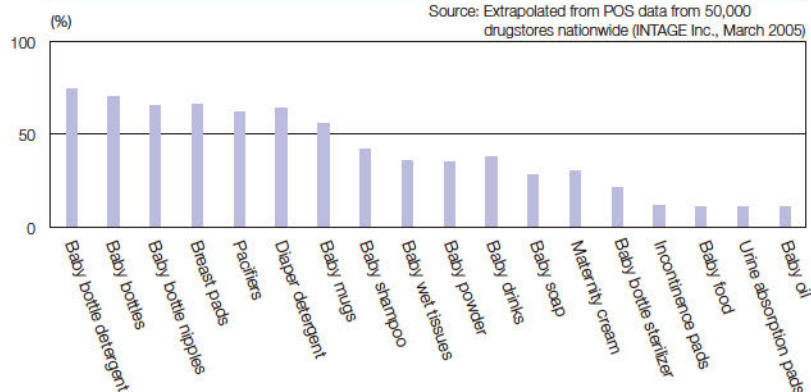


Impression of Pigeon Group (January 2008 fiscal year)



Domestic market share of Pigeon's main products

Source: Extrapolated from POS data from 50,000 drugstores nationwide (INTAGE Inc., March 2005)



## Medium- and Long-Term Strategies

Building on progress made under Corporate Value Creation 21, Pigeon announced its second medium-term plan for the 21st century, entitled Global 500, on January 19, 2005. The theme of the new plan, covering the three-year period to January 2008, is to maximize corporate value on a global scale.

### Global 500: Second Medium-Term Plan for the 21st Century (February 2005–January 2008)

#### Shifting Focuses: From “Pigeon” to “Pigeon Group,” From Domestic to Global

In formulating the new plan, Pigeon took the following factors into consideration:

- (1) Ongoing low-birthrate trend in Japan
- (2) Progressive aging of domestic society
- (3) Changes in domestic distribution industry (such as emergence of oligopolies and acceleration of direct-mail marketing)
- (4) Changes in overseas markets (including expansion in China and North America)

#### Basic Policies of Global 500

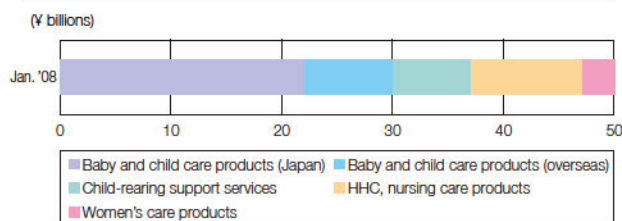
Through relentless market penetration, the Group will reinforce its unique position and competitive edge in the baby and child care segment, its core business. At the same time, we will actively mobilize Groupwide synergies and “drawing power” to build a strong presence in growth areas. Through these actions, we will seek to maximize corporate value on a global scale. Specific initiatives are listed below.

- (1) Our business related to baby and child care products forms the core of Group management and is a key determinant of our overall corporate value. Our basic strategy for this business is to “create value.”
- (2) We will position our child-rearing support, home healthcare (HHC), nursing care, and overseas businesses as growth areas.
- (3) Addressing changes in the earnings structure of our overall business, we will reform internal systems and redistribute managerial resources.

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



#### Evolving revenue breakdown: Sales by segment forecast (consolidated)



#### Key performance targets for the final year of Global 500 (ending January 2008)

Consolidated net sales	¥50 billion
Gross profit ratio	39.5%
Operating income ratio	8.0%
Ordinary income ratio	7.5%
ROA (ordinary income to total assets)	10.0%



# Pigeon's Growth Strategies

## 1. Child-Rearing Support Business

In the year under review, Pigeon capitalized on market liberalization and its competitive edge to steadily expand its child-rearing support business.

In April 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 segment's performance dramatically improved as a result. Now that we have a nationwide profile, we look forward to further progress in our child-rearing support business.

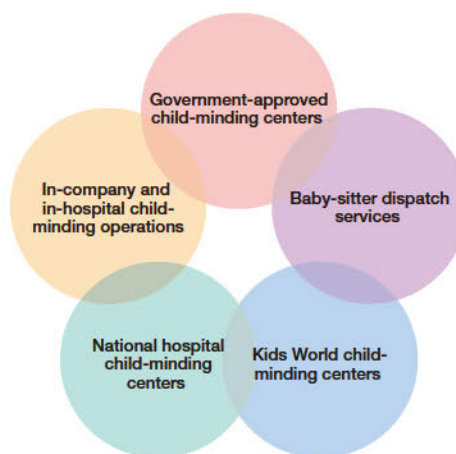
During the year, we also made good progress in the area of in-company child-minding operations. We opened our second center within the facilities of Toyota Motor Corp. and our second center for a financial institution—Saikyo Bank, Ltd., based in Yamaguchi Prefecture. We will accelerate expansion of this business in the future.

Meanwhile, the pace of privatization of public child-minding centers is quickening. In April 2004, we took over operation of the Sanno Child-Minding Center in Tokyo's Ota Ward. In January 2005, Pigeon Hearts Co., Ltd., a wholly owned subsidiary, took over the operations of its first Tokyo Metropolitan Government-approved child-minding center—now named Pigeon Land Fuchu.

