
P I G E O N

Annual Report

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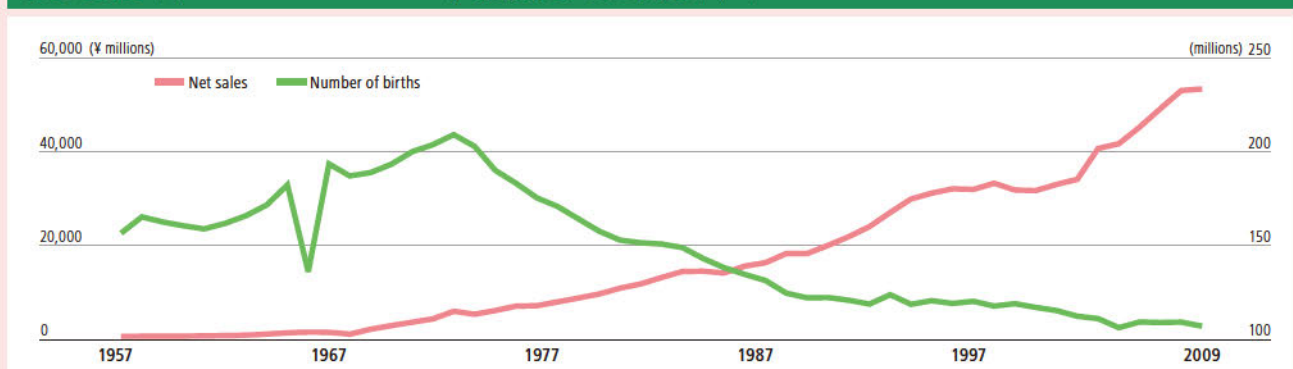
For the year ended January 31, 2010



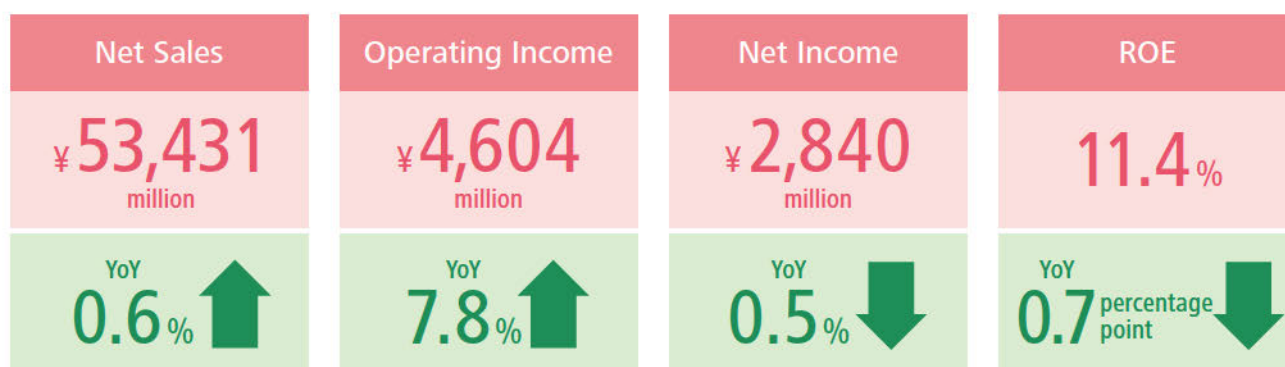
PIGEON HISTORY

	▶ 1950 ~	▶ 1970 ~	▶ 1980 ~	▶ 1990 ~	▶ 2000 ~	
Corporate	<p>1949 Dofu Boeki, Pigeon's predecessor, established</p> <p>1952 Yuichi Nakata appointed President</p> <p>1957 Pigeon Honyuki Honpo (Baby Bottle Manufacturing) Co., Ltd., established</p> <p>1966 Name changed from Pigeon Honyuki Honpo Co., Ltd., to Pigeon Co., Ltd.</p>	<p>1973 Head office building in Kanda-Tomiyama-cho, Chiyoda-ku, Tokyo, constructed</p>	<p>1982 Pigeon Textiles (now Pigeon Will Co., Ltd.) established to manufacture and sell maternity wear</p> <p>1983 Yoichi Nakata appointed President; Yuichi Nakata appointed Chairman</p> <p>1985 Corporate identity based on the Pigeon philosophy of "Providing the gift of love to all" adopted</p> <p>1985 Pigeon Home Products Co., Ltd., established</p> <p>1988 Stores registered with the Securities Dealers Association of Japan (present-day JASDAQ)</p>	<p>1993 Joso Research Center (now Central Research Center) established</p> <p>1995 Listed on the Second Section of the Tokyo Stock Exchange (July 7)</p> <p>1996 Fukuyo Ibaraki Co., Ltd. (now PHP Ibaraki Co., Ltd.), joins the Pigeon Group</p> <p>1997 Listed on the First Section of the Tokyo Stock Exchange</p>	<p>2000 Seiichi Matsumura appointed President and Chief Operating Officer</p> <p>2002 PHP Hyogo joins the Pigeon Group</p> <p>2006 Head office relocated to Nihonbashi-Hisamatsu-cho, Chuo-ku, Tokyo</p> <p>2007 Akio Okoshi appointed President and Chief Operating Officer; Seiichi Matsumura appointed Chairman and CEO</p>	
Baby and Child Care Business	Domestic Baby and Child Care Products	<p>1949 First baby bottle in Japan with wide cap (A-type) launched</p> <p>1956 Baby and child care/related products launched</p> <p>1963 Milk powder case and sponge brush for baby bottles launched</p> <p>1966 Baby powder, first in a new range of baby hygiene products, launched</p>	<p>1975 World's first diaper liner made using binder-free manufacturing method launched</p> <p>1975 Liquid cleanser for baby bottles and vegetables launched</p> <p>1976 World's first rubber toothbrush for milk teeth launched</p> <p>1977 P-type baby bottle for babies with poor sucking strength launched</p> <p>1979 New-standard K-type baby bottle (still used today) launched</p>	<p>1982 <i>MagMag</i> training cup with adjustable tops for different ages launched</p> <p>1985 <i>Fit</i>, Japan's first seamless breast pad, launched</p> <p>1987 <i>Chibion</i> digital thermometer for babies launched</p> <p>1988 Baby's natural sucking peristaltic motion revealed</p>	<p>1992 Baby Wipes launched</p> <p>1993 Entry into baby food market</p> <p>1994 <i>UV Baby Skincare</i>, first ultraviolet-ray skincare product for babies, released</p> <p>1995 Baby bottle disinfectant <i>Milkpon</i> launched</p>	<p>2002 Wide neck <i>Bonyu Jikkan</i> bottles, which promote a baby's natural sucking peristaltic motion, launched</p> <p>2003 Baby shoes designed using research on toddlers' walking patterns released</p> <p>2010 Renewal of <i>Bonyu Jikkan</i> series of baby bottle nipples</p> <p>2010 Became exclusive sales agent in Japan for the U.K. brand Mamas & Papas</p>
	Overseas Baby and Child Care Business	<p>1966 Exports to other countries started</p>	<p>1973 First overseas office established in Singapore</p> <p>1978 Pigeon Singapore Pte. Ltd. established</p>		<p>1990 Thai Pigeon Co., Ltd., established</p> <p>1996 Pigeon Industries Thailand Co., Ltd., established</p>	<p>2002 Pigeon Shanghai Co., Ltd., established</p> <p>2004 Lansinoh Laboratories, Inc., in USA becomes part of the Pigeon Group</p> <p>2006 Pigeon Manufacturing Shanghai Co., Ltd., established</p> <p>2009 Established Pigeon India Pvt. Ltd., a sales subsidiary in India</p> <p>2009 Established Pigeon Industries (Changzhou) Co., Ltd., in China</p> <p>2010 Commenced construction of plant at Pigeon Industries (Changzhou)</p>
	Child-Rearing Support Services				<p>1993 Pigeon Land Joso, child-minding center for infants, opened</p> <p>1996 Pigeon Wendy, babysitter dispatch service, launched</p> <p>1999 Pigeon Kids World Co., Ltd. (now Pigeon Hearts Co., Ltd.), established</p>	
Home Healthcare and Nursing Care Business		<p>1975 Habilis Business Department, targeting the senior market, established</p>	<p>1983 Nursing care products under the <i>Habinurse</i> brand launched</p>		<p>2000 Pigeon Manaka Co., Ltd., established</p> <p>2004 Tahira Co., Ltd. (now Pigeon Tahira Co., Ltd.), becomes part of the Pigeon Group</p> <p>2007 <i>Recoup</i> brand of anti-aging products launched</p>	

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



Consolidated Financial Highlights



Three-Year Summary of Selected Financial Data

	2008	2009	(¥ millions) 2010	(US\$ thousands) 2010
Operating Results				
Net Sales	49,237	53,092	53,431	580,141
Gross Profit	18,640	20,164	20,902	226,949
Operating Income	3,192	4,269	4,604	49,989
Ordinary Income	3,177	4,293	4,609	50,043
Net Income	1,471	2,854	2,840	30,836
Cash Flows				
Cash Flows from Operating Activities	3,707	4,206	4,964	53,898
Cash Flows from Investing Activities	△ 2,443	△ 1,279	△ 2,105	△ 22,856
Cash Flows from Financing Activities	△ 172	△ 110	△ 2,018	△ 21,911
Balance Sheets				
Total Assets	37,441	38,407	39,493	428,806
Total Liabilities	13,610	14,083	13,229	143,673
ROA (%)	8.7	11.3	11.8	
ROE (%)	6.4	12.1	11.4	

Notes: 1. Figures in U.S. dollars are calculated, for convenience only, at the exchange rate of ¥92.10=US\$1.0. 2. The number of shares for EPS is before adjustment for residual securities. 3. ROA is the ratio of ordinary income to total assets. ROE is the ratio of net income to shareholders' equity. The denominator for both is the average of the figures at the beginning and end of the fiscal year.

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At a Glance

Consolidated Net Sales **¥53,431** million

	Share of Net Sales	Products/Services
Baby and Child Care	<p>80.3% ¥42,937 million</p> <p>Child-Rearing Support Services 9.6% ¥5,151 million</p> <p>Baby and Child Care Products (Domestic) 36.9% ¥19,735 million</p> <p>Baby and Child Care Products (Overseas) 33.8% ¥18,050 million</p>	<p>Breastfeeding-related products Baby bottles, baby bottle nipples, baby bottle cleansers and sterilizers, disinfecting equipment, baby bottle cleansing brushes, sterilized tongs, breast pads, breast milk storage bags, breast pumps</p> <p>Weaning-related products MagMag, cooking equipment, feeding accessories, bibs, baby food, baby beverages</p> <p>Skincare products Soaps, shampoos, oils, lotions, bath additives, sunscreens, powders, baby wipes, wet tissues</p> <p>Others Cotton swabs, nail clippers, digital thermometers, nose cleaners, cooling pillows, children's pharmaceuticals, toothbrushes, teething products, humidity/temperature meters, bathwater thermometers, child-safety goods, pacifiers, toys, bath toys, baby shoes</p> <p>Child-rearing support services Operation of daycare centers and in-company child-minding facilities, babysitter dispatch services, preschool education services</p>
	<p>Healthcare</p> <p>12.1% ¥6,450 million</p> <p>Nursing Care Support Services 1.1% ¥590 million</p> <p>HHC/Nursing Care Products 11.0% ¥5,859 million</p>	<p>Nursing care/anti-aging products Adult disposable diapers, incontinence pads and pants, diaper covers, waterproof sheets, abdominal wipes, body wipes, urine and fecal containers, shampoos, sterilizers, deodorizers, crockery, bibs, oral hygiene products, walking aids, nursing beds, wheelchairs, sleepwear, supplements, staffs, shoes</p> <p>Nursing care support services Business initiatives in Tochigi Prefecture</p>
<p>Others</p> <p>7.6% ¥4,043 million</p> <p>Women's Care Products 4.5% ¥2,386 million</p> <p>Others 3.1% ¥1,657 million</p>	<p>Women's care products Dietary supplements, maternity goods, maternity underwear</p> <p>Others Wet tissues, etc.</p>	

Business Environment/Strength of the Pigeon Group

The baby and child care segment is a core business that accounts for around 80% of Pigeon's consolidated revenues. This segment covers the full range of baby and child care products, including breastfeeding- and weaning-related items, diapers and skincare products, as well as the provision of child care support services. As a leading industry brand, Pigeon has earned a reputation for safety, peace of mind and reliability among customers in Japan and abroad. Overseas sales account for a significant share of segment sales, and our business has continued to expand in East Asia, centering on China, as well as North America.

