

ANNUAL REPORT 2009

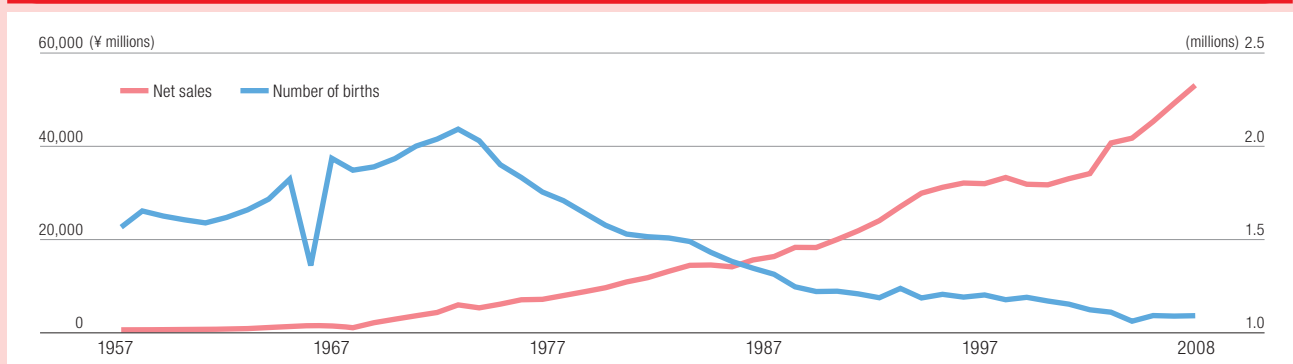
For the year ended January 31, 2009



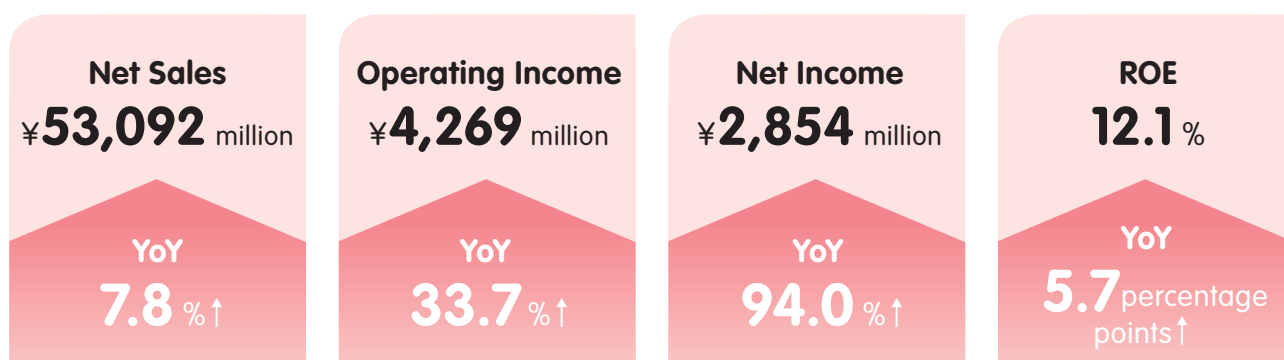
PIGEON HISTORY

	▶ 1950s	▶ 1960s	▶ 1970s	▶ 1980s	▶ 1990s	▶ 2000s	
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 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 promotes a baby's natural sucking peristaltic motion, launched</p> <p>2003 Baby shoes designed using research on toddlers' walking patterns released</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>
	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

			(¥ millions)	(US\$ thousands)
For the years ended January 31	2007	2008	2009	2009
Operating Results				
Net Sales	45,307	49,237	53,092	583,236
Gross Profit	17,127	18,640	20,164	221,509
Operating Income	2,754	3,192	4,269	46,897
Ordinary Income	2,745	3,177	4,293	47,160
Net Income	1,916	1,471	2,854	31,352
Cash Flows				
Cash Flows from Operating Activities	2,367	3,707	4,206	46,205
Cash Flows from Investing Activities	△395	△2,443	△1,279	△14,050
Cash Flows from Financing Activities	△1,284	△172	△110	△1,208
Balance Sheets				
Total Assets	35,648	37,441	38,407	421,916
Total Liabilities	12,654	13,610	14,083	154,707
ROA (%)	7.9	8.7	11.3	
ROE (%)	9.0	6.4	12.1	

Notes: 1. Figures in U.S. dollars are calculated, for convenience only, at the exchange rate of ¥91.03 = US\$1.00.

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

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

Contents

Pigeon History	1	Domestic Baby and Child Care Products	15
Consolidated Financial Highlights	2	Child-Rearing Support Services	18
Management's Message	3	Healthcare Business	19
Globalization	6	Women's Care Products/Others	21
China	7	Corporate Governance	22
North America/Europe	9	Corporate Social Responsibility	23
Other Countries	10	Management's Discussion and Analysis	25
Research and Development	11	Financial Data	27
At a Glance	13	Corporate Information	30

Management's Message



Akio Okoshi
President and Chief Operating Officer

大越昭夫

Guided by our philosophy
of "love," we seek to
help solve the problems
of our customers.