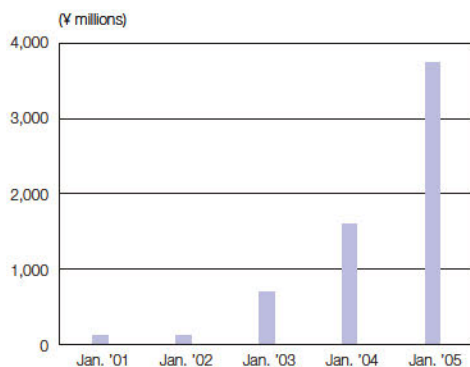
### Business Environment

As of April 2004, there were around 22,000 government-approved child-minding centers in Japan. More than half of these are publicly operated facilities, which are being rapidly privatized by their respective local government entities. The Pigeon Group is focusing

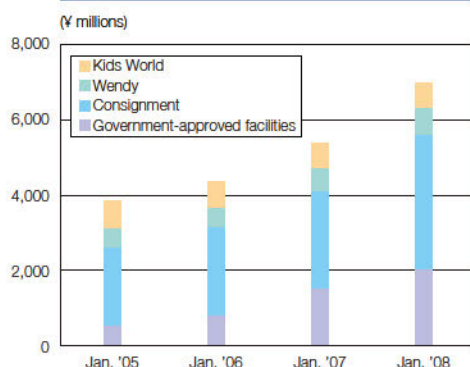
#### Description of business



#### Sales of child-rearing support business



#### Child-rearing support business: Forecast revenue breakdown by category



### Corporations Urged to Provide Child-Rearing Support Services: Law for Measures to Support the Development of the Next Generation

The Law for Measures to Support the Development of the Next Generation was promulgated in July 2003. Under this law, companies with 300 employees or more are obligated to formulate action plans to facilitate the child-rearing efforts of their employees. The law also encourages companies and local government entities to create workplace environments conducive to both working and child-rearing. Specifically, business owners are required to create action plans by March 31, 2005, and from April 1 they must promptly notify their local prefectural governments of the gist of such plans.

Companies that achieve the targets of their action plans are eligible to receive special recognition, and many companies are now seeking to obtain such recognition to enhance their corporate image and recruiting strategies. Accordingly, they are promoting maternity leave, cutting work hours, and implementing various other measures.

According to a Nihon Keizai Shimbun survey of 2,050 Japanese corporations—companies listed on the Tokyo Stock Exchange and prominent unlisted companies—77.8% of respondents regard the new law as positive for their operations. We therefore expect that corporations will assume an increasingly high profile in spearheading measures to address the nation's low-birthrate situation.

on taking over operation of such facilities under consignment agreements with those entities.

Another focus is the consignment operation of in-hospital and in-company child-minding centers. Our activities will be boosted by legislation, such as the Law for Measures to Support the Development of the Next Generation, as well as growing public awareness about corporate social responsibility (CSR) and the personnel strategies of clients. We anticipate further expansion of this business as a result.

### The Pigeon Difference

According to a survey of corporations conducted by the Nihon Keizai Shimbun, Japan's leading economic daily newspaper, about key measures to support the next generation, the highest number of respondents (37.3%) cited "creation of an environment facilitating maternal leave and subsequent return to the workplace" at the top of their list. This is testimony to the rapidly growing need for in-company child-minding centers. For around 50 years, Pigeon has provided products developed



Pigeon Land Joso

through multifaceted research related to babies. This research is proving useful in the child-minding and daycare areas.

Going forward, we will consider business alliances and corporate acquisitions in our ongoing effort to broaden our child-rearing support activities, placing top priority on earning people's "trust in Pigeon."

Our goal is to build an overwhelmingly dominant position in the market for child-minding services. To this end, we will proactively target new business in government-approved and in-company child-minding centers while seizing new opportunities to expand our operations, including through facilities that integrate kindergarten and child-minding functions.

### Pigeon Hearts Co., Ltd.

Name:	Pigeon Hearts Co., Ltd. (100% owned by Pigeon Corporation)
Established:	August 2003
President:	Tatsuya Sugo
Headquarters:	Chiyoda-ku, Tokyo
Business places:	Nishinohon, Nagoya

### Pigeon Group's child-rearing support business: A record of success

#### 1. Child-minding centers

- ※ Pigeon Land Joso
- Pigeon Land Suita
- Pigeon Land Kashiwa
- Pigeon Land Rittou
- ※ Pigeon Land Nerima Takanodai
- ※ Pigeon Land Yukigaya
- ※ Sanno Child-Minding Center
- ※ Pigeon Land Fuchu
- ※ Higashi-Kamata Child-Minding Center

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

133 locations (114 national hospitals)

- ※ Government-approved facilities

#### 3. Child-minding operations within commercial facilities

11 locations

#### 4. Baby-sitter dispatch services

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

#### 5. Kids World child-minding centers

34 locations

#### Others

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

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



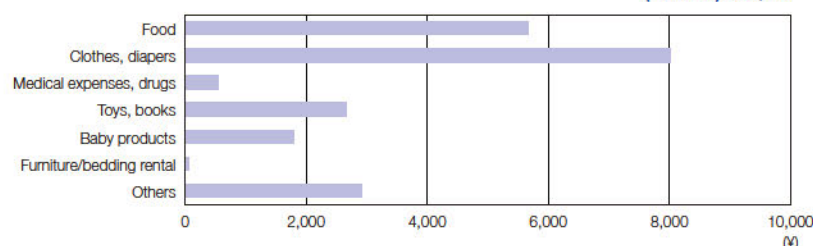
## Average monthly expenditures per infant