In January 2008, our new plant in Shanghai began manufacturing skincare products, toiletries, baby bottle nipples, and other items. In 2011, meanwhile, we are scheduled to start making breast pads, baby wipes, and other products at a new plant in Changzhou, Jiangsu Province. For half a century, we have conducted in-depth research into baby bottles. We have also engaged in research into early childhood development and persistently developed and improved products arising from such research. Thanks to these R&D activities, Pigeon is widely recognized as a high-quality brand of baby and child care products that have captured 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. The scale of the Pigeon Group's child-rearing support services is the largest in Japan. We are expanding our activities with a focus on contracted operation of daycare centers at corporate business premises. To achieve differentiation from other companies, Pigeon is striving to improve the quality of child care through the Pigeon Heartner Open College, which aims to provide comprehensive training for child-minders.

In the year under review, Pigeon obtained the exclusive domestic sales rights for Mamas & Papas, a U.K. brand that is strongly acclaimed by fashion-conscious people in Europe and around the world. We have since begun selling highly fashionable products geared to changing lifestyles via catalog and online. These products include child care and maternity items, as well as beds, chairs and other furniture.

The healthcare business represents an important component of Pigeon's three-generation marketing strategy. As a major future market, this segment is one of the Group's main pillars. We have established a division in charge of the overall operation of the segment, thereby strengthening our business platform and creating a framework geared toward growth. The Group's strength in this segment derives from its technical and information capabilities, acquired through its experience in the baby and child care business. By assimilating the distribution, product development and production functions of Pigeon Tahira Co., Ltd., into the main body of Pigeon, and by establishing the Elderly Health Care Business Division, we have created a structure that clarifies the parent company's position in the healthcare business. During the year, we launched Recoup, a new brand to support people seeking to remain active in their old age. In these ways, we are working assertively to address the growing market associated with Japan's aging population.

Maternity undergarments made by Pigeon Will Co., Ltd., have been warmly embraced by the younger generation of women who want to feel fashionable and care about their appearance during pregnancy. Pigeon also offers nutritional supplements, which have attracted increasing interest both among pre-pregnant women and breastfeeding mothers. Meanwhile, we have launched women's care products in China. Owing to these and other factors, our performance has grown steadily.

Overseas Net Sales **¥18,539 million**

Share of Net Sales

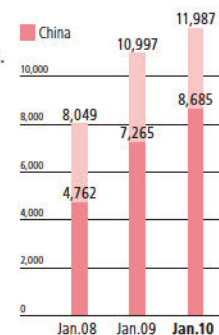
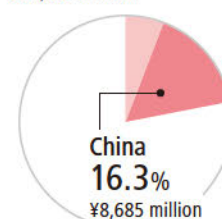
Net Sales (¥ millions)

Asia

China (including Hong Kong), South Korea, Singapore, India, etc.

22.4%

¥11,987 million

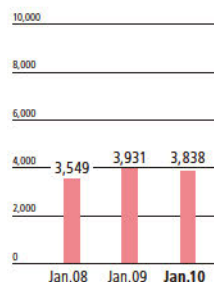
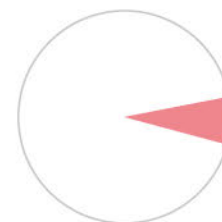


North America

United States, Canada, etc.

7.2%

¥3,838 million

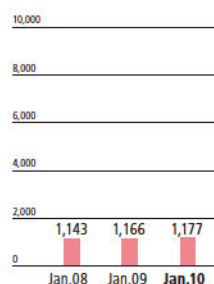
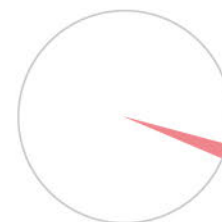


Middle East

United Arab Emirates, etc.

2.2%

¥1,177 million

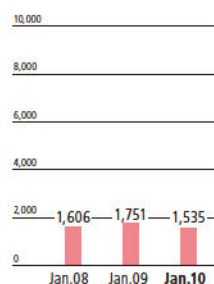
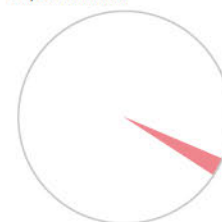


Other

South Africa, United Kingdom, Panama, Germany, etc.

2.9%

¥1,535 million



Management's Message

Guided by our philosophy of “love,”

we are committed to supporting the lives of people, especially small children. We seek to become a corporation with a global presence, underpinned by a strong brand and exceptional management quality.



Akio Okoshi
President and Chief Operating Officer

大越昭夫

Pigeon's Approach

Based on its corporate philosophy of “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.

We conduct our own research into the “mechanics” of babies’ growth and the aging process of the elderly, and we deliver products and services that solve problems uncovered through such research. Our corporate mission is to convey “love” to the many people who need love.

Business Conditions and Results

Fiscal 2009, ended January 31, 2010, was the second year of the Pigeon Group’s Third Medium-Term Management Plan, entitled “Becoming a Global Company: Challenges and Independence.” During the period, we aggressively tackled core issues while adhering to practically all of the plan’s guidelines. Under the plan, our consolidated targets for the year were net sales of ¥56.0 billion and ordinary income of ¥4.2 billion. Due to ongoing difficult conditions, however—including the global financial crisis, waning personal consumption and the yen’s appreciation—net sales totaled ¥53,431 million, up 0.6% year-on-year. Nevertheless, ordinary income rose 7.3% to ¥4,609 million, on par with our initial target.

Positioning the period as a “year of preparation,” the Group actively pursued strategies and sales initiatives aimed at expanding its business at home and abroad. A summary of the Group’s domestic and overseas business trends and performance is given below.

Overseas Business

Amid concerns about the impact of the worldwide economic recession, we stepped up our globalization initiative. During the year, for example, we solidified our sales base in India and built and expanded production facilities in China and Thailand. On a local currency basis, we achieved year-on-year sales increases greatly in our core markets, centering on China and the United States.

Domestic Business

According to estimates, 1,069,000 babies were born in Japan in calendar 2009, down 22,000 from the previous year. The falling birthrate, combined with weakening personal consumption, made fiscal 2009 a difficult year from a revenue perspective. To address the challenging business climate, we pursued several initiatives. In the Baby and Child Care segment, for example, we further strengthened existing businesses while nurturing new ones. We also sought to expand our product categories. In the Healthcare segment, we targeted further market penetration of the Recoup brand while developing and advancing new offerings.

Business Strategies

Pigeon regards its overseas business as a driver of Group-wide growth and allocates substantial managerial resources to this area. One important target is China, which continues to enjoy dramatic economic expansion. In Japan, meanwhile, we are focusing on improving productivity and profitability, while working to further strengthen the Recoup brand to support people wishing to remain active in their old age.

We are seeking an optimally balanced operational portfolio in which each business serves as a stable income source. At the same time, we hope to create and continuously develop a robust management and financial infrastructure. In our quest to realize this vision, we are working to advance our overseas operations while upgrading our R&D activities, which are the key to progress in each of our businesses.

Overseas Business Success

Our overseas foray began when we started exporting our products in the 1960s. In 1973, we opened a representative office in Singapore with a view toward establishing a solid base in the region. This was quite a forward-looking move at the time, given Pigeon's net sales of just ¥6 billion, but it has since proved to be a key element in our current success.

We attribute the health of our present overseas business to our market branding activities, as well as the cooperative frameworks we have built with local sales subsidiaries and sales partner companies. At the core of our success, however, is that we view overseas nations not simply as production bases but also as markets in which people can use our products. This notion of "entering a region if a market exists there" represents the basic policy behind Pigeon's overseas business advancement. In essence, our overseas strategy is to make and sell locally high-quality products that have proven successful in Japan.

Initiatives in China

Pigeon is enjoying considerable sales growth in China. In fiscal 2010, we expect Chinese sales to top ¥10 billion, then grow to around ¥20 billion by fiscal 2015. To facilitate such growth, we are moving to ensure stable product supply and further reduce costs. In addition to establishing Pigeon Manufacturing Shanghai Co., Ltd., for example, we set up Pigeon Industries Changzhou Co., Ltd., in Changzhou, Jiangsu Province, to serve as the Group's No. 2 production base in China and start building plants.

Other Overseas Business Development

Stepping up its globalization strategy, Pigeon is actively tapping new markets, such as India. Having previously opened a representative office in India, we established Pigeon India Pvt. Ltd. in November 2009 and are steadily expanding our business in that nation. In South Korea and Russia, meanwhile, we have initiated new business development opportunities by forming a sales agency agreement with a local company.

R&D Initiatives

Pigeon conducts ongoing research focusing on the mechanisms of babies' growth and the aging process of the elderly. Indeed, we lead the world in our research related to babies' suckling motions. Back in 1988, we identified the peristaltic suckling motion that is peculiar to human babies. As a result of research over many years, we have systemized the three suckling principles of "adsorption, suckling and swallowing."

Research into human behavior is the basic theme underlying Pigeon's R&D approach. Babies first develop their mouth functions, then proceed to master the functions of their arms and legs. For the elderly, by contrast, the legs are the first to deteriorate, followed by arms and, finally, the mouth, which handles the eating function. Given the similarity of these mechanisms at first glance, we deployed the same research department to develop products for both babies and the elderly. In the process of conducting R&D, however, we realized that development of products for babies and the elderly each required specialized and distinctive research. Now, we pursue these activities via separate research organizations, each dedicated to specific themes.

Human dignity and babies' need of love are the universal and fundamental themes driving Pigeon's research initiatives. When developing products, we bring together the results of our research and our knowledge to create products that are relatively impervious to price wars and changing fashions.

Pigeon will continue conducting extensive R&D on human behavior. Here, we will deploy our integrated R&D structure, ranging from basic research to product commercialization, to create innovative products.

Sales and Marketing Strategies

Sales and marketing activities together constitute a prime force behind Pigeon's growth, on a par with R&D. Here, the significance of our segmentation products, an important focus of our basic strategy, extends beyond simply winning against other companies in the market. Take our recent launches of super absorption incontinence underpants and incontinence pads under the Recoup brand, for example.

Both products address urine leakage and serve as an alternative to paper-based diapers. Because our pants are made of cloth and incorporate dedicated urine-absorption pads, they are comfortable and can be worn like regular underwear. Products such as these reflect our commitment to the concept of "preserving the dignity of the elderly." This concept in itself has the power to uncover latent customer needs. A major feature of our sales and marketing activities is our deployment of this concept to change our perspectives and approaches, and thus create new market opportunities.

Third Medium-Term Management Plan: Progress and Outlook

Medium-Term Plan

The previous fiscal period, ended January 2009, was the first year of our Third Medium-Term Management Plan, entitled "Becoming a Global Company: Challenges and Independence." The plan covers the three-year period from February 2008 to January 2011. When we formulated the plan, we set the following consolidated targets for the final year of the plan, ending January 2011: net sales of ¥64.0 billion, ordinary income of ¥5.6 billion and net income of ¥3.8 billion. Meanwhile, we have stepped up efforts to improve profitability and capital efficiency, with a return on equity (ROE) target of 12.0% or higher for the current fiscal year.