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.

R&D forms the cornerstone of these business development activities. We conduct ongoing research into the "mechanics" of babies' growth and the needs of the elderly, and we seek to solve problems uncovered through such research. To deliver products and services that address the problems of as many people as possible, we will continue our in-depth R&D initiatives.

Business Conditions and Results

Fiscal 2008 was an important year for the Pigeon Group—the first year of its Third Medium-Term Management Plan, entitled "Becoming a Global Company: Challenges and Independence."

In the year under review, the Japanese economy deteriorated sharply due to financial instability sparked by the subprime loan crisis in the United States. In addition, the first half of the year saw surging prices of raw materials due to high prices of crude oil, whereas the second half brought a sudden appreciation of the yen, placing significant pressure on the Group's consolidated performance. A summary of our results in our major business segments and regions is given below.

Overseas Business

In China, we reinforced our supply system, which had been an issue, and we announced a plan to further upgrade our production infrastructure. In practically all overseas regions, including China and North America, we posted steady growth in sales. Despite the impact of the yen's appreciation, overseas sales increased year on year.

Domestic Business

In 2008, the estimated number of childbirths and marriages in Japan exceeded the previous year's level. In the child-rearing support segment, however, the sudden economic downturn in the second half of the year had an impact on distribution inventories. Accordingly, domestic sales in that segment were down year on year.

In the healthcare segment, both sales and profits improved thanks to the Group's reinforcement of its business management system.

Results

Consolidated net sales in fiscal 2008 amounted to ¥53,092 million, up 7.8% from the previous year. Operating income rose 33.7% to ¥4,269 million, and ordinary income climbed 35.1% to ¥4,293 million. Net income jumped 94.0% to ¥2,854 million. These improvements in revenue and earnings were driven mainly by our overseas business. Accordingly, we slightly exceeded our targets set for the year under the Third Medium-Term Management Plan. As



a result, we have made a good start toward achieving our targets for the final year of the plan, ending January 2011.

Pigeon's Overseas Business

Our overseas presence began in the late 1960s, when we began exporting our products. In 1978, when the downtrend in domestic childbirths became evident, we set up a sales subsidiary in Singapore. We have since established production facilities in various countries, including Thailand, Indonesia and China. Now, with multiple local procurement, production and sales operations, we make and deliver many products that never pass through Japan. This provides us with several benefits, including the ability to expedite product supply and mitigate foreign exchange risk.

Reasons for Overseas Success

First, we have a range of high-quality products that symbolize our ingrained corporate motto of "only love generates love." Our ability to create such products lies in our R&D prowess, and our multifaceted research related to babies has given us a leading edge over our competitors—a source of pride for the Group.

Second, we have built strong trust-based relationships with our overseas business partners. Both in Japan and overseas, we have worked for many years with business partners who are well-versed in various business environments with differing mind-sets and customs, and we have built ties based on trust and reliability.

A third reason for our success is our ability to develop optimal marketing programs tailored to specific countries and regions.

Guided by a clear corporate philosophy, we have been able to advance our business across various regions because we have products and a business model that have succeeded in Japan. In addition, we adapted the experience we have gained in our domestic marketing activities to promote our business according to local needs.

Future Outlook

Because all babies grow in similar ways from birth to 24 months, we regard all world regions as potential markets for our products. From our perspective as an aspiring global company, the core element of our global strategy is the Chinese market. When considering our Chinese business, the number of childbirths is the primary factor. Although exact figures are not available, it is estimated that 15 million–20 million babies are born annually in China compared to only 1.09 million in Japan.

Similarly, we are experiencing healthy business growth in other overseas markets covered by our global strategy, namely North America, Europe and Southeast Asia. Because we steadily introduce products that reflect the needs of customers, we are earning warm market acceptance. We intend to actively advance our operations in the BRIC

nations. For example, in 2008 we opened a representative office in India, followed more recently by a distribution agency in Russia. We have also started market research in Brazil.

Although our overseas business is on a growth trend, we feel that the maximum acceptable overseas sales ratio is 50%. If our dependence on overseas sales exceeds that level, we will confront a range of business issues, such as foreign exchange risk, market risk and country risk. Japanese consumers are the most discerning in the world, and Japan will remain our top-priority market. In the future, we will need to create a business model that is better suited to the domestic market.

While domestic sales are growing moderately, overseas sales are growing steadily. If this trend continues, therefore, our overseas business may outperform our domestic business. We expect the overseas sales ratio to exceed 33% in fiscal 2009 and reach 35% in fiscal 2010. Of course, our overseas business will continue targeting progress without slowing down. For this reason, at the present time we will focus on motivating our domestic business employees while strengthening the *Recoup* brand of anti-aging products and developing new products in the domestic baby and child care products business.

Key Issues for the Year Ending January 2010

Target Globalization of Baby and Child Care Products and Women's Care Products Businesses

In China, where the effects of inflation and the economic slowdown are small, we expect growth to continue. Accordingly, we will step up efforts to establish a sales foundation and expand our production facilities.