(Source: Pigeon) (¥)

Products	1999	2000	2001	2002	2003	2004
Powdered milk	1,813	1,711	1,836	1,798	1,630	1,739
Baby food	886	962	915	785	908	810
Cow's milk	658	609	557	514	372	473
Snacks	789	831	749	718	706	670
Others (food)	2,173	2,250	2,087	1,876	1,638	1,608
<b>Subtotal (food)</b>	<b>6,319</b>	<b>6,363</b>	<b>6,144</b>	<b>5,691</b>	<b>5,691</b>	<b>5,300</b>
Clothes (under, outer), shoes, etc.	3,937	3,685	3,741	3,435	3,763	3,483
Cloth diapers, diaper covers/liners, etc.	121	99	189	156	88	125
Disposable diapers	3,446	3,345	3,184	3,267	3,285	3,290
Cloth diaper rental	19	28	31	33	25	32
<b>Subtotal (clothes, diapers)</b>	<b>7,523</b>	<b>7,157</b>	<b>7,145</b>	<b>6,891</b>	<b>7,160</b>	<b>6,929</b>
Medical treatment, pharmaceuticals	931	1,047	781	748	564	516
Toys	1,237	1,281	1,270	1,235	300	1,289
Picture books	387	423	403	440	552	485
<b>Subtotal (toys, picture books)</b>	<b>1,625</b>	<b>1,705</b>	<b>1,673</b>	<b>1,675</b>	<b>1,538</b>	<b>1,774</b>
Breast-feeding/baby foods and feeding crockery	247	241	284	308	259	336
Bathing/hygiene accessories	901	1,127	1,103	1,122		
<b>Subtotal (breast-feeding, baby foods and feeding, bathing, hygiene)</b>	<b>1,148</b>	<b>1,368</b>	<b>1,387</b>	<b>1,431</b>	<b>1,328</b>	<b>1,572</b>
Outdoor, furniture, beds, etc.	1,632	1,686	2,304	1,432	1,934	2,030
<b>Total</b>	<b>19,176</b>	<b>19,326</b>	<b>19,434</b>	<b>17,869</b>	<b>18,331</b>	<b>18,122</b>

### Average monthly expenditures: 1st child

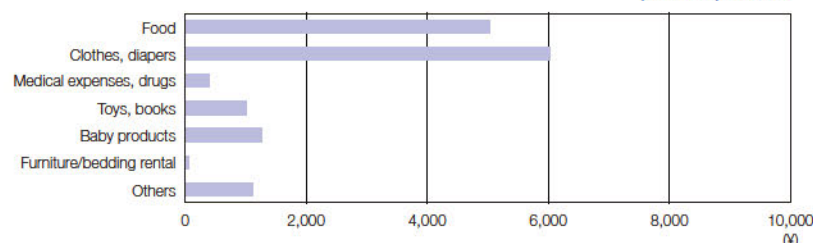
(1st child): ¥21,675



Baby shoes

### Average monthly expenditures: 2nd child

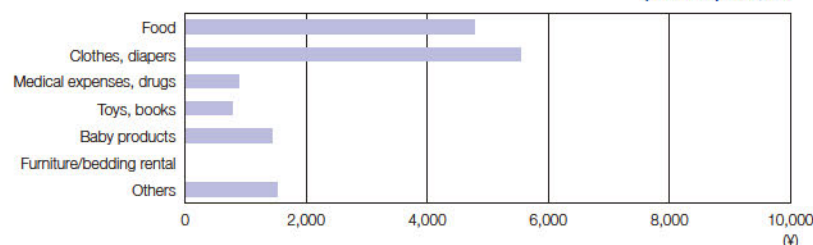
(2nd child): ¥14,887



Baby wipes

### Average monthly expenditures: 3rd child

(3rd child): ¥14,927



Breast pads



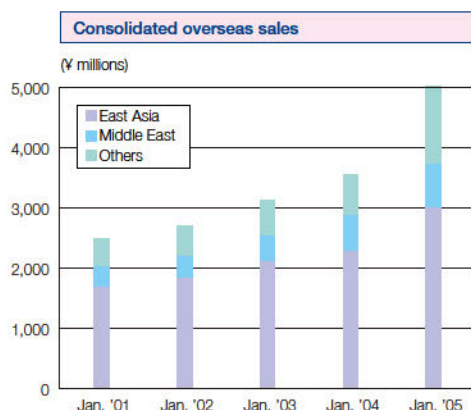
Medicines for babies

## 2. Overseas Business

### Performance Overview

While exports to Taiwan, Hong Kong, and elsewhere were slightly below expectations, we reported favorable performances in China and South Korea. Sales of breastfeeding-related products, baby bottles and nipples, and skincare products were particularly good.

U.S.-based Lansinoh Laboratories, Inc., which became a subsidiary in April 2004, took advantage of its competitive edge in breast creams and breast pads to maintain a high share of the regional market. It also entered the European market and reported a solid overall performance.



Pigeon Industries (Thailand) Co., Ltd.