The slogan of the medium-term plan, "Challenges and Independence," embodies our vision of making great leaps forward as a global company. The most important element here is the spirit of challenge—the courage to venture forth into the unknown world. In practical terms, however, we are generating steady results by deploying the plan-do-check-act (PDCA) cycle, which involves establishing hypotheses and implementing plans with meticulous precision. The head of each business division is responsible for spearheading initiatives in businesses targeted for promotion and for achieving the targets of the plan.

In fiscal 2009, the second year of the plan, we tackled a range of issues and made good progress. Under our overseas business strategy, we established a local subsidiary in India,

set up a new production base in China and made a full-scale entry into Russia by establishing a sales agency. Going forward, we will focus on expanding overseas sales. We will also work with each of our overseas sales agencies to draw up road maps that clearly identify targets and management issues and to formulate specific growth strategies.

In Japan, we will explore potential opportunities for business expansion, including M&A scenarios. At the same time, we will work to reinforce existing businesses. Seeking to uncover new market opportunities, in June 2009 we acquired exclusive domestic sales rights for the Mamas & Papas (U.K.) brand. We will continue striving to identify new opportunities by developing highly fashionable child-care and maternity-related products that address people's changing lifestyles.

Fiscal 2010

The current fiscal period is the final year of Pigeon's medium-term plan. During the year, we hope to establish a link between the plan's achievements and our subsequent business strategies. To this end, we will work on an unprecedented level to achieve our targets. In fiscal 2010, the "Year of the Duel," we will ensure that all Group employees again embrace the plan's basic strategies and core issues, and work to accurately address changing market conditions. At the same time, we will push ahead to achieve the plan's objectives by swiftly implementing various measures.

For the year, we have revised our consolidated financial targets as follows: net sales of ¥60.7 billion (up 13.6% year-on-year), operating income of ¥5.5 billion (up 19.5%), ordinary income of ¥5.4 billion (up 17.2%) and net income of ¥3.5 billion (up 23.2%). These figures reflect our consideration of changing business conditions, including foreign exchange fluctuations (the yen's ongoing appreciation) and the world economy's sharp deterioration since the collapse of Lehman Brothers.

Shareholder Return

The Pigeon Group intends to make dramatic progress as a global company by deploying its various assets. These include competitive products with strong track records in Japan, exhaustive quality control, technological development systems and flexible marketing strategies tailored to conditions in each overseas market. The Pigeon brand is supported and loved by many people in various markets worldwide. We will continue targeting renewed growth in each business by fostering this trust and implementing our management strategies.

Pigeon is committed to improving its trust-based relationships with more and more shareholders and other investors in its quest to raise corporate value in the future.

For fiscal 2010, ending January 2011, we have set a consolidated shareholder return target of 50%. To this end, we will further upgrade and reinforce our shareholder return strategies in order to benefit all of our shareholders.

Pigeon regards meeting the expectations of all shareholders as an important management priority and is committed to achieving ongoing progress in this area.

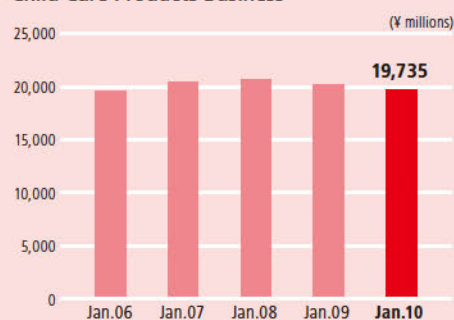
Quantitative Targets

	(¥ billions)				Growth Rate (2011/2009)
	Jan. 2008	Jan. 2009	Jan. 2010	Jan. 2011E	
Net Sales	49.2	53.0	53.4	60.7	23.3%
Gross Profit	18.6	20.1	20.9	24.7	32.8%
Operating Income	3.1	4.2	4.6	5.5	72.3%
Ordinary Income	3.1	4.2	4.6	5.4	69.9%
Net Income	1.4	2.8	2.8	3.5	137.9%
EPS (yen)	73	142	141	174	
Gross Margin	37.9%	38.0%	39.1%	40.8%	
Operating Margin	6.5%	8.0%	8.6%	9.1%	
Ordinary Margin	6.5%	8.1%	8.6%	8.9%	
Net Margin	3.0%	5.4%	5.3%	5.8%	
ROA	8.7%	11.3%	11.8%	12.9%	
ROE	6.4%	12.1%	11.4%	13.0%	

Notes: 1. The number of shares for EPS is before adjustment for residual securities.
 2. ROA is the ratio of ordinary income to total assets. ROE is the ratio of net income to shareholders' equity.
 The denominator for both is the average of the figures at the beginning and end of the fiscal year. (Both are estimates.)
 E: Estimate

Domestic Baby and Child Care Products

Domestic Sales of Baby and Child Care Products Business



Business Environment

In this segment, the Pigeon Group continued to face severe market conditions, with no recovery in the number of childbirths. The total number of births in Japan was 1,091,000 in 2008 and 1,069,000 (estimated) in 2009, representing a 22,000 year-on-year decrease.

There are many other changes occurring in the operating environment, including buying restraint among the Group's target customers due to income concerns, a shift to cheaper private-brand products, an oligopoly of retailers and the 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 process 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 and Specific Initiatives

In the year under review, we further strengthened our existing business by continuing to communicate directly with our customers. We also worked hard to foster new businesses and expand our product lineup.

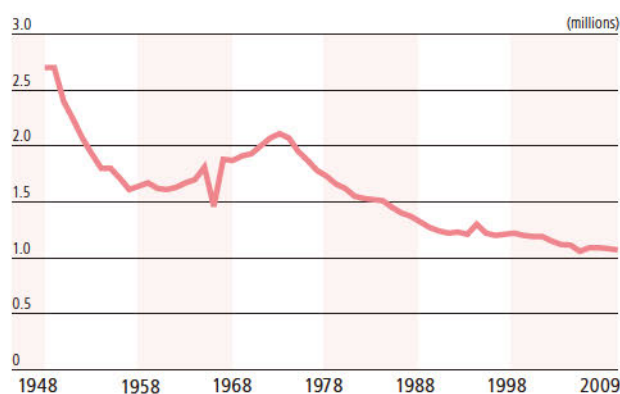
Existing Market Initiatives

Due to the launch of new products by other manufacturers, competition in breastfeeding and baby bottle products—a segment in which Pigeon enjoys a large market share—is expected to intensify. Faced with this challenge, we are working to raise the appeal of our products and meet growing diversity among customer needs, such as by providing products for children in an older age bracket than our traditional baby segment. We have also striven to boost our market shares for all product categories by stepping up educational activities. Pigeon is renowned for its ability to offer a full range of baby products. Deploying this capability, we have been working in collaboration with large retailers to establish in-store Pigeon product sections and develop sales promotion strategies.



Diverse assortment of baby-related products

Number of Childbirths in Japan



Source: Ministry of Health, Labor and Welfare

New Market Initiatives

Amid changes in consumer purchasing behavior, the Pigeon Group is creating business models that are appropriate for such behavior.

Our Pigeon Mall online shopping site is performing well. In the year under review, Pigeon Mall recorded a 20% year-on-year increase in sales. We will continue strengthening ties with Pigeon.info, the Group's core information Web site. At the same time, we will establish links with Rakuten, Yahoo! Japan and Amazon Japan to take advantage of opportunities in the mobile communication market.

Direct communication is an effective way to attract expectant mothers. The membership of Pigeon.info, our Web site for word-of-mouth information, continues to grow. With more than 500,000 members, Pigeon.info has become the most popular site 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.

In June 2009, Pigeon signed an agreement with Mamas & Papas Ltd., based in the United Kingdom. The agreement gives us exclusive rights to sell the popular Mamas & Papas brand of products in Japan. Since then, we have already launched catalog and online sales. As seen in this example, Pigeon is expanding its business in new markets by marketing fashionable baby, child-care and maternity products tailored to changing lifestyles.

Performance and Highlights

In the year under review, sales in the Domestic Baby and Child Care Products segment totaled ¥19,735 million, down 2.3% from the previous year. Despite offering strategic products under a Child Care Support Project aimed at overcoming lackluster consumption, sales conditions were challenging. The decline in segment revenue stemmed from an intensely competitive market environment coupled with the falling birthrate.

Outlook

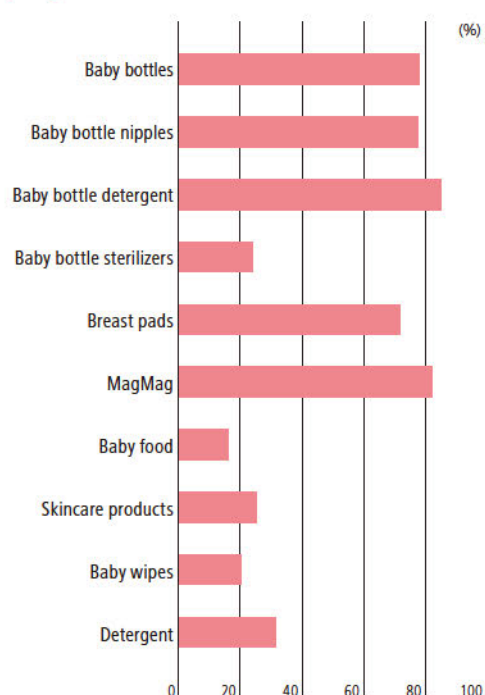
Although some external influences were responsible for the slight decline in segment sales, the main reasons were our inability to create new product categories and low sales prices resulting from cutthroat competition. The birthrate in Japan is expected to continue falling by around 20,000 annually. To enable growth amid such conditions, starting in 2010 Pigeon will establish a new category for large products, such as baby strollers. We will also work hard to strengthen store-based initiatives and enhance profitability by engaging closely with distributors and retailers.

Average Monthly Expenditures per Infant

Segment	2005	2006	2007	2008	2009
Powdered milk	1,794	1,360	1,457	1,460	1,233
Baby foods	1,008	875	758	764	725
Cow's milk	378	352	328	418	281
Snacks	750	567	553	545	560
Other (foods)	2,371	2,010	1,950	1,702	1,346
Subtotal (foods)	6,301	5,165	5,047	4,889	4,145
Clothes (under, outer), shoes, etc.	4,081	3,862	3,271	3,371	3,541
Cloth diapers, diaper covers/liners, etc.	130	156	139	273	216
Disposable diapers	3,405	3,602	3,166	3,615	3,437
Cloth diaper rental	9	0	0	0	0
Subtotal (clothes, diapers)	7,625	7,620	6,576	7,259	7,193
Medical treatment, pharmaceuticals	521	784	428	930	905
Toys	1,358	1,453	1,265	1,390	1,190
Picture books	555	527	389	351	425
Subtotal (toys, picture books)	1,913	1,980	1,654	1,741	1,615
Breastfeeding, baby food crockery	364	422	396	358	342
Bathing/hygiene accessories	1,262	1,182	1,168	1,192	1,200
Subtotal (breastfeeding, baby food crockery, bathing, hygiene)	1,626	1,604	1,564	1,550	1,542
Outdoor, furniture, beds, etc.	1,782	2,186	2,823	2,426	2,644
Total	19,768	19,339	18,092	18,795	18,044

Source: Figures compiled by Pigeon.

Domestic Market Share of Pigeon's Main Products



Source: Figures compiled by Pigeon.

CLOSEUP

Strengthening Direct Communication

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

Events for Expectant Mothers



More than 3,000 expectant mothers attended the 40 gatherings held throughout the business year.