In North America, we look forward to continued growth in breastfeeding-related markets. For this reason, we will advance this business by working to underpin and enlarge our already-high market share. In newer markets, especially India, our representative offices will gather information and implement brand-building strategies.

Reinforce Existing Domestic Businesses and Nurture New Ones

In the domestic baby and child care products business, we will leverage our R&D capabilities and our brand power to nurture new businesses. At the same time, we will continue promoting direct communication with customers, including by hosting maternity events.

For sales expansion in our IT business, we will renew our focus on the Pigeon Mall and other online shopping sites, as well as Pigeon.info, a portal for sharing information about pregnancy and child care.

In the child-rearing support business, we will promote our business in growth categories while working to deliver high-quality services.

In the healthcare business, we will continue targeting the proliferation of the *Recoup* brand while actively rolling out new products.

The Third Medium-Term Management Plan

Overview

The year under review was the first year of the Pigeon Group's 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.

By steadily implementing measures according to our medium-term policies, we are working to achieve the following consolidated targets for the final year of the plan, ending January 2011: net sales of ¥64.0 billion, operating income of ¥5.8 billion, ordinary income of ¥5.6 billion and net income of ¥3.8 billion. (These are the revised targets as of March 2009.) To further improve profitability and capital efficiency, we have adopted return on equity (ROE) as a key performance indicator, with an ROE target of at least 12.0% for the plan's final year.

Medium-Term Business Strategies

- i) In the baby and child care products business, we will target further globalization through the focused allocation of resources into growth markets, centering on China and North America. We will also actively cultivate new markets.
- ii) In our domestic operations, we will work to reinforce existing businesses, notably baby and child care products and nursing care products. At the same time, we will create a new business model for such businesses as anti-aging products and Internet sales.
- iii) To achieve growth in our various businesses, we will conduct in-depth research and develop products that accurately reflect the needs of customers. In these ways, we will improve competitiveness and build an infrastructure for globalization.

Progress Status; Revised Targets

The Pigeon Group achieved practically all of its goals for the first year of its medium-term plan. For the remaining two years, we have made no fundamental changes, except for revising our final-year net income target from ¥3.3 billion to ¥3.8 billion. This was because our performance in the year under review slightly exceeded our projections, and we expect

revenue and earnings to basically reflect our targets for the year ending January 2010. Due also to the expanded application of preferential tax systems in nations and regions in which our overseas subsidiaries operate, moreover, our consolidated taxation rates for fiscal 2008 and fiscal 2009 are expected to fall below the levels projected in our plan.

Business Strategies

The Pigeon Group continues to face an unstable operating environment, characterized by such factors as prolonged global financial instability, a depressed world economy, the yen's appreciation, sharp deterioration of corporate financial results and an uncertain employment situation. Moreover, there are no signs of recovery in the number of births and marriages in Japan. The year ending January 2010 is the second year of the Group's Third Medium-Term Management Plan. Guided by the plan, which is designed to expedite the Group's transformation into a global company, we will steadily implement strategies for our respective businesses, as well as functional strategies to underpin such businesses. We will also act swiftly to address changing business conditions by adopting measures as circumstances require.

In the year ahead, we will take steady and proactive steps toward Group-wide growth and thus build a foundation for the future. To this end, it is essential that we strengthen our organizational capabilities as a company. We will promote greater awareness among all employees of the plan's slogan, "Challenges and Independence," and thereby reinforce our distinctive capabilities. By encouraging all employees to embrace this slogan, we will demonstrate our corporate strengths to maximum effect and achieve the objectives of our medium-term plan.

Quantitative Targets

	¥ billions				Growth Rate (2011/2008)
	Jan. 2008	Jan. 2009	Jan. 2010E	Jan. 2011E	
Net Sales	49.2	53.0	56.0	64.0	30.0%
Gross Profit	18.6	20.1	21.1	24.7	32.8%
Operating Income	3.1	4.2	4.4	5.8	81.7%
Ordinary Income	3.1	4.2	4.3	5.6	76.2%
Net Income	1.4	2.8	3.0	3.8	158.3%
EPS (yen)	73	142	149	165	
Gross Margin	37.9%	38.0%	37.7%	38.7%	
Operating Margin	6.5%	8.0%	7.9%	9.1%	
Ordinary Margin	6.5%	8.1%	7.8%	8.8%	
Net Margin	3.0%	5.4%	5.4%	5.9%	
ROA	8.7%	11.3%	10.8%	12.8%	
ROE	6.4%	12.1%	11.6%	12.0%	

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

Globalization

LANSINOH LABORATORIES ●



Business Overview

Our overseas business is growing with each passing year. In the period under review, we achieved year-on-year revenue increases in practically all regions, notably China and North America. In China, we expanded our range of mainstay products, including skincare products, baby bottles and nipples, and breast pads. We also boosted revenue and earnings through the introduction of new products.

In the year under review, overseas sales amounted to ¥17.8 billion, up 24% from the previous year. We reported particularly strong growth in China, where sales rose by more than 50%. Accordingly, the ratio of overseas sales to net sales exceeded 33% for the year.