● Shanghai (China)



Wrapping bus (Singapore)

● Bangkok (Thailand)

● Singapore

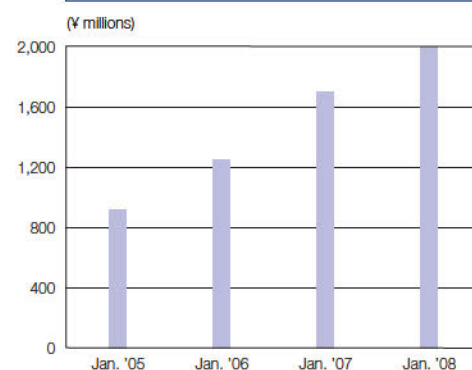
● Jakarta (Indonesia)

### Initiatives for Growth Regions

#### CHINA

From coastal areas to inland regions, economic development in China continues unabated. Against this background, Pigeon is expanding its sales network to include regional inland cities. Specifically, we have launched a new baby bottle and skincare line, called Neo, to compete with local brands. We are also working to increase local production to enhance our competitiveness.

#### Forecast sales in China



Baby shop in Kunming, China



Products for overseas markets



## NORTH AMERICA

For the Pigeon Group, North America is an important market on a par with China. In the United States, where birthrates are increasing, we acquired Lansinoh Laboratories, a leader in breast-feeding-related products, in April 2004. We plan to capitalize on Lansinoh's high market share and name recognition to launch new maternity-related products to complement its breast-feeding-related offerings.

We will also build on Lansinoh's track record in North America to enter European markets and expand our sales channels.



Mother's milk storage bags



Discount store in United States

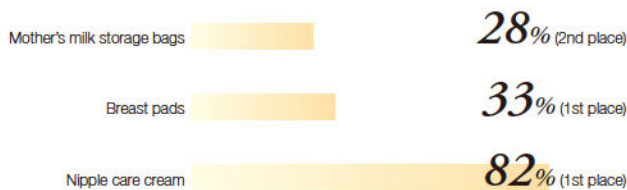


Breast pads



Nipple care cream

### Lansinoh's local market share



Source: Pigeon

### Lansinoh Laboratories, Inc.

Name:	Lansinoh Laboratories, Inc. (100% owned by Pigeon Corporation)
Established:	1984 (acquired by Pigeon on April 28, 2004)
CEO:	Gary R. Downing
President:	Shigeru Yamashita
Headquarters:	Alexandria, Virginia

## 3. Healthcare

### Performance Overview

In the year under review, price competition among manufacturers of consumables, centering on our mainstay incontinence pads, remained fierce. Although Pigeon undertook proactive efforts to raise market share and expand sales, our results fell short of our projections.

In February 2004, we acquired Tahira Co., Ltd., a maker of lifestyle-enhancement products for the elderly. Our plan is to make healthcare a central part of the Pigeon Group's operations by exploiting synergies with Tahira in the areas of product development, sales, and distribution.

Meanwhile, Pigeon Manaka Co., Ltd., a consolidated subsidiary that provides healthcare dispatch services for the elderly, continued building close ties with its local communities in Tochigi Prefecture. That company became profitable as a result.

### Business Environment

Japan's long-term care insurance system, now in its fifth year, continues to grow rapidly. More and more people are using the system, from 1.49 million in April 2000 to 2.97 million in January 2005. Over the same period, the number of home helpers has ballooned, from 50,000 to over 300,000. While the government is promoting at-home nursing care, there is a growing awareness among the population about the role of institutional care. According to a nationwide survey about nursing care conducted by the Yomiuri Newspaper, 59% of respondents stated their preference to receive long-term care at institutions, especially if bedridden or suffering from dementia. This is significantly higher than the 35% who wished to receive care at home. As for the preferred location for nursing their own parents, 47% of respondents cited "at home," and 45% stated "in an institution."

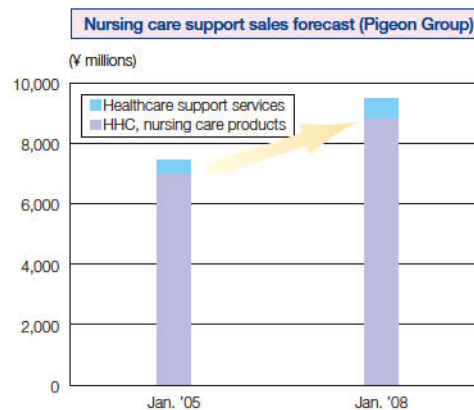
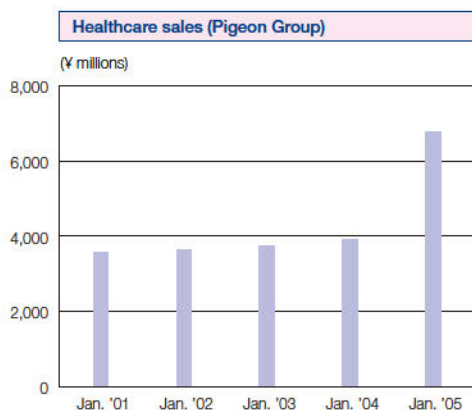
Thanks to its acquisition of Tahira, the Pigeon Group now offers products for nursing care institutions in addition to its line of consumer-use nursing care products. With this added strength, we will seek to develop a top-quality healthcare business in a flexible manner.

## Business Strategies

Going forward, the Pigeon Group will renew its focus on building a strong foundation to support its comprehensive healthcare-related businesses. A key factor in this effort will be the managerial resources of Tahira, now a consolidated subsidiary. With a history dating back to 1966, Tahira has amassed a proven track record, earning a solid reputation for its textile-based products, notably diaper covers and bedclothes.