Pigeon.info



The Pigeon.info Web site provides Japan's best source of information to support the lives of women and their children through pregnancy, approaching childbirth and when raising children. The site receives more than 40 million page views a month, and the number of new members has risen steadily. As of January 31, 2010, membership totaled more than 500,000.

<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. In the year under review, sales made via Pigeon Mall were more than 10% higher than the previous year.

<http://www.pigeonmall.jp>

Exclusive Sales Agreement for Mamas & Papas Brand

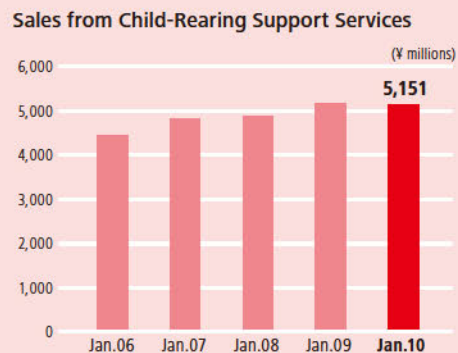
In the year under review, the Pigeon Group concluded an exclusive domestic distribution agreement to sell products made by Mamas & Papas, a U.K. company. We regard this as a complementary relationship, as there is no overlap between our own products and items carrying the Mamas & Papas brand. Our strategy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



Mamas & Papas mail order catalog

<http://www.mamasandpapas.jp>

Child-Rearing Support Services



Business Environment

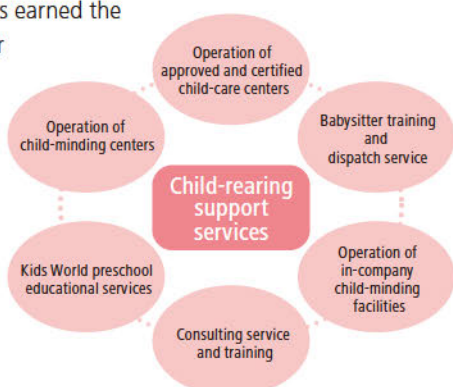
Despite the declining birthrate, the growing number of working mothers in Japan is contributing to the expansion of the child-rearing support services market. Urgent measures are required to accommodate the rising number of children on waiting lists, particularly in urban areas. In light of the current demand for public-private partnerships to provide new facilities and other support services, the Pigeon Group has an important role to play in this market as well.

The new Japanese government has signaled that it will implement measures to address the low birthrate and support child-rearing across all sectors of society. Specific examples include the payment of a child's allowance and improved child-care services. Such measures and expenditures will help boost growth in Pigeon's Child-Rearing Support Services segment.

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 a child-rearing support services business under the principle that "raising children comes first."

Today, the Pigeon Group provides a host of child-rearing support services that meet the varied needs of users. These include the operation, including on consignment, of child-minding facilities, such as approved 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-rearing support businesses.



Business Strategy

The solid reputation and trust earned by our child-rearing support services business help create new levels of 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 will 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-Rearing Support Services segment amounted to ¥5,151 million, up 1.4% from the previous year.

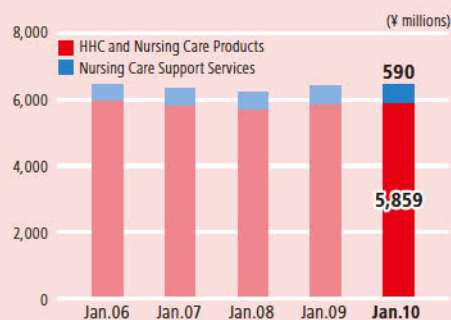
We exceeded our initial estimate for establishing new in-company child-minding facilities despite the cautious approach adopted by many companies affected by the economic recession. During the year, we opened five new facilities, and the number of children attending our existing facilities continues to increase.



Child-minding center

Healthcare Business

Sales from the Healthcare Business



Business Environment

According to statistics released in February 2010, the population of Japanese aged 65 or older stands at 29,150,000. This represents a 200,000 increase from 28,950,000 in September 2009 (population estimates published by the Statistics Bureau of the Ministry of Internal Affairs and Communications).

In Japan's progressively aging society, it is estimated that 25.2% of the total population, or one in every four Japanese, will be at least 65 years old by 2013. When baby boomers born between 1947 and 1949 begin to enter the 65-plus age bracket in three years' time, it is estimated that this group will grow by 2.3 million every year.

Our Competitive Edge

Pigeon's healthcare and nursing care business revolves around two brands: the Recoup brand of products that support the active elderly and the Habinurse brand of nursing care products. Together, these two brands offer items in many product categories, including toileting, bathing, hygiene, meals, sleeping and mobility. Pigeon's strengths in this segment are 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 nursing care products: retail stores and

institutions/hospitals. We also possess know-how and a proven track record in public information events and activities that promote the Group's provision of nursing care services.

Business Strategy

We will boost the sales and marketing capabilities of our healthcare business by taking advantage of the Pigeon Group's business structure.

We will also continue upgrading and expanding the new Recoup lineup brand of anti-aging products launched in August 2007. In addition, we will actively invest in developing this brand through various measures, such as setting up dedicated Recoup sections in retail stores. With the objective of enhancing customer convenience, in 2010 we began setting up mixed sections in retail stores that combine Recoup products with those made by other companies. We also plan to expand sales channels by offering products via mail-order catalogs and television shopping.

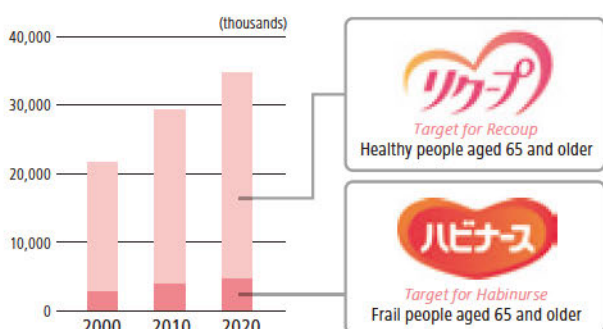
Pigeon launched its nursing care business in 1975, and today offers nursing care products under the Habinurse brand. Through its retail store and healthcare facility sales channels, the Pigeon Group fully meets the needs of people receiving care in their homes or in healthcare facilities.

Performance and Highlights

Sales in the Healthcare segment edged up 0.4% to ¥6,450 million. Operating income jumped 64.5% year-on-year to ¥269 million.

The Recoup brand received increased exposure thanks to our deployment of new sales channels, such as mail-order catalogs and television shopping, to augment existing retail sales. We again reported healthy sales of supporters for reducing strain on the body, and we released two new products to enhance our existing lineup of wrist, knee and postural supporters. Other new additions included functional walking support socks and walking support shoes that compensate for weakened physical function and mobility. In the year under review, we also launched two new oral healthcare products: a-sheet based mouth freshener and a cleaning solution for dentures.

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



Source: Figures compiled by Pigeon.

Pigeon launched several new items under the Habinurse brand of nursing care products, including tight-fitting cloth underpants with incontinence pads for the elderly. Such innovative products are based on the concept of preserving the dignity of the elderly, who wish to refrain from using adult diapers if at all possible. We also released Habinurse deodorant room sprays and easy-to-grasp Habinurse spoons and forks.

Outlook

While at present the Recoup brand accounts for around 20% of sales in this segment, we plan to expand that share to

around 40% of segment sales. With respect to 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 ¥7.8 billion in the year ending January 2011.

CLOSEUP

Recoup Brand Development and Sales Promotion

Recoup is a brand for the active elderly targeting healthy aged people and those who require light nursing. As walking is effective for maintaining mobility, we have a range of products built around the theme of walking. The brand provides support for a healthy and positive lifestyle that resolves and dispels problems arising from a decline in physical function, and prevents the age-related deterioration of physical functions. At present, the Recoup brand accounts for less than 20% of sales of Pigeon's HHC and nursing care products. Nonetheless, we will continue launching new Recoup products while raising brand recognition among customers through stepped-up branding activities.

Recoup Walking Support Shoes

In April 2009, Pigeon launched "Walking Support Shoes" for elderly women who stumble and wobble and generally feel unsteady when walking. Targeting elderly women who have become slightly anxious about walking, these light comfortable shoes are ideal for outdoors.

In February 2010, we launched a new model featuring a slip-on style, which allows the individual to slip the shoes on and off with ease.



Recoup Super Absorption Incontinence Underpants and Incontinence Pads

In February 2010, Pigeon launched underwear that can be used everyday with complete peace of mind and avoids the need to wear diapers to control incontinence. Worn together with a Recoup super absorption incontinence pad, Recoup incontinence underpants meet the needs of elderly people who refuse to wear disposable diapers. Incorporating the high quality and advanced technology for which Pigeon is known, while combining a disposable pad with cloth underwear for economy and ecology, this freedom underwear is a revolutionary product that is opening up a new market niche.

Fostering Brand Recognition and Dedicated Retail Sections

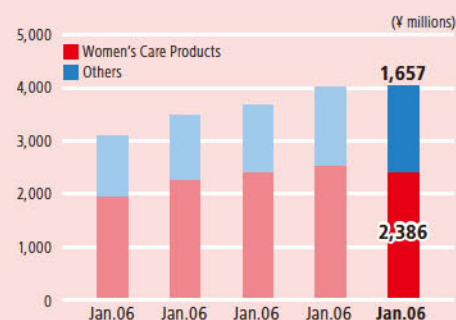
Pigeon will continue promoting the Recoup brand using a wide range of media, including events, posters and special catalogs. There is also a talk show featuring actress Yoshiko Kayama, enlisted by Pigeon to endorse the Recoup brand, as well as product videos available through our Web site.

Pigeon employs two methods to promote store sales of Recoup products. The first is the conventional method of displaying Recoup products along with items in the same category made by other companies. The second is creating dedicated retail space stocking the entire spectrum of Recoup products. As of December 2009, there were 150 retail outlets nationwide selling the Recoup brand. In 2010, we will launch a new initiative in which dedicated Recoup sections in stores will also carry products made by other companies. We are collaborating with other companies to create sales sections that offer comprehensive solutions, which will further enhance recognition of the Recoup brand's value.



Women's Care Products/Others

Sales of Women's Care Products/Others



Business Environment and Marketability

Products handled by this segment include nutritional supplements for women during pregnancy, approaching childbirth and rearing small children, as well as maternity undergarments. According to 2008 statistics, the average age of marriage for women, our target customers, is 28.5 years and rising annually. Consequently, the significant decline in women giving birth in their 20s has led to a higher birthrate among women in their 30s. Furthermore, the rising educational level of women and the growing number of women in the workforce have contributed to diversification in purchasing channels as women become more discerning about product selection.

Performance and Highlights

In the year under review, the Women's Care Products/Others segment posted sales of ¥4,043 million, a year-on-year increase of 1.0%. Operating income also rose 1.0% to ¥601 million. During the year, we expanded our lineup of nutritional supplements for expectant and nursing mothers. We managed to boost demand by launching new maternity-related nutritional supplements.

Sales by Pigeon Will Co., Ltd., our consolidated subsidiary that sells maternity undergarments, declined due to falling

consumption. On a positive note, heightened awareness concerning the prevention of swine flu and other infectious illnesses contributed to an increase in sales of disinfectants, sterilizers and related products.

Outlook

The declining birthrate and the economic downturn are major factors causing sluggish growth in sales and operating income in this segment. One internal factor was our failure to develop products fast enough in response to market trends. The Group will take steps to remedy this situation.

In the year ending January 31, 2011, the Group will begin expanding its lineup of nutritional supplements for women during pregnancy, approaching childbirth and rearing small children. At the same time, we will step up the provision of information on the importance of nutrition during these stages of a woman's life.