The reason for this healthy outcome was our strong performance in China, which serves as a growth driver for our overseas business. In the year under review, our results in China greatly exceeded our targets. Our new plant there, which commenced full-scale operations in January 2008, now mass-produces baby bottle nipples, detergents and skincare items.

In December 2008, we opened a representative office in Mumbai, India. That office is now actively gathering information, expanding sales channels and building the Pigeon brand.

Business Strategies

We attribute the success of our overseas business to three fundamental strategies.

The first is “product appeal.” The Pigeon Group conducts basic research through in-depth consideration of “what is best for babies and their mothers,” and makes products accordingly. At the same time, we focus on building a framework enabling us to effectively explain our product lines and their features, so that retail store customers can instantly appreciate the appeal of our products. In addition to baby bottles and nipples, we encourage mothers to use our breastfeeding-related products, such as breast pads and breast pumps. Through word-of-mouth, we seek to broaden our reputation and raise our brand appeal.

The second strategy is “teamwork with high-quality business partners.” Since we began exporting to China in the 1990s, we have been fortunate to have reliable sales partners (primary distributors). To expand our sales network, we must work in alliance with distributors. Our primary distributors also play a crucial role in setting up secondary distributors in various regions and ensuring proper communication with those distributors. To advance our overseas business, not only in China, it is extremely important that we build good relationships with local partners—including distributors and retailers—with excellent local knowledge.

The third factor is “timing.” We commenced full-scale operations in China in 2002, when it became possible to establish independently financed subsidiaries in that nation.

In the interest of its future advancement, Pigeon also entered the market under its own investment.

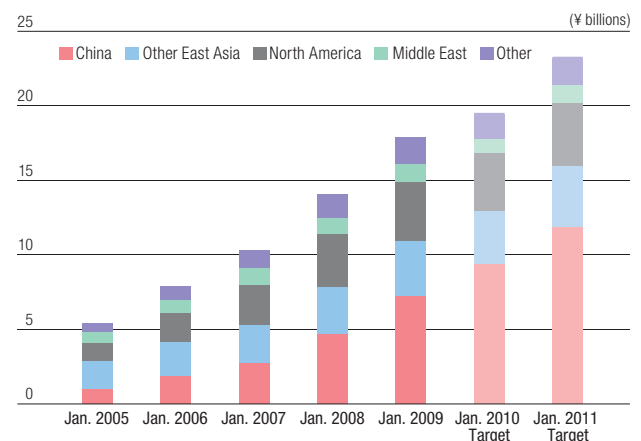
At that time, magazines aimed at expectant mothers and those raising small children were launched in China, and many “new rich” people regarded reading such magazines as a type of status symbol. By effectively utilizing magazines and other advertising media, we have improved awareness of Pigeon as a high-end brand of baby and child care products. The fact that our competitors were not active in the market also helped us build the foundation for growth that we now enjoy.

Features of Our Business

Pigeon's overseas foray began with the commencement of exports in the 1960s. In the 1970s, we established a number of overseas sales operations and otherwise expanded sales, centering on exports. In the 1980s, however, overseas sales failed to grow, due in part to the yen's appreciation. The turning point came in the 1990s, when we set up overseas production bases and started local manufacturing. This enabled us to supply high-quality products on a par with our Japanese offerings to more people than before at reasonable prices. After 2000, we expedited our overseas advancement with the establishment of local sales subsidiaries. Today, overseas business represents the growth driver for the Pigeon Group.

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. We will work to strengthen brand loyalty and achieve proliferation. At the same time, we will actively expand our overseas presence by reinforcing all elements of our business foundation, including marketing, product development and supply, and quality control systems.

Overseas Business Sales by Region





China

Business Overview

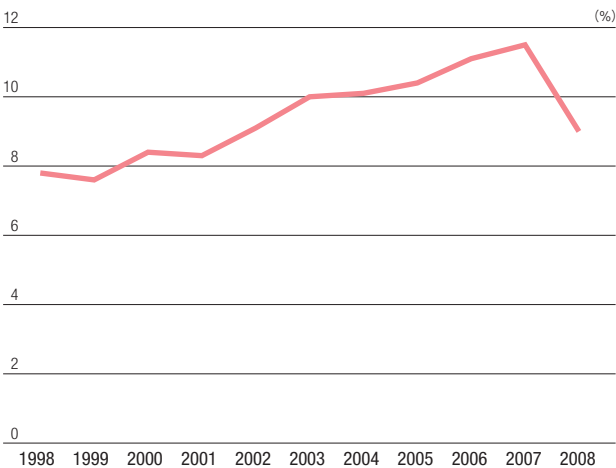
With a population of around 1.3 billion, China's annual childbirths have averaged about 15 million–20 million over the past several years, which is 14–18 times the number of births of Japan. Pigeon is targeting the wealthiest 15%–20% of the market, representing 2 million–4 million people. Given that we generate around ¥20 billion from our baby and child care products business in Japan, where only 1.09 million babies are born annually, we feel that the Chinese market will expand considerably in the future.