Skincare products



### Tahira Co., Ltd.

Name:	Tahira Co., Ltd. (73.9% owned by Pigeon Corporation)
Capitalization:	¥100 million
Established:	April 1971 (acquired by Pigeon on February 2, 2004)
President:	Isao Kosaka
Headquarters:	Nakano-ku, Tokyo
Factory:	Higashi-Matsuyama City, Saitama
Distribution centers:	2 locations
Sales offices:	Tokyo, Osaka, Fukuoka, Sapporo, Morioka, Nagoya, Hiroshima

### Pigeon Manaka Co., Ltd.

Name:	Pigeon Manaka Co., Ltd. (67.0% owned by Pigeon Corporation)
Established:	October 2000
President:	Yoshiho Morita
Headquarters:	Tochigi City, Tochigi
Business places:	Tochigi, Sano, Kanuma, Ashikaga



Assist wheel



Diaper for adults



Wheelchair



Nursing care services



# CSR Initiatives

Based on our management philosophy, “providing the gift of love to all,” we are fulfilling our corporate social responsibility (CSR) commitment in diverse ways.

## Communicating with Customers

Pigeon’s Customer Service Office receives around 50,000 inquiries per year. The majority of these are questions from first-time parents about products for their newborn children. We use feedback from these conversations in our product development activities. We also have a communications website, “pigeon.info,” devoted to providing information about pregnancy and raising children. The site receives around 13 million “hits” per month, underscoring its role in providing information that is beneficial to expectant mothers.



## Baby-Friendly Bottles

Pigeon’s baby bottles and baby-bottle nipples are used in numerous hospitals, even for newborn children. Our bottles, with nipples that closely resemble the real thing, have been highly praised by women who alternate between breastfeeding and bottle-feeding. We also have specially modified bottles and nipples for infants with lip or jaw disabilities or weak suction ability. Although these have been on the market for several decades, we have not changed their prices.



## Corporate Governance

The Pigeon Group is currently working to improve its information security and personal information protection systems, which it regards as crucial to the effective delivery of products, services, and information to customers. For example, we are seeking to acquire the Privacy Mark, which is bestowed upon businesses with appropriate mechanisms in place to protect personal information. To this end, we have set up a Personal Information Protection Committee and plan to form a Groupwide organizational structure aimed at earning Privacy Mark status.

## Proactive Information Disclosure

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

### IR activities

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

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

In January 2005, we undertook a corporate reorganization. This entailed upgrading the Corporate Planning Office to divisional status in order to reinforce its responsibilities and functions. Within the new Corporate Planning Division, we also set up an IR Office, whose role is to actively communicate with Pigeon Group stakeholders and spearhead information disclosure and responses pertaining to overall operations.

### Commemorative Tree-Planting Campaign

Every year, Pigeon holds its "Newborn Baby Commemorative Tree-Planting Campaign" in a national forest near Hitachi-Omiya City, Ibaraki Prefecture. In addition to fostering awareness about protection of forests, the campaign is based on the premise that both babies and seedlings require warm and nurturing environments in order to grow and prosper. It also emphasizes the importance of giving strength to precious newborn life and close communication between regions, people, and corporations over multiple generations.

The 2005 tree-planting session was the 19th since the campaign began in 1987. Throughout this period, around 76,500 babies have participated in the events, and the total tree-planting area has grown to 26.31 hectares. In 2004, Pigeon received an award from the mayor of Hitachi-Omiya City in appreciation of its long, uninterrupted contribution to the local community.



Tree-planting ceremony (May 2005)

### Environmental contribution (one year)

#### Water resource preservation contribution

Water stored	3,225,000 x 2-liter PET bottles (total 6,447m <sup>3</sup> )
Water purified	

#### Landslide prevention contribution

Volume of soil preserved	10-ton dump truck (5.5m <sup>3</sup> ) x 24 vehicles (total 144m <sup>3</sup> )
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#### CO<sub>2</sub> absorption/storage contribution

CO <sub>2</sub> absorption/ carbon-fixing	CO <sub>2</sub> exhaled by 349 people (total 111t of CO <sub>2</sub> )
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### Environmental contribution (10 years)

#### Water resource preservation contribution

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

#### Landslide prevention contribution

Volume of soil preserved	19.12m-diameter cylindrical tank (6.7m high) (total 641m <sup>3</sup> )
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#### CO<sub>2</sub> absorption/storage contribution

CO <sub>2</sub> absorption/ carbon-fixing	CO <sub>2</sub> emitted by car (10km/l fuel efficiency) traveling 2.27 million km (56.7 times earth circumference) (total 526t of CO <sub>2</sub> )
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# Management's Discussion and Analysis of Operations

## Corporate Group

The Pigeon Group consists of the Pigeon Corporation (the parent company), 13 consolidated subsidiaries, and two equity-method affiliates. The Group is engaged mainly in the manufacture, purchase, 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 latter half of the fiscal year under review, growth in the Japanese economy showed signs of slowing, due to rising oil prices and other factors. Nevertheless, a dramatic improvement in corporate earnings helped boost capital spending, and personal consumption generally expanded, albeit moderately.

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

The trend of declining prices continued, giving rise to difficult business conditions. This was particularly evident in the area of consumables in the baby and child care and healthcare markets—the Pigeon Group's principal areas of involvement. In the child-rearing support category, by contrast, we broadened the scope of our business by taking advantage of deregulation and our competitive edge. Overseas, as well, we built on our positive interim results, making particular progress in China and elsewhere in East Asia.