We will also expand the lineup of maternity products made and sold by Pigeon Will Co., Ltd., by drawing on various products with unique features developed by Pigeon over its many years of pregnancy research. In China, meanwhile, we will draw on our success with baby and child care products to promote sales of cosmetics and other items targeting expectant and new mothers.

CLOSEUP

Pigeon Will Co., Ltd.

Pigeon Will Co., Ltd., is a consolidated subsidiary that specializes in the manufacture and sale of maternity undergarments. Unlike other maternity undergarments for which the designs tend to focus exclusively on functionality, items made by Pigeon Will come in a variety of fashionable designs, which make them enjoyable to wear.

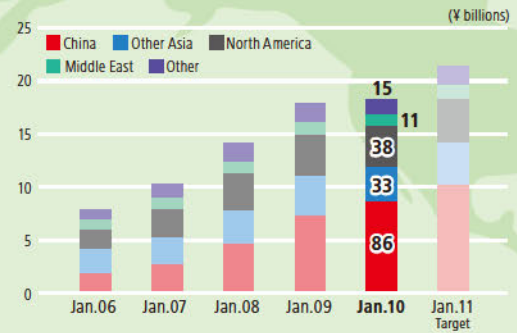
To give a recent example, in March 2010 Pigeon Will launched a new maternity underwire bra, Yasashisa Jikkan, that has the comfort of a half-top bra. The support it provides makes it suitable to wear outside the home. It is designed as an item that women enjoy using, and the absence of side seams means there is no discomfort. Products like these help reinforce the strong track record enjoyed by Pigeon's products.



Globalization

● Group Companies
● Branches

Overseas Business Sales by Region



Business Overview

Despite concerns about the impact of the worldwide recession, 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 expansion, especially in China and North America.

In the year ended January 2010, overseas sales amounted to ¥18,539 million, up 3.9% from the previous year, despite the impact of foreign exchange fluctuations.

In January 2008, we commenced operations at a plant in Shanghai's Qingpu Industrial Zone, followed by a second facility in 2009. At these plants, we produce detergents, skincare products, baby bottles and baby bottle nipples. In February 2010, we started construction of a new plant in Changzhou, Jiangsu Province, to make breast pads and baby wipes. That facility is scheduled to open in late October 2010.

Business Strategies

One of our competitive edges is our commitment to product quality. Since our foundation more than 50 years ago, we have conducted basic research through in-depth consideration of "what is best for babies and their mothers," and made products accordingly. While we have undertaken full-scale production overseas since the 1990s, from the beginning we have implemented exhaustive quality control measures to ensure that quality levels upheld in Japan are applied equally in our production facilities overseas. At the same time, we have continued to address foreign exchange factors and reinforce our cost-competitiveness. This uncompromising dedication to quality has enabled Pigeon to earn widespread trust and a reputation in overseas countries as a safe and reliable brand.

We also place high importance on promotional activities in hospitals and communication with our customers. For example, we pursue research on baby growth and development and breastfeeding in infancy, and we conduct surveys on child-rearing attitudes and changing child-care trends. We then establish relationships with hospitals and specialists by offering product information and samples that incorporate the results of our research. At the same time,

we promote communication in various ways, including by holding maternity schools and providing child-care advice.

In stores, meanwhile, we create displays to facilitate a better understanding of our products, and we are building a system to ensure reliable explanations of product features in an easy-to-understand manner. The resultant word-of-mouth communication enables us to broaden our reputation and raise our brand appeal.

In the first 24 months of life, the growing process of babies is universal worldwide. Therefore, Pigeon intends to advance its business model, well established in Japan, across the world. Going forward, we will proactively advance our operations in nations with good business potential.

Another crucial element is "teamwork with high-quality business partners." Forming alliances with distributors is essential to expanding a sales network, but it is fundamentally important for distributors to understand and embrace our philosophy, and we have made an effort to make that possible.

Business Features and Outlook

In March 2008, we announced our Third Medium-Term Management Plan for the new century. The plan calls for proactive overseas expansion, with China and North America positioned as key regions. In 2009, regarded as a period of preparation, we worked to strengthen brand loyalty and achieve proliferation. At the same time, we upgraded our marketing, product development and supply, and quality control systems. Through these actions, we are targeting consolidated overseas sales of ¥21.5 billion in fiscal 2010 (ending January 2011), the final year of the plan.

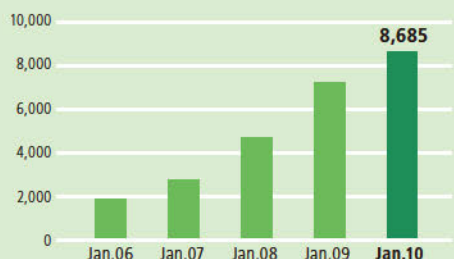
We recognize the particular importance of recruiting and promoting highly talented staff in realizing our global strategies. We already have numerous personnel with diverse skills in our Overseas Business Division. Going forward, we will focus on nurturing our human resources, with emphasis on those with overseas experience and upgraded skills, in order to strengthen our operating foundation.

China



Sales in China

(¥ millions)



Business Overview

With a population of around 1.3 billion, China's annual childbirths have averaged about 15 million–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 million–4 million people. Given that we generate around ¥20 billion from our baby and child care products business in Japan, where only 1.07 million babies are born annually, we think that the Chinese market has a possibility to generate around ¥40 billion.

In 2002, we established a wholly owned subsidiary, Pigeon Shanghai Co., Ltd., to tap into the rapidly growing Chinese market. We initially 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 with monthly household incomes of 5,000 yuan or higher. We are advancing our business by proposing innovative lifestyle scenarios, with an emphasis on toiletry-related products. With more than 500 types of products on the Chinese market, we supply higher-priced items to meet high-end demand from the growing number of newly wealthy people in major coastal cities.

In China, where economic growth continues at lightning speed, we have steadily expanded our business through various measures. These include 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.

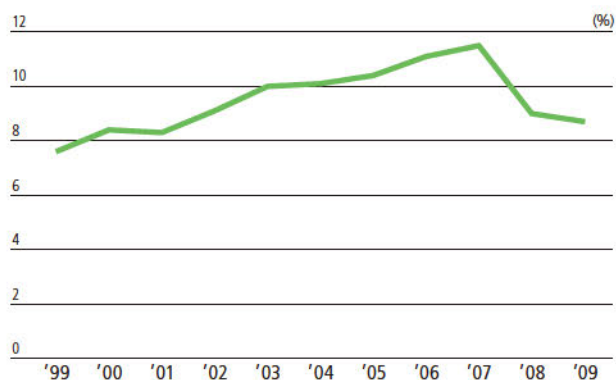
In Chinese hospitals, for example, we have held various events, such as product exhibitions, product explanation forums and child-care information sessions. In 2009, we opened Pigeon Breastfeeding Advice Offices in 34 hospitals as a joint project with China's Ministry of Health. In these ways, we are stepping up our focus on brand appeal reinforcement.

Pigeon's sales in China continue to grow steadily. In the fiscal year ending January 2011, we expect Chinese sales to exceed ¥10 billion, then grow to around ¥20 billion by the year ending January 2016. In the future, we expect household incomes to continue rising, leading to increased sales of our existing products, notably baby bottles and nipples and toiletries. We also anticipate rapid growth in

Sales Channel Expansion in China



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–).

the market for consumables, including breast pads and baby wipes and other items generally popular in industrialized nations. To properly address such market changes, we must ensure the stable supply of products and reduce costs. We have also commenced construction of a new plant with the aim of establishing a solid local procurement and production infrastructure and increasing the internal manufacturing ratio.

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 and around 30 secondary distributors, we are steadily increasing the number of stores handling our products.

Our primary distributors have roles and functions defined according to specific sales channels, which include baby specialty stores baby and child care product sections of department stores and chain stores. We also have secondary distributor arrangements with local companies, targeting one company per province. These distributors are responsible for brand strategies and sales growth.

Expanding Our Sales Network

Through our focus on establishing dedicated Pigeon sections within baby specialty stores, we are making steady sales progress in China's interior regions. In addition to Shanghai, where we have a business base, we opened a branch in Beijing in 2008 and one in Guangzhou in 2009, and we will continue expanding our presence across the nation.

Fiscal 2009 Results and Evaluation

In fiscal 2008, ended January 2009, sales in China increased substantially to ¥7.2 billion, up 65.5% from ¥4.7 billion in fiscal 2007. In the year under review, we again enjoyed healthy growth, with sales in China reaching ¥8.6 billion.

Despite concerns about the impact of the Lehman Brothers collapse, the overall Chinese economy is on a recovery trajectory thanks to large-scale fiscal measures implemented by the national government. As the global economy normalizes in 2010, China will continue posting high-level growth. We are confident that our business

performance in China will receive an additional boost if our new plant there proceeds smoothly according to plan.

Since 2008, Pigeon Manufacturing Co., Ltd., a consolidated subsidiary, has been manufacturing and assembling various products at its plant in Shanghai's Qingpu Industrial Zone. These include silicon baby bottle nipples (baby bottles slated to start production in 2010), detergents and toiletries. To further solidify our production system, we completed a second facility in 2009. More recently, we established Pigeon Industries Changzhou Co., Ltd., in Changzhou, Jiangsu Province. That company is constructing a plant scheduled to commence full-scale production of breast pads and baby wipes in 2011. It will serve as our No. 2 production base in China. In these ways, we are reinforcing our production system to ensure stable product supply.

Future Outlook

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

Our sales network in China extends well beyond Shanghai. We have already commenced full-scale expansion into China's interior regional cities—having opened a branch in Beijing in 2008 and one in Guangzhou in 2009—and will further expedite this process. 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.



Retail store in Linan, Zhejiang Province

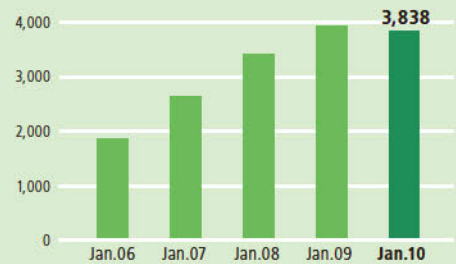


Breastfeeding advice room

North America/ Europe

Sales in North America

(¥ millions)



Business Overview

Pigeon's sales are also rising steadily in United States, the epicenter of the global financial crisis, with a population that is growing by around 3 million per year. With an average birthrate of 2.1 children per family, the United States is an advanced country with a stable birthrate. Doctors in that nation generally recommend breastfeeding, so demand for breastfeeding-related products is rising. For this reason, high-quality products supplied by Lansinoh Laboratories, Inc., have garnered strong support.

In April 2004, Pigeon acquired Lansinoh Laboratories, Inc., based in Virginia, and transformed it into a wholly owned subsidiary. Established in 1984, Lansinoh has acquired a high degree of brand recognition. It has been building sales platforms in the United States and Europe based on medium- and long-term perspectives.

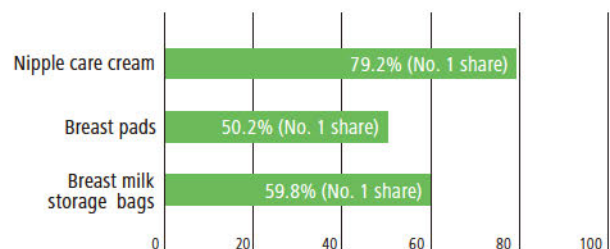
Pigeon's Position

The Lansinoh range of breastfeeding-related products includes breast creams, breast pads, breast milk storage bags and breast pumps. It is recognized for its unmatched product quality and brand strength. More than 40,000 stores handle these products. In particular, Lansinoh's high-quality breast pads, originally developed in Japan, are warmly appreciated by consumers in the United States.