In 2002, we established a wholly owned subsidiary, Pigeon Shanghai Co., Ltd., to tap into the rapidly growing Chinese market. At the beginning, we developed our business mainly in coastal areas around large cities, such as Shanghai and Beijing. More recently, however, we have broadened our coverage across all areas, including interior regions.

Our Position

The target for Pigeon's products is the "new rich" market 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.

GDP of 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~).

Business Strategies

Our main strategy in China is to raise our presence by broadening our sales network, increasing the number of Pigeon sales corners in retail stores and proactively developing new products, based on the theme of "speedy expansion."

To bolster our supply system, which had been an issue, consolidated subsidiary Pigeon Manufacturing Shanghai Co., Ltd., built a new factory (Qingpu Industrial Park, Shanghai), that favorably increased its mass production and shipments of skincare and toiletry products, baby bottle nipples and other items.

In 2009, we started the second construction phase of our production system, and in 2010 we plan to build a new plant in Changzhou City, Jiangsu Province.

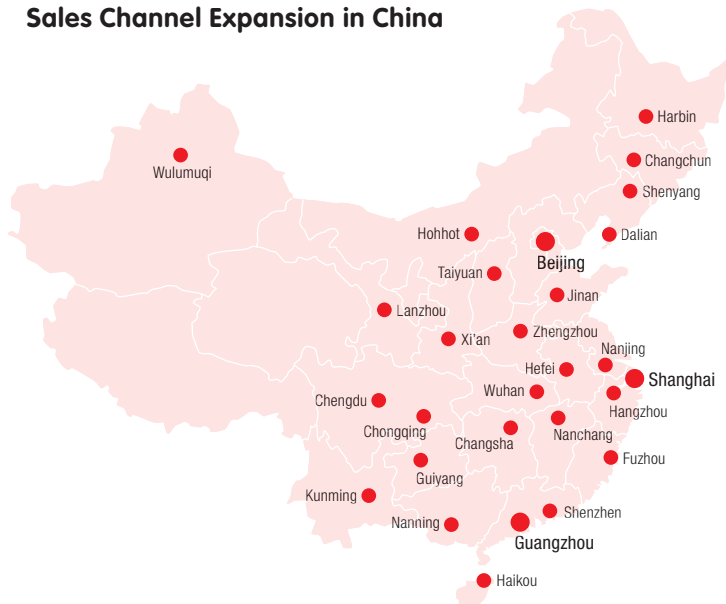
Meanwhile, Pigeon Shanghai opened its Beijing branch in September 2008. We decided to set up the new sales operation in response to our growing business in China's northern region.

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 some hypermarkets and chain stores. We also have secondary distributor arrangements with local companies, targeting one company per province.

Sales Channel Expansion in China





Pigeon Manufacturing Shanghai Co., Ltd.

These distributors are responsible for brand strategies and sales growth.

Using local distributors has been our strategy since we entered China and is a major reason for our success there. We are meticulous in considering secondary distributors, selecting only those who understand and can steadily implement our brand strategies, which include establishment of retail outlets. We will continue with this system, replacing nonperforming distributors as necessary.

Expanding Our Sales Network

At present, we are expanding our presence with a focus on China's interior regions. As of January 31, 2008, around 5,000 stores handled our products. This figure grew to around 7,000 a year later. Moreover, year-on-year sales at existing stores are also increasing.

In department stores and retail outlets, we are working to improve brand recognition and share of shelf space by setting up "Pigeon corners" that clearly portray the appeal of our products. As of January 31, 2009, we had Pigeon corners in 508 stores, all of which are reporting higher sales.

Toiletry products account for around one quarter of our sales in China. For this reason, we have expanded our target market to children up to nine years of age, with the launch of "kids' toiletries." In December 2008, we also introduced baby strollers.

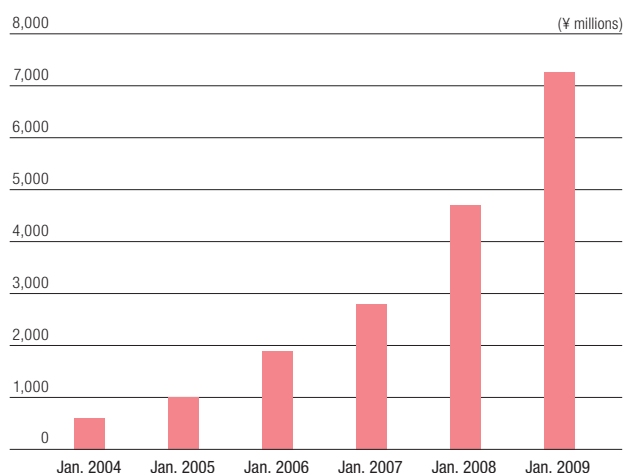


(above) "Pigeon corner" in Wuhan, Hubei
(below) "Pigeon corner" in Beijing

Fiscal 2008 Results and Evaluation

In fiscal 2008, sales in China increased substantially to ¥7.3 billion, up 65.5% from ¥4.7 billion in fiscal 2007 and ¥2.8 billion in fiscal 2006. Following from the previous year, sales of skincare products, baby bottles, and baby bottle nipples were solid.