Consolidated net sales for the year totaled ¥40,719 million, up 19.2% from the previous year. Ordinary income grew 4.7%, to ¥2,621 million, and net income jumped 17.6%, to ¥1,494 million. Net income per share was ¥74.22, up from ¥63.59.

Looking at key performance ratios, return on equity (ROE) for the year was 7.7%, up from 7.0%, and return on assets (ROA) remained mostly unchanged, at ¥8.1%. The equity ratio was 58.2%, down from 61.7%.

## Profit Appropriation Policy

The Pigeon Group regards the return of profits to shareholders—made possible by ongoing improvements to Groupwide profitability—as an important management priority. Our policy is to make the most effective use of retained earnings. We actively invest these funds in growth areas, new businesses, and research and development, as well as in reinforcing our operating foundation by streamlining production facilities to lower costs and raise product quality. With respect to appropriating earnings, our policy is to actively return profits to shareholders. We do this by paying stable and ongoing cash dividends, with the emphasis on raising dividend levels where possible. In the year under review, we shifted our emphasis from stable dividends based on parent-company results to a dividend policy centering on consolidated results—as announced on March 7, 2004. Based on this policy, we decided to increase annual dividends by ¥4.00, to ¥20.00 per share, including the ¥8.00 interim dividend already paid. This was the first dividend increase in nine years and reflects Pigeon's objective of achieving a 30% dividend payout ratio for the year to January 2006.

## Segment Review

### Baby and Child Care

Sales in this segment amounted to ¥31,100 million, up 11.4% from the previous year. Segment operating income declined 9.2%, to ¥4,694 million. This segment is classified into three categories: baby and child care products, overseas business, and child-rearing support.

**Baby and Child Care Products:** In this category, the Group's principal area of business development, market conditions remained difficult as domestic birthrates declined and prices, especially of consumables, continued falling. Under these conditions, we actively introduced new products as we sought to enhance the emotion and joy of customers, from giving birth to raising children. New products launched during the year included the market's first electric toothbrush for babies. We also unveiled a line of baby shoes, the result of intensive research into the feet shape and walking habits of toddlers. These and other new products earned solid support from retailers and consumers alike.



**Overseas Business:** While exports to Taiwan, Hong Kong, and elsewhere fell below expectations, we reported favorable performances in China and South Korea. Sales of breastfeeding-related products, baby bottles and nipples, and skincare products were particularly good. U.S.-based Lansinoh Laboratories, Inc., which became a subsidiary in April 2004, took advantage of its competitive edge in breast creams and breast pads to enter the European market and report a solid performance.

**Child-Rearing Support:** In April 2004, all of Japan's national hospitals and nursing homes were privatized, and the operation of their 116 child-minding centers was entrusted to Pigeon Corporation. Our performance in this category improved significantly as a result. During the year, we also made good progress in the area of in-company child-minding operations. We opened our second center within the facilities of Toyota Motor Corp. and our second center for a financial institution—Saikyo Bank, Ltd., based in Yamaguchi Prefecture. We will use our competitive edge to accelerate expansion of this business in the future. Meanwhile, the pace of privatization of public child-minding centers is quickening. In January 2005, Pigeon Hearts Co., Ltd., a wholly owned subsidiary, took over the operations of its first Tokyo Metropolitan Government-approved child-minding center—now named Pigeon Land Fuchu.

#### Healthcare

Sales in this segment jumped 73.3%, to ¥6,458million, and operating income climbed 11.5%, to ¥287 million.

Price competition among manufacturers of consumables, centering on our mainstay incontinence pads, remained fierce. Although we undertook proactive marketing efforts to raise market share and expand sales, our results fell short of our projections. In February 2004, we acquired Tahira Co., Ltd., a maker of lifestyle-enhancement products for the elderly. Our plan is to make healthcare a central part of the Pigeon Group's operations by exploiting synergies with Tahira in the areas of product development, sales, and distribution. In the year under review, however, we incurred slight losses due to the liquidation of some unprofitable businesses. Nevertheless, Pigeon Manaka Co., Ltd., a consolidated subsidiary that provides healthcare dispatch services for the elderly, continued building close ties with its local communities in Tochigi Prefecture. That company became profitable as a result.

#### Others

Sales from other operations totaled ¥2,860 million, up 22.3%. Operating income surged 631.7%, to ¥252 million.

Pigeon Will Co., Ltd., a consolidated subsidiary that sells maternity undergarments, expanded its operations in the year under review. During the period, we also launched a new series of cosmetics for mothers who put their babies first. This drew a warm market response, which contributed to increased segment revenues and earnings.

#### Outlook

In the second half of the year under review, the pace of economic expansion began to slow, creating a less-than-optimistic business environment for the Pigeon Group. Meanwhile, the number of births showed no signs of recovering despite various measures by the government to support child-rearing. For these reasons, we feel that conditions will remain severe. Despite the difficult operating environment, the Group will strive to achieve performance targets outlined in its new medium-term business plan and thus meet the expectations of all shareholders.

The fiscal period to January 2006 is the first year of our second medium-term business plan for the 21st century, announced on January 19, 2005. For the year, we expect conditions to remain difficult in the domestic baby and child care business, with little prospect of recovery in the birthrate. In response, we will harness synergies among Group companies to maintain a framework conducive to increased revenues and earnings and thus maximize our corporate value on a global basis.