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

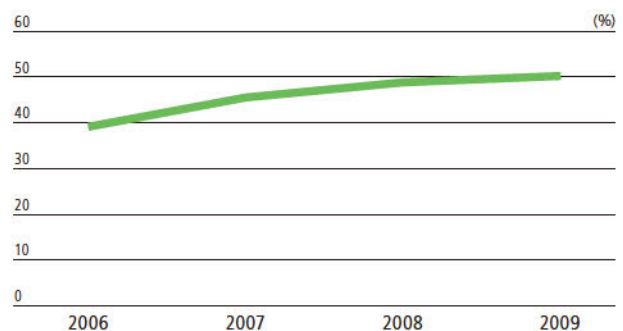
While the breastfeeding-related market in North America is quite large, Lansinoh enjoys limited brand recognition in the breast-pump segment of the market. In response, we launched an electric breast pump in December 2009. We also introduced diaper rash creams into U.S. retail stores as part of an aggressive effort to raise market share.

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



Source: Figures compiled by Pigeon (as of January 2009).

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



Source: Figures compiled by Pigeon.



Lineup of Lansinoh Laboratories, Inc.

Fiscal 2009 Results and Future Outlook

Despite posting a sales increase in North America in local currency terms, sales in yen terms declined 2.3% year-on-year to ¥3,838 million, due to foreign exchange fluctuations.

In Europe, we expanded our lineup of offerings for the breastfeeding-related market while increasing the number of retailers and stores handling our products. During the

year, Lansinoh opened a branch in Turkey to complement existing branches in the United Kingdom and Germany. We have great expectations for medium- and long-term growth in Turkey, one of Europe's most populous nations. We will use our base in Turkey as a springboard for further expansion across Europe.

Other Countries

Business Strategies

In addition to China and the United States, the Pigeon Group is actively entering new markets in order to expand its business. In the year under review, we advanced our business in emerging nations with major future growth potential. For example, we established a new sales subsidiary in India, formed a distribution agreement in Russia and investigated opportunities in Central and South America, the Middle East and elsewhere.

India

In 2005, the population of India exceeded 1.1 billion people and has been growing at the rate of more than 10 million per year. More than half the population is under 25. Although there are major discrepancies between rich and poor, considerable growth in the wealthy population is boosting the number of childbirths.

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

For some time, we have been promoting our business in India, centering on such major cities as Delhi and Mumbai. Thanks to these efforts, sales in India totaled around ¥150 million in the year under review. In November 2009, consolidated subsidiary Pigeon Singapore Pte. Ltd. transformed its representative office in Mumbai, India, into a local subsidiary. The new company, Pigeon India Pvt. Ltd., has since commenced full-scale sales and marketing activities. In the year ending January 2011, the final year of our medium-term plan, we project sales in India will surpass ¥500 million.

Other Countries

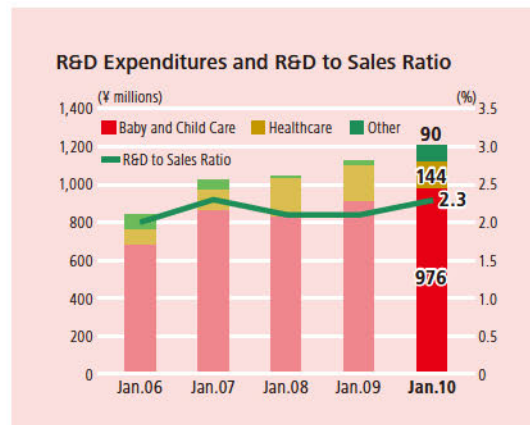
Looking at other BRIC nations, during the year we entered Russia, which we regard as an exciting new market. Specifically, we formed a new distributor agreement with a powerful local entity with the aim of expanding sales. In 2009, we conducted market research in Brazil in preparation to enter that market and uncover business expansion opportunities. Our next plan is to conduct market research in Mexico.

Strategic Areas in India



Billboard advertisement in India

Research and Development



Our R&D Mission

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

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

Basic Research and Achievements

It is generally acknowledged that the development of new technologies and new materials requires enormous expenditure. At Pigeon, while we use high-tech equipment in our R&D activities, we also engage in hands-on studies of our subjects. In this way, we steadily build up bodies of research on such themes as child development, physical decline and features of everyday behavior. This universal research is undertaken independently by our human science research department.

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

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

Over recent years, Pigeon has paid particular attention to research on infant suckling, a basic research theme that goes back to Pigeon's beginning. This research has enabled us to expand our body of knowledge on the suckling movements established by Pigeon some time ago, which consists of the

three principles of "adsorption," "suckling" and "swallowing." One finding from this research has been applied to a new Bonyu Jikkan. Launched in spring 2010, this new product allows babies to suckle in a more natural way.

Overseas Business and R&D

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

It is widely known from previous research that the various processes of physical development for newborn infants through to 18-month-old children are the same worldwide, regardless of ethnicity, culture or environment. This means we can pursue research anywhere in the world. Pigeon has built an R&D organization permitting both vertically and horizontally integrated research according to each theme. The major themes of developing hand/foot motor function and developing mouth and other biological functions are divided into sub-themes. Because it is necessary to gain a firm grasp of key research functions, these themes are overseen by the Central Research Center in Japan. Research into the deterioration of functions caused by aging, a key research theme undertaken for the Recoup business, and related product development also takes place in Japan. Once these stages have been completed, Pigeon is then able to introduce such advances and products to overseas markets.

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 establishing a highly reliable quality control system.

Developing products that reflect local needs requires each local development department to oversee the monitoring of products sold solely in that region. For example, our development department in Shanghai is responsible for the planning and development of items sold in China. The Central Research Center in Japan controls key products, such as baby bottles and baby bottle nipples, whereas Shanghai takes care of production and other aspects of technical development.

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

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

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 and (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 there is potential for a new product, specific strategies are established with the aim of creating a product. At this stage, we place the greatest emphasis on confirming market demand and the potential for stimulating demand. The marketing department's involvement begins at the pre-product strategy and hypothesis stages. The department formulates sales strategies while work is

progressing on creating a specific product.

Under our R&D system, the four basic marketing strategies (product, price, place and promotion) are established from the product planning stage. Consequently, a sales strategy is already in place when work on a new product has been completed. The system enables examination of any strategy-related issues at the point when it has become clear whether sales are successful following the product's release. This framework forms the basis of Pigeon's product strategy, which centers on hypothesis testing.

R&D Expenditures and Organization

In the year ended January 31, 2010, expenditures on research and development totaled ¥1,210 million, a 7.2% increase from ¥1,128 million in the previous year.

R&D at Pigeon is spearheaded by the Central Research Center in Tsukuba Mirai City, Ibaraki Prefecture. Recognizing the importance of product development, we have increased the number of researchers working at the center by around 40% in the past five years, to 110. Researchers work in four departments: human science research, product development (which includes planning), quality control and intellectual property. We send researchers to our affiliated companies in Japan, as well as to China, Thailand and other overseas bases to strengthen our ability to address those markets.

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

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

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



Central Research Center (Tsukuba Mirai City, Ibaraki Prefecture)



Lactation simulator

Corporate Governance

Basic Stance

Adhering to the Pigeon Group's corporate motto, "Only love generates love," all executives and employees of the Pigeon Group embrace a strong sense of ethics. They promote compliance-oriented management across all areas of the Group's business activities and are committed to helping Pigeon fulfill its corporate social responsibilities. We recognize the vital importance of various factors in achieving the sustained enhancement of corporate value. These include improving management efficiency and transparency and strengthening the management oversight function with the aim of achieving performance targets while maintaining a proper balance between value for shareholders, value for customers and value for employees. The Group is implementing a variety of initiatives to upgrade its corporate governance structure.

Corporate Governance Structure

Pigeon's Board of Directors consists of seven members, none of whom are outside directors. We have adopted a corporate auditor system, with four corporate auditors, two of whom are external auditors. Pigeon is building a corporate governance framework based on internal control systems.

In 2000, we introduced an executive officer system for the execution of business. The role of executive officers is independent from that of directors, who are responsible for management. This separation of the decision-making and management function from the business execution function clarifies the respective duties of directors and executive officers. We are working hard to make management more efficient, including by ensuring prompt decision making on management-related issues, made possible by the introduction of a general manager system.

Promoting Compliance

Seeking to strengthen our compliance framework, we operate an internal reporting system, called Speak Up, which was established some time ago, and in July 2008 we set up Pigeon Partners Line, a reporting system for our business partners. We 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 investigating the relevant circumstances. Throughout the process, we ensure that the identities of persons reporting the problems and those communicating with such persons are duly protected.

In January 2010, we established an English version of Pigeon Partners Line.

Following our voluntary recall of Pigeon products in 2008, we sought to adopt more exhaustive quality controls in order to prevent accidents from recurring. To this end, we created an internal framework by establishing a QC

Committee, chaired by the president of Pigeon.

We will strive to raise management quality by further reinforcing our internal control system and adopting rigorous compliance and risk management protocols. One reinforcement measure is the Compliance Report, which is sent to all employees twice a month. This is an educational report that also includes specific instructions on addressing compliance-related issues. We also established the Compliance Self-Check system and are working relentlessly in other ways to make our company even better.

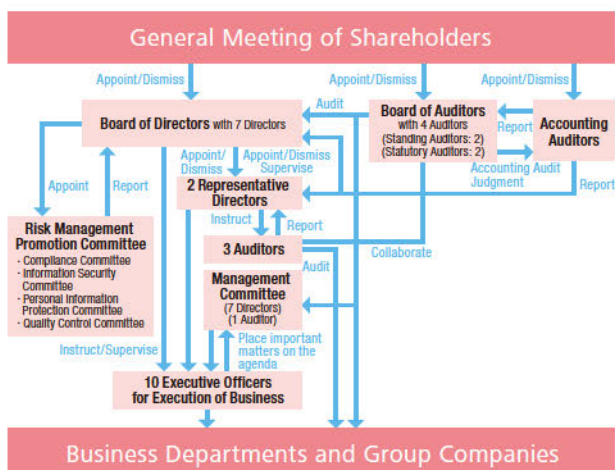
Risk Management

The Risk Management Promotion Committee is responsible for managing all risks facing the Pigeon Group. The committee sets basic internal control policy concerning the identification and evaluation of risks and the consideration of countermeasures. It also receives reports on the activities and policies of the Compliance Committee, the Information Security Committee, the Personal Information Protection Committee and the Quality Control Committee.

Protection of Personal Information

As a company that provides customers with products, services and information, we place high importance on ensuring information security and protecting personal information, and we are working continuously to raise our standards. For example, we established the Personal Information Protection Committee and embarked on a companywide effort aimed at obtaining Privacy Mark certification from Japan Information Processing Development Corporation (JIPDEC). This certification is awarded to places of business that have proper mechanisms in place to ensure protection of personal information being handled. As a result, we received Privacy Mark certification in July 2005 and were awarded extensions in 2007 and 2009.

Organization of Corporate Governance



Corporate Social Responsibility

Basic Stance on CSR

The Pigeon Group's business philosophy of "providing the gift of love to all" is embodied in its mainstay business of offering products and services to people requiring assistance with pregnancy, childbirth, child-care and nursing care. Our tree-planting campaign and other proactive initiatives are based on our awareness that our business activities themselves incorporate a CSR dimension.

We view all our stakeholders as customers and believe that maintaining a good balance between our stakeholders is in itself an act of corporate social responsibility and one that enhances corporate value.

23rd Newborn Baby Commemorative Tree-Planting Campaign

In 1986, Pigeon launched the Newborn Baby Commemorative Tree-Planting Campaign because it wanted to do something for society befitting the Pigeon corporate motto, "Only love generates love." Under the slogan "Raising Children, Raising Trees: The Spirit Is the Same," the campaign is based on the premise that both babies and seedlings share a need for warm and nurturing environments to grow and prosper.