Sales in China



Sales in China have grown to account for 13.7% of total Pigeon Group net sales. Accordingly, China is an important market that drives our overseas business.

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. 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.

We have already commenced full-scale expansion into China's interior regional cities and will further expedite this process. Despite income differences between people living in coastal and regional areas, sales in coastal areas have fallen below 50% of total sales in China. This is because our nationwide expansion policy has led to increased overall sales.

On another note, the Sichuan Earthquake in May 2008 had a minimal impact on our business in China. We are assisting with restoration efforts by providing support and making donations.

North America/Europe

Business Overview

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 the year under review, we engaged in proactive sales activities aimed at raising market share. Specific measures included introducing electric breast pumps and diaper rash creams into U.S. retail stores.

In January 2009, we upgraded our lineup of products for the U.S. breastfeeding-related market. We also acquired the sales rights for the Soothies brand. Our aim here is to strengthen our business by securing sales channels serving U.S. hospitals and birth clinics.

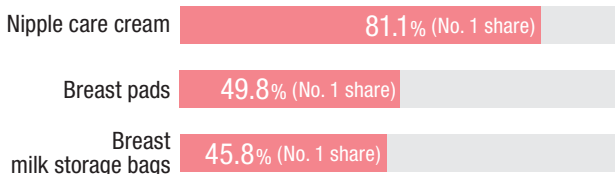


Nipple care gel pads of Soothies

Lineup of Lansinoh Laboratories, Inc.

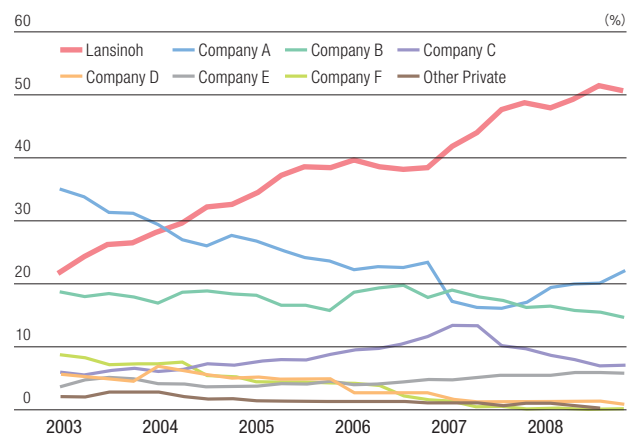


Lansinoh Laboratories, Inc.:U.S. Market Share (yearly average)



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

Breast Pad Market Share in North America



Source: Figures are compiled by Pigeon.



Fiscal 2008 Results and Future Outlook

Despite concerns about the effects of the economic slowdown in the United States, the Pigeon Group reported a healthy performance in the year under review. Sales in North America grew 10.8% year on year to ¥3,931 million.

In Europe, we expanded our lineup of offerings for the breastfeeding-related market while increasing the number of retailers and stores handling our products. The result was a healthy performance. In April 2009, we opened a branch in Turkey to complement existing branches in the United Kingdom and Germany.

Sales in North America



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.

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.

In December 2008, we established a representative office in Mumbai. Through the new office, we have started gathering information, expanding sales channels and building the Pigeon brand. To address demand from the growing wealthy population, we have begun tapping markets in major cities, including Delhi, Mumbai, Bangalore and Chennai, via distributors in India's northern and southern regions. Thanks to these efforts, sales in India totaled ¥150 million in the year under review. In the year ending January 2011, we project sales will reach ¥500 million.

Thailand

Our two production subsidiaries in Thailand—Thai Pigeon and Pigeon Industries Thailand—are constantly working to reduce costs. We will continue striving for top product quality and supply stability, positioning our Thai operations as key production facilities in our global development.

Strategic Areas in India



(above) Department store in Mumbai
(below) Baby shop in Bangalore

Other Countries

Taking note of the growth potential of the BRIC nations, we are currently conducting market research in Brazil. Although we have not introduced any Pigeon-brand products in the Brazilian market, the Lansinoh brand has a good track record in that nation. We plan to formulate specific strategies in the current fiscal year.

In Russia, we will enter into new distributor agreements in our quest to expand our sales channels. We intend to further step up efforts to cultivate new markets, including India, Russia and Brazil.

Research and Development

Overseas Business and Basic R&D Strategy

The Pigeon Group has positioned its overseas business as a key growth driver and is actively investing in these markets. The adoption of marketing strategies suited to local conditions and efforts aimed at penetrating these overseas markets and strengthening brand loyalty have contributed to steady overseas growth in China, North America and other regions. We have also established product supply and development systems and the training of personnel, which are pivotal for promoting further globalization. Consequently, our R&D strategy calls for product development that responds to local needs and the establishment of a highly reliable quality control system.