For the year, we forecast consolidated net sales of ¥42.7 billion (up 4.9%), ordinary income of ¥3.0 billion (up 14.4%), and net income of ¥1.65 billion (up 10.4%).



# Financial Data

## Consolidated Balance sheets (January 31, 2004 and 2005)

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and time deposits	¥ 3,223	¥ 2,768	\$ 26,718
Notes and accounts receivable	7,544	8,597	82,976
Marketable securities	—	—	—
Inventories	2,876	3,427	33,082
Other current assets	771	951	9,188
Total current assets	14,416	15,744	151,963
<b>Fixed Assets:</b>			
<b>Tangible Fixed Assets</b>	13,034	13,299	128,358
<b>Intangible Fixed Assets</b>	637	3,170	30,604
<b>Investments and Other Assets</b>	2,123	2,167	20,921
Investment securities	1,021	1,067	10,304
Total fixed assets	15,795	18,637	179,882
Adjustments on foreign currency statement translation	—	—	—
<b>Total Assets</b>	¥ 30,212	¥ 34,382	\$ 331,846
<b>LIABILITIES</b>			
<b>Current Liabilities:</b>			
Notes and accounts payable	¥ 4,900	¥ 6,160	\$ 59,460
Accrued amount payable	1,187	1,258	12,151
Income taxes payable	145	753	7,276
Accrued employees' bonuses	337	517	4,993
Other current liabilities	2,300	2,428	23,440
Total current liabilities	8,871	11,119	107,320
Straight bonds	—	—	—
<b>Long-Term Liabilities:</b>			
Long-term borrowings	902	1,473	14,219
Other long-term liabilities	1,442	1,405	13,568
Total long-term liabilities	2,344	2,878	27,787
<b>Total Liabilities</b>	¥ 11,216	¥ 13,998	\$ 135,107
<b>Minority Interests</b>	¥ 348	¥ 386	\$ 3,729
<b>SHAREHOLDERS' EQUITY</b>			
Capital stock	¥ 5,199	¥ 5,199	\$ 50,184
Additional paid-in capital	5,134	5,145	49,663
Consolidated retained earnings	8,976	10,149	97,961
Net unrealized gain on securities	(13)	(5)	(50)
Adjustment on foreign currency statement translation	(376)	(431)	(4,168)
Treasury stock	(273)	(60)	(582)
Total shareholders' equity	18,647	19,997	193,010
<b>Total Liabilities and Shareholders' Equity</b>	¥ 30,212	¥ 34,382	\$ 331,846

Note: Figures in U.S. dollars are calculated, for convenience only, at the exchange rate of ¥103.61=U.S.\$1.00.

# Financial Data

## Consolidated Statements of Income (For the years ended January 31, 2004 and 2005)

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Net Sales	¥ 34,156	¥ 40,719	\$ 393,008
Operating Costs and Expenses:			
Cost of sales	20,317	25,047	241,747
Gross profit	13,838	15,672	151,262
Selling, general and administrative expenses	11,186	12,957	125,064
Operating income	2,651	2,714	26,198
Other Income	332	339	3,276
Other Expenses	479	431	4,168
Ordinary Income	2,504	2,621	25,305
Extraordinary Income	157	168	1,626
Extraordinary Loss	661	177	1,710
Income (Loss) before Income Taxes	2,000	2,613	25,222
Income Taxes	389	980	9,460
Adjustment for Corporate Tax	238	46	452
Less: Minority Interest in Net Income of Consolidated Subsidiaries	101	91	883
Net Income	¥ 1,270	¥ 1,494	\$ 14,427

Note: Figures in U.S. dollars are calculated, for convenience only, at the exchange rate of ¥103.61=U.S.\$1.00.

## Consolidated Statement of Cash Flows (For the years ended January 31, 2004 and 2005)

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Cash Flows from Operating Activities	¥ 2,156	¥ 4,286	\$ 41,369
Cash Flows from Investing Activities	374	(2,850)	(27,513)
Cash Flows from Financing Activities	(2,427)	(1,881)	(18,163)
Translation Gain (Loss) Related to Cash and Cash Equivalents	(17)	(9)	(89)
Net Change in Cash and Cash Equivalents	85	(455)	(4,395)
Cash and Cash Equivalents at Beginning of Year	3,137	3,223	31,114
Net Change in Cash and Cash Equivalents Due to Newly Consolidated Companies	—	—	—
Net Increase in Cash and Cash Equivalents	—	—	—
Cash and Cash Equivalents at End of Year	¥ 3,223	¥ 2,768	\$ 26,718

Note: Figures in U.S. dollars are calculated, for convenience only, at the exchange rate of ¥103.61=U.S.\$1.00.

## Consolidated Retained Earnings (For the years ended January 31, 2004 and 2005)

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
<Additional Paid-In Capital>			
Balance at Beginning of the Term	¥ 5,133	¥ 5,134	\$ 49,559
Increase in additional paid in capital			
Purchase of treasury stock	1	10	104
Total	1	10	104
Balance at End of the Term	5,134	5,145	49,663
<Retained Earnings>			
Balance at Beginning of the Term	8,033	8,976	86,637
Increase in retained earnings			
Net income	1,270	1,494	14,427
Total	1,270	1,494	14,427
Decrease in retained earnings			
Cash dividends paid	319	321	3,102
Bonuses to directors and corporate auditors	8	—	—
Total	328	321	3,102
Balance at End of the Term	¥ 8,976	¥ 10,149	\$ 97,961

Note: Figures in U.S. dollars are calculated, for convenience only, at the exchange rate of ¥103.61=U.S.\$1.00.