Since then, between 3,500 and 6,000 trees have been planted each year at the Pigeon Miwa no Mori site in Hitachi-Omiya City (formerly Miwamura) in Ibaraki Prefecture. By the time of the 23rd event in 2009, nearly 100,000 trees had been planted and the first trees we planted now stand 10 meters high. The total area is now more than 30 hectares, or the size of six Tokyo Domes. In the autumn of 2007, Pigeon employees also planted trees with the aim of creating a large leafy forest. The names of all babies chosen to take part in



The 23rd New Baby Commemorative Tree-Planting Campaign

the tree-planting campaign are recorded in the register at Sukusuku House, a leisure facility in the forest.

Donation to Elementary School in Sichuan Province, China

In the course of advancing its overseas business, the Pigeon Group is committed to serving as a company that contributes to each nation rather than merely pursuing its own business development. Based on this commitment, Pigeon Shanghai Co., Ltd., a Group subsidiary in China, donated products valued at 1.01 million RMB (¥15.1 million) to a women's developmental fund set up to help victims of the 2008 Sichuan Earthquake and support the region's restoration efforts.

We also made a 500,000 RMB (¥7.5 million) donation to a Shanghai youth development fund to help rebuild elementary schools in Sichuan Province following the earthquake. The rebuilding effort has made good progress, and on December 1, 2009, we held a completion ceremony for a "Pigeon hope primary school" in Lushan County, Sichuan Province. Attending the ceremony were prominent people from the county, as well as Seiichi Matsumura, Chairman and Chief Executive Officer of Pigeon, and Norimasa Kitazawa, Managing Director of Pigeon Shanghai. Through its various initiatives, Pigeon has deepened its ties with the region, to the extent that Mr. Matsumura was named "Benevolence Ambassador" of Lushan County and Mr. Kitazawa was named "Honorary Principal" of the school.

Going forward, The Pigeon Group plans to make donations to one Chinese elementary school each year. This year, we will concentrate on Qinghai Province, which suffered a major earthquake in April 2010.



Sichuan Lushan village "Pigeon hope primary school"

Management's Discussion and Analysis

Business Environment and Performance

Business Conditions in Fiscal 2009

In the fiscal year under review, the Japanese economy failed to achieve full-scale recovery amid ongoing difficulties in the employment situation as the unemployment rate moved to a high level. In overseas markets, moreover, a number of factors remained that could potentially suppress economic recovery. Despite a decline in raw materials prices, together with lower outsourcing costs due to an emphasis on in-house manufacturing, the Pigeon Group faced a severe sales environment for various reasons, including contraction of distribution inventories, cooling personal consumption and the yen's ongoing appreciation. In this environment, the Pigeon Group reported net sales for the year of ¥53,431 million, up 0.6% from the previous year.

Income Statement Analysis

Due to a decline in raw materials prices and an emphasis on in-house manufacturing in the first half of the year, cost of sales declined 1.2% to ¥32,528 million. As a result, gross profit increased 3.7% to ¥20,902 million—posting stronger growth than net sales.

Selling, general and administrative expenses rose 2.5% to ¥16,298 million. This slight increase stemmed from the Group's emphasis on maintaining a balance between aggressive investment aimed at future growth on one hand and cost-cutting measures based on a meticulous cost-reward assessment on the other. Sales promotion expenses rose ¥185 million due to business advancement efforts across all segments.

In line with business expansion, the number of employees rose to 2,318 at the fiscal year-end, up from 2,226 a year earlier, and personnel expenses increased to ¥193 million. Accordingly, operating income grew 7.8% to ¥4,604 million. Amid considerable expansion of our overseas business, the Group posted a decrease in non-operating expenses. This stemmed from a ¥50 million foreign exchange loss, down from a ¥9 million gain in the previous fiscal year. Nevertheless, ordinary income rose 7.3% to ¥4,609 million, practically the same level as operating income.

The Group reported total extraordinary losses of ¥448 million, largely due to a bad debt loss of ¥304 million. As a result, net income remained mostly unchanged, edging down 0.5% to ¥2,840 million.

Financial Position

Assets

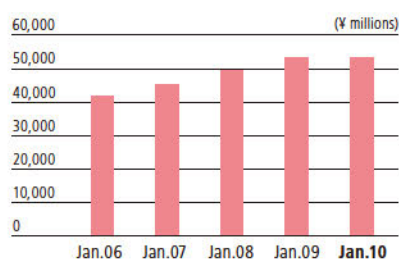
As of January 31, 2010, Pigeon had consolidated total assets of ¥39,493 million, up ¥1,085 million (or 2.8%) from a year earlier.

The major factors boosting current assets were a ¥932 million (15.6%) rise in cash and time deposits and ¥1,091 million in raw materials and inventory goods. The main reasons for the increase in fixed assets were a ¥651 million (7.4%) increase in machinery and transportation equipment and a ¥170 million (4.5%) rise in tools, furniture and fixtures.

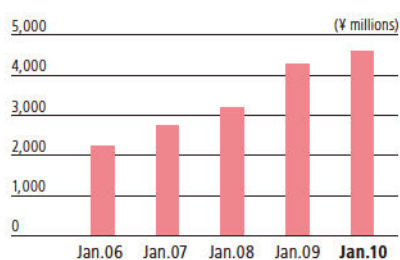
(¥ millions)

Sales by Segment	Jan. 2009				Jan. 2010			
	Amount	Percentage (%)	YoY Change (%)	Gross Margin (%)	Amount	Percentage (%)	YoY Change (%)	Gross Margin (%)
Net Sales	53,092	100.0	107.8	38.0	53,431	100.0	100.6	39.1
Baby and Child Care Products (Domestic)	20,209	38.1	98.1	39.6	19,735	36.9	97.7	40.9
Baby and Child Care Products (Overseas)	17,374	32.7	125.5	48.6	18,050	33.8	103.9	49.3
Child Care Support Services	5,079	9.6	104.3	11.2	5,151	9.6	101.4	11.3
HHC/Nursing Care Products	5,839	11.0	102.8	29.2	5,859	11.0	100.3	31.3
Nursing Care Support Services	582	1.1	106.7	14.4	590	1.1	101.4	14.1
Women's Care Products	2,515	4.7	104.9	36.6	2,386	4.5	94.9	38.0
Other	1,490	2.8	115.4	28.9	1,657	3.1	111.2	32.5
Overseas Business	17,847	33.6	124.4	48.7	18,539	34.7	103.9	49.5

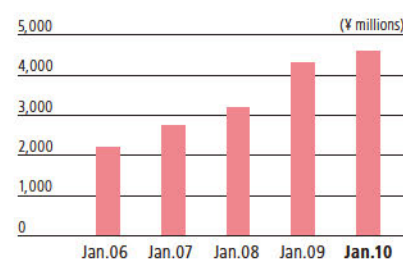
Net Sales



Operating Income



Ordinary Income



Liabilities

Total liabilities at the fiscal year-end stood at ¥13,229 million, down ¥854 million (6.1%) from a year earlier. The main factor holding down current liabilities was a ¥457 million (25.2%) drop in short-term borrowings. The main reason for the decrease in total long-term liabilities was a ¥319 million (24.0%) fall in long-term debt.

Net Assets

Consolidated net assets amounted to ¥26,264 million, up ¥1,939 million (8.0%) from a year earlier.

Sound Financial Position

At the fiscal year-end, the Group had ¥6,905 million in cash and time deposits versus ¥2,469 million in interest-bearing debt, including long-term debt due within one year. The equity ratio also remained high, at 65.3%. These figures underscore the Group's ability to continue making flexible and proactive investments, including in M&As, even in the face of the current global credit squeeze.

Cash Flows

Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥4,964 million, up 18.0% from the previous year. Factors holding down operating cash flows included ¥1,496 million in depreciation (down 8.0% year-on-year) and ¥1,047 million in income taxes paid (up 12.4%). Contrasting factors included ¥4,165 million in income before income taxes (up 3.6%) and an ¥827 million increase in inventories (up 33.3%).

Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥2,105 million (up 64.6%). Main factors included ¥1,801 million in the acquisition of property, plant and equipment (up 31.2%). By contrast, there was no reversal of time deposits (which totaled ¥471 million in the previous year).

Cash Flows from Financing Activities

Net cash used in financing activities was ¥2,018 million (up 1,719.9% from the previous year). This resulted primarily from ¥1,278 million in the payment of cash dividends (up 66.7%) and a ¥680 million net decrease in short- and long-term debt (¥506 million net increase in the previous year).

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 down 0.7 percentage point from a year earlier

(from 12.1% to 11.4%). However, it remained close to the 12.1% target set under the Group's medium-term business plan. We will watch this figure closely and redouble our efforts to boost ROE and keep it above the minimal target. Return on assets (ROA) at the fiscal year-end was 11.8%, up 0.5 percentage point from 11.3% a year earlier. EBITDA (earnings before interest, taxes, depreciation and amortization) amounted to ¥5,712 million, down ¥76 million (0.1%), and EV/EBITDA (enterprise value/EBITDA) grew from 8.5 times to 12.9 times.

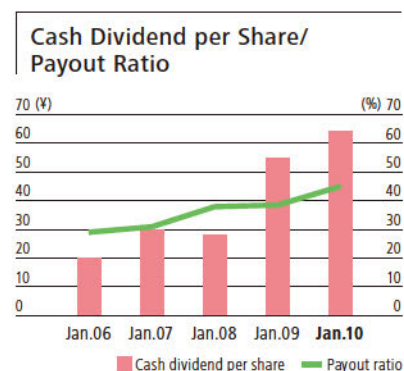
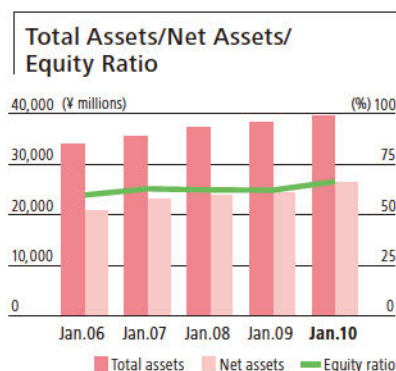
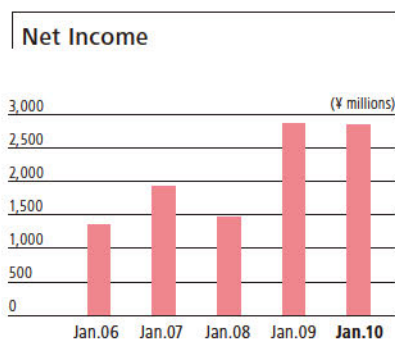
Profit Appropriation Policy

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 medium-term management plan announced in March 2008, we are targeting a consolidated total shareholder return of more than 50% by the year ending January 2011, the final year of the plan. To this end, we are seeking to further strengthen and upgrade measures for returning profits to all shareholders. In the year under review, we achieved a consolidated total shareholder return of 45.1%, up 6.6 percentage points from 38.5%. Based on this policy, we paid an interim cash dividend of ¥32.00 per share, and we declared a year-end dividend of ¥32.00. This brings the total annual dividend to ¥64.00 per share (¥64.00 per share of common stock, up ¥9.00 from the previous year).

Outlook

The year ending January 2011 is the final year of the Group's Third Medium-Term Management Plan, entitled "Becoming a Global Company: Challenges and Independence." Based on the plan's fundamental policies, we will strive to expand overall operations. We have set the following consolidated performance targets for the year: net sales of ¥60.7 billion (up 13.6% year-on-year), operating income of ¥5.5 billion (up 19.5%), ordinary income of ¥5.4 billion (up 17.2%) and net income of ¥3.5 billion (up 23.2%).