Local R&D

Product development that reflects 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 development department of Pigeon Shanghai Co., Ltd., is in charge of molded products, whereas its counterpart at Pigeon Manufacturing Shanghai Co., Ltd., looks after chemical products. 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.

Pigeon posts senior personnel working at the Central Research Center to production plants and sales companies overseas. At present, we have staff working in Shanghai, Thailand and Singapore. In these Group companies, Japanese staff hold the positions of company president and managers of the development and production departments. We have increased development personnel in Japan and likewise have nearly doubled the number of staff posted overseas over the past four years.

Quality Control Structure and Basic Research

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

Child development, on which Pigeon bases its baby and child care products, is universal. This allows us to conduct this 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 enables standardized global product concept and design.

Pigeon R&D

Pigeon launched Japan's first wide-cap baby bottle more than half a century ago. Since then, we have channeled efforts into research and development both in Japan and overseas.



Lactation simulator

On the strength of our research into breastfeeding and infant development, we have made advances in the development of baby bottles, invented products that match the stages of infant development and created items that conform to child care cultures in other countries. We have also accumulated basic research on the mechanisms of aging, and we are actively engaged in healthcare research.

Our R&D Mission

At Pigeon, research and development is guided by our hope for happy babies and a strong desire for a peaceful and prosperous society.

To provide "love" to all, our basic philosophy, we develop products by listening to the opinions and concerns of expectant mothers and women who are bringing up children. We have inherited a passion for pursuing what is good for babies from our founder, the late Yuichi Nakata, and we are committed to researching and developing products to help babies, their mothers and others who are involved in caring for children.

R&D Organization

Research and development at Pigeon is based at 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 four years to 110. Researchers work in four departments: basic research, product development (which includes planning), quality control and intellectual property. We send researchers to our companies in Japan, as well as to China, Thailand and other overseas bases to strengthen our ability to address those markets.



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

Since 2006, product quality checks of products developed in all countries have been integrated at 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 and design marks. 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)

Specialties and Challenges

Pigeon's basic research themes fall into two broad categories: the field of baby and child care, which encompasses pregnancy, childbirth and child rearing, and the field of healthcare, which includes the elderly and nursing care. Research into these fields is underpinned by ongoing research based on in-depth knowledge about consumers.

"Consumer research" refers to research on universal themes of human behavior that are not affected by race or other factors. These research findings are used to stimulate new demand for products and to develop offerings based on new technologies related to materials and production.

The greatest care is taken with respect to organizing the subjects who take part in research trials and the management of personal information acquired in the trial and monitoring process. In the nearly 20 years since the establishment of the Central Research Center, Pigeon has established its own unique organization for running trials and monitoring consumer habits.

In some cases, it takes a long time before a product is ready for the market. The reason lies in the need for transverse studies, in which identical clusters are studied for a certain period of time, and longitudinal studies that involve continuous research on a specific cluster over a long period of time.

Basic Research: Achievements and Future Initiatives

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 it was launched in 2003. The first stage of the research involved detailed observation of the process of babies beginning to pull themselves upright until they are able to walk properly. As a result, it became clear that the feet of babies are different from those of adults, with the big toe and little toe fanning out more than the other toes. In addition, we found that babies keep their balance with the help of the big toe and little toe when they walk. Based on these studies, Pigeon developed baby shoes with a shape that does not interfere with the movement of the toes.

Another example of basic research leading to successful product development is the *Chibion* digital baby thermometer, launched in 1987, which began with research into the body temperatures of infants. Another success is the *Bonyu Jikken* baby bottle and nipple, released in 2002, which was the result of research into infant sucking.

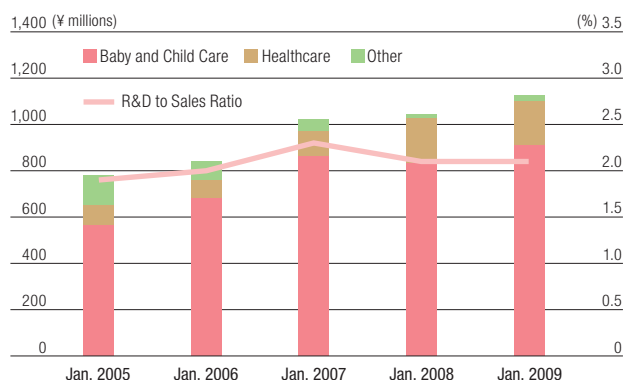
Key Research Themes

At present, Pigeon is undertaking research on three key themes. The first is basic research on the deterioration of functions associated with aging, which involves the study of diminished walking ability and the study of muscle strength and joint function. The second and third key research topics focus on breastfeeding and infant sucking behavior, respectively. We will continue research activities including publishing our study results in an academic journal.

R&D Expenditures

For the year ended January 31, 2009, expenditures on research and development totaled ¥1,128 million, a 34% increase from the ¥841 million spent in the year ended January 31, 2006.