# Corporate Information

## Corporate Data (As of January 31, 2005)

<b>Company name</b>	Pigeon Corporation
<b>Address</b>	5-1, Kanda-Tomiyamacho Chiyoda-ku, Tokyo 101-8567
<b>Phone</b>	+81-3-3252-4111
<b>Fax</b>	+81-3-3252-9105
<b>Website</b>	www.pigeon.co.jp
<b>Established</b>	August 15, 1957
<b>Paid-in capital</b>	¥5,199,597 thousand
<b>Fiscal year-end</b>	January 31
<b>Employees</b>	895

Note: On April 1, 2004, all of Japan's national hospitals and nursing homes were privatized, and the operation of their child-minding centers was entrusted to Pigeon, which accepted staff of those centers as employees. The total number of Pigeon's employees rose sharply as a result.

## Stock Data (As of January 31, 2005)

<b>Shares authorized</b>	60 million
<b>Shares issued</b>	20,275,581
<b>Number of shareholders</b>	8,814

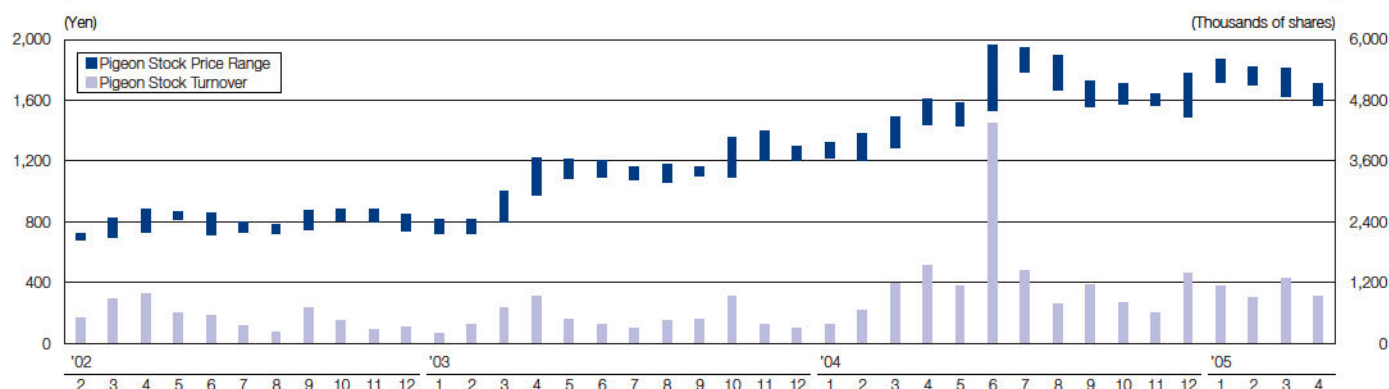
## Ten Largest Shareholders (As of January 31, 2005)

	Shares held (1,000s)	Ownership (%)
Yoichi Nakata	5,748	28.5
Japan Trustee Services Bank, Ltd. (Trust Account)	1,246	6.2
The Master Trust Bank of Japan, Ltd. (Trust Account)	995	4.9
Mitsui Asset Trust and Banking Co., Ltd.	557	2.8
Fukuyo Co., Ltd.	493	2.4
The Mitsubishi Trust and Banking Corporation (Trust Account)	434	2.2
Trust & Custody Services Bank, Ltd. (Investment Trust Account)	415	2.1
Pigeon Corporation Employees' Stock	406	2.0
Nikko Cititrust and Banking Corporation (Trust Account)	402	2.0
Trust & Custody Services Bank, Ltd. (Pension Trust Account)	367	1.8

## Board of Directors, Auditors, and Officers (As of April 27, 2005)

<b>Chairman and Chief Executive Officer</b>	Yoichi Nakata
<b>President and Chief Operating Officer</b>	Seiichi Matsumura
<b>Senior Managing Director</b>	Tetsuo Ogawa
<b>Managing Director</b>	Hiroko Shimada
<b>Directors</b>	Takashi Kurashima Hisashi Katsuki Akio Okoshi
<b>Standing Auditors</b>	Hiroshi Ota Humio Irobe
<b>Statutory Auditors</b>	Shigeru Sugino Shigeru Nishiyama
<b>Senior Managing Officer</b>	Kazuhiko Ota
<b>Managing Officers</b>	Harumi Yamamoto Kimiyoishi Tanaka Katsumi Oyabu Yasushi Takashima Tatsuya Sugo Akira Nagasaka Tomoyuki Koizum

## Stock Price Range / Turnover of Common Stock



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# PIGEON CORPORATION

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+81-3-3252-4113 (Investor Relations)

Fax: +81-3-3252-9105

## Office

Ami-machi, Inashiki-gun, Ibaraki

## Distribution centers

Ami-machi, Inashiki-gun, Ibaraki

Hitachiota-shi, Ibaraki

Kanzakicho, Kanzaki-gun, Hyogo

## Research center

Yawaramura, Tsukuba-gun, Ibaraki

## Domestic sales offices

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

URL <a href="http://www.pigeon.co.jp">http://www.pigeon.co.jp</a>
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