Financial Data

Consolidated Balance Sheets (January 31, 2009 and 2010)

Item	Period	¥ millions		US\$ thousands
		2009	2010	2010
Assets				
Current Assets				
Cash and Time Deposits		5,972	6,905	74,973
Notes and Accounts Receivable		10,118	8,757	95,081
Marketable Securities		—	—	—
Inventories		4,641	—	—
Goods and Products		—	4,358	47,318
Other Current Assets		898	2,250	24,430
Total Current Assets		21,630	22,272	241,824
Fixed Assets				
Tangible Fixed Assets		13,308	14,039	152,432
Intangible Fixed Assets		1,544	1,230	13,355
Investments and Other Assets		1,923	1,950	21,173
Investment Securities		1,268	1,336	14,506
Total Fixed Assets		16,777	17,221	186,982
Total Assets		38,407	39,493	428,806
Liabilities				
Current Liabilities				
Notes and Accounts Payable		4,674	4,311	46,808
Accrued Account Payable		2,341	2,238	24,300
Income Taxes Payable		426	682	7,405
Accrued Employees' Bonuses		522	531	5,765
Other Current Liabilities		3,278	2,929	31,802
Total Current Liabilities		11,243	10,694	116,113
Long-Term Borrowings		1,319	1,000	10,858
Long-Term Liabilities		1,520	1,535	16,667
Total Long-Term Liabilities		2,839	2,535	27,524
Total Liabilities		14,083	13,229	143,637
Shareholders' Equity				
Capital Stock		5,199	5,199	56,450
Additional Paid-in Capital		5,180	5,180	56,243
Retained Earnings		15,484	17,044	185,060
Net Unrealized Gain (Loss) on Securities		0	7	76
Adjustment on Foreign Currency Statement Translation		△ 1,493	△ 1,203	△ 13,062
Treasury Stock		△ 442	△ 446	△ 4,843
Minority Interests		396	482	5,233
Total Net Assets		24,324	26,264	285,168
Total Liabilities, Minority Interests and Net Assets		38,407	39,493	428,806

Note: Figures in U.S. dollars are calculated, for convenience only, at the exchange rate of ¥92.10=US\$1.00.

Consolidated Statements of Income (For the years ended January 31, 2009 and 2010)

Item	Period	¥ millions		US\$ thousands
		2009	2010	2010
Net Sales		53,092	53,431	580,141
Cost of Sales		32,927	32,528	353,181
Gross Profit		20,164	20,902	226,949
Selling, General and Administrative Expenses		15,895	16,298	176,960
Operating Income		4,269	4,604	49,989
Other Income		406	409	4,441
Other Expenses		381	404	4,387
Ordinary Income		4,293	4,609	50,043
Extraordinary Income		16	4	43
Extraordinary Losses		289	448	4,864
Income before Income Taxes		4,020	4,165	45,223
Income Taxes		1,041	1,299	14,104
Adjustment for Corporate Tax		△26	△89	△ 966
Less: Minority Interest in Net Income of Consolidated Subsidiaries		150	115	1,249
Net Income		2,854	2,840	30,836

Note: Figures in U.S. dollars are calculated, for convenience only, at the exchange rate of ¥92.10=US\$1.00.

Consolidated Statements of Changes in Shareholders' Equity

(¥ thousands)

	Shareholders' Equity					Valuation and Translation Adjustments			Minority Interests	Net Assets
	Capital	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity	Profit/Loss on Deferred Valuation of Other Securities	Foreign Currency Translation Adjustment	Total		
Balance at January 31, 2009	5,199,597	5,180,246	15,484,915	△ 442,935	25,421,824	△ 251	△1,493,521	△1,493,773	396,538	24,324,589
Changes during Period										
Distribution of Earnings	—	—	△1,280,995	—	△1,280,995	—	—	—	—	△1,280,995
Net Income	—	—	2,840,149	—	2,840,149	—	—	—	—	2,840,149
Disposal of Treasury Stock	—	—	—	—	—	—	—	—	—	—
Acquisition of Treasury Stock	—	—	—	△ 3,587	△ 3,587	—	—	—	—	△ 3,587
Changes during Period Not Related to Shareholders' Equity (net)	—	—	—	—	—	7,815	290,254	298,069	86,099	384,168
Total Changes During Period	—	—	1,559,153	△ 3,587	1,555,565	7,815	290,254	298,069	86,099	1,939,734
Balance at January 31, 2010	5,199,597	5,180,246	17,044,069	△ 446,523	26,977,390	7,563	△1,203,267	△1,195,704	482,638	26,264,324

Financial Indicators (January 31)

Item	Period	2006	2007	2008	2009	2010
Profitability						
Gross Margin (%)		37.5	37.8	37.9	38.0	39.1
Operating Margin (%)		5.3	6.1	6.5	8.0	8.6
Ordinary Margin (%)		5.3	6.1	6.5	8.1	8.6
ROA (Operating Income to Total Assets) (%)		6.5	7.9	8.7	11.3	11.8
ROA (Ordinary Income to Total Assets) (%)		6.4	7.9	8.7	11.3	11.8
ROE (Return on Equity) (%)		6.7	9.0	6.4	12.1	11.4
Cost of Sales Ratio (%)		62.6	62.2	62.1	62.0	60.9
Stability						
Current Ratio (%)		131.8	169.5	160.7	192.4	208.3
Fixed Ratio (%)		92.0	82.1	77.2	70.1	66.8
Fixed Assets to Long-Term Capital Ratio (%)		85.2	73.9	72.4	62.7	60.8
Equity Ratio (%)		59.9	63.0	62.4	62.3	65.3
Interest Coverage Ratio (times)		35.5	54.1	91.4	56.1	96.2
Interest-Bearing Debt to Total Assets Ratio (%)		10.2	6.9	7.5	8.4	6.3
Interest Expenses to Interest-Bearing Debt (%)		1.6	1.5	1.7	2.4	1.8
Efficiency						
Total Assets Turnover (times)		1.2	1.3	1.4	1.4	1.4
Receivables Turnover (days)		67.1	75.4	71.9	69.6	59.8
Inventory Turnover (days)		62.0	53.8	52.9	51.4	49.5
Accounts Payable Turnover (days)		64.1	58.4	62.2	51.8	48.4
Growth Ratios						
Sales Growth Ratio (% YoY)		2.5	8.5	8.7	7.8	0.6
Ordinary Income Growth Ratio (% YoY)		△16.1	24.8	15.7	35.1	7.3
Other Indices						
Net Income per Share (yen)		67.8	97.0	73.9	142.8	141.9
Shareholders' Equity per Share (yen)		1,029.4	1,128.7	1,173.9	1,195.4	1,288.1
Cash Dividend per Share (yen)		20	30	28	55	64
Payout Ratio (%)		32.8	25.7	37.9	38.5	45.1
Total Payout Ratio (%)		98.6	25.8	38.0	27.1	45.1
EBITDA (¥ millions)		3,608.4	4,790.6	4,392.4	5,720.1	5,712.5
EV/EBITDA (times)		10.2	9.2	8.4	8.5	12.9
Shares Issued (thousand)		20,275	20,275	20,275	20,275	20,275
Dividend to Equity (%)		2.2	2.3	2.5	3.2	5.0
Number of Employees		2,008	2,018	2,087	2,226	2,318

Note: Figures in U.S. dollars are calculated, for convenience only, at the exchange rate of ¥92.10=US\$1.00.

Consolidated Statement of Cash Flows (For the years ended January 31, 2009 and 2010)

Item	Period	¥ millions		US\$ thousands
		2009	2010	2010
Cash Flows from Operating Activities		4,206	4,964	53,898
Cash Flows from Investing Activities		△1,279	△2,105	△ 22,856
Cash Flows from Financing Activities		△110	△ 2,018	△ 21,911
Translation Gain (Loss) Related to Cash and Cash Equivalents		△618	91	988
Net Change in Cash and Cash Equivalents		2,197	932	10,119
Cash and Cash Equivalents at Beginning Year		3,775	5,972	64,843
Cash and Cash Equivalents at End of Year		5,972	6,905	74,973

Note: Figures in U.S. dollars are calculated, for convenience only, at the exchange rate of ¥92.10=US\$1.00.

Corporate Information

(As of January 31, 2010)

Corporate Data

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 — 831 (non-consolidated)

Stock Data

Shares Authorized — 60 million
 Shares Issued — 20,275,581
 Number of Shareholders (includes odd-lot shares) — 6,378
 Treasury Stock — 260,934

Board of Directors, Auditors and Officers

(As of April 28, 2010)

Executive Advisor and Member of the Board — Yoichi Nakata
 Chairman and Chief Executive Officer — Seiichi Matsumura
 President and Chief Operating Officer — Akio Okoshi
 Senior Managing Director — Takashi Sakuma
 Managing Director — Kazuhiko Ota
 Directors — Shigeru Yamashita
 Kazuhisa Amari
 Standing Auditors — Katsumi Oyabu
 Kimiyoshi Tanaka
 Statutory Auditors — Shigeru Nishiyama
 Shuji Idesawa
 Managing Officers — Tsutomu Matsunaga
 Yasushi Takashima
 Tadashi Itakura
 Yusuke Nakata
 Hiroki Yuda
 Yasunori Kurachi
 Koji Ishigami
 Isao Kosaka
 Norimasa Kitazawa
 Eiji Akamatsu
 Shinobu Iwamoto

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

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 (Shanghai) Co., Ltd.
 Lansinoh Laboratories, Inc.
 Pigeon Manufacturing (Shanghai) Co., Ltd.
 Pigeon Industries (Changzhou) Co., Ltd.
 Pigeon Land (Shanghai) Co., Ltd.
 Shanghai Changning Pigeon Land Education
 Training Center
 Pigeon Industries (Thailand) Co., Ltd.
 Thai Pigeon Co., Ltd.

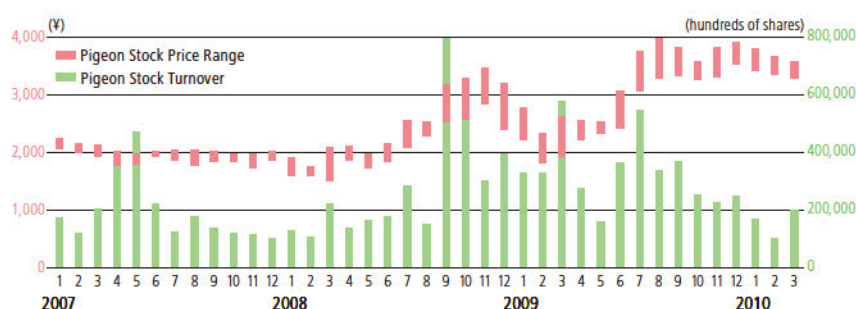
Equity Method Affiliates

P.T. Pigeon Indonesia
 Kuraflex Ibaraki Co., Ltd.

Ten Largest Shareholders

Shareholder's Name	Shares Held (thousands)	Ownership (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	2,595	12.80
Japan Trustee Services Bank, Ltd. (Trust Account)	2,224	10.97
Yoichi Nakata Japan	2,183	10.77
The Chase Manhattan Bank N.A. London SL (Omnibus Account)	1,240	6.12
Goldman Sachs and Company (Regular Account)	634	3.13
Japan Trustee Services Bank, Ltd. (Trust Account 9G)	466	2.30
Goldman Sachs International	335	1.65
Pigeon Corporation Employees' Stock	324	1.60
Millennium	314	1.55
Northern Trust Co. AVFC Re Fidelity Funds	305	1.51

Stock Price Range/Turnover of Common Stock



www.pigeon.co.jp

PIGEON CORPORATION

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

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