R&D Expenditures and R&D to Sales Ratio



At a Glance



Consolidated Net Sales **¥53,092** million

	Share of Net Sales	Products/Services
Baby and Child Care	<p>80.4% ¥42,663 million</p> <p>Child-Rearing Support Services 9.6% ¥5,079 million</p> <p>Baby and Child Care Products (Domestic) 38.1% ¥20,209 million</p> <p>Baby and Child Care Products (Overseas) 32.7% ¥17,374 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 <i>MagMag</i>, 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% ¥6,422 million</p> <p>HHC/Nursing Care Products 11.0% ¥5,839 million</p> <p>Nursing Care Support Services 1.1% ¥582 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>7.5% ¥4,005 million</p> <p>Women's Care Products 4.7% ¥2,515 million</p> <p>Other 2.8% ¥1,490 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 Shanghai, we commenced operation in January 2008 at a new factory that produces skincare and toiletry products, baby bottle nipples and other items.

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. The Law for Measures to Support the Development of the Next Generation, a social initiative to support child care and the families that raise children, was announced in March 2003. Since then, we have seen growing interest in child-rearing support and associated initiatives.

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.

We have also launched *Recoup*, a new anti-aging brand, and we are engaged in efforts to address the growing market for elderly care as society ages.

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 **¥17,847 million**

Share of Net Sales

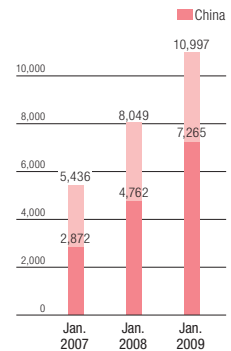
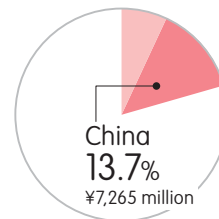
Net Sales
(¥ millions)

East Asia

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

20.7%

¥10,997 million

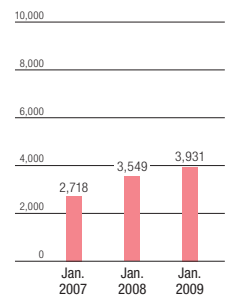
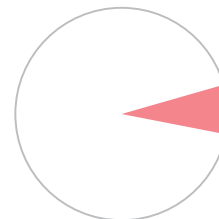


North America

United States, Canada, etc.

7.4%

¥3,931 million

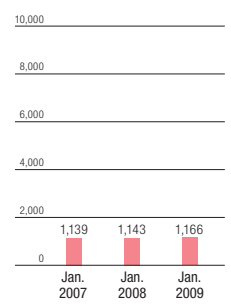
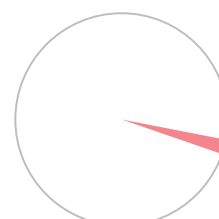


Middle East

United Arab Emirates, etc.

2.2%

¥1,166 million

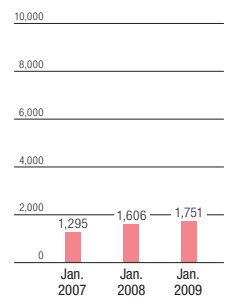
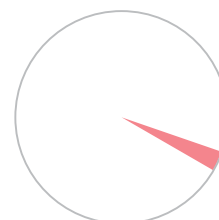


Other

United Kingdom, Australia,
South Africa, etc.

3.3%

¥1,751 million



Domestic Baby and Child Care Products

Market Trends and Business Environment

In this segment, the Pigeon Group continued facing severe market conditions, with no recovery in the number of childbirths. The total number of births in Japan was 1,089,000 in 2007 and 1,092,000 in 2008 (estimated). These figures represent a slight annual increase, although a slow decline is expected over the long term.

In the year under review, the business environment was affected by the worsening state of the economy from the autumn of 2008. Income concerns among the Group's target customers saw buying restraint and a shift to cheaper private-brand products.

Furthermore, there are many other changes occurring in the current operating environment, including 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 have used the discoveries we 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.

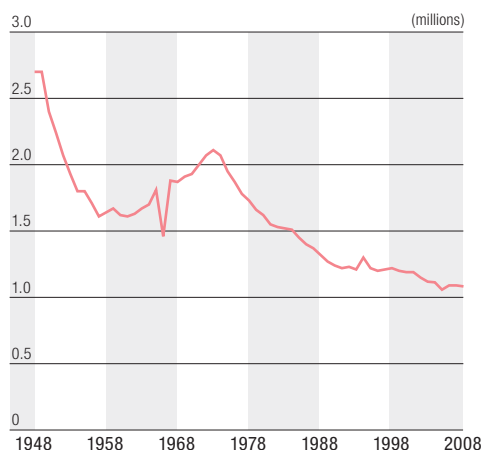
Business Strategy and Specific Initiatives

Due to economic recession, there are no signs of recovery in personal consumption. At this challenging time, it is imperative that we follow the lead of our overseas business and expand our domestic baby and child care products business, in order to achieve a balance between domestic and overseas sales. Specific initiatives include venturing into new product categories and strengthening online sales, a market that is expected to steadily increase. Together with Pigeon Will Co., Ltd., meanwhile, we are examining the launch of new products and sales expansion in order to attract expectant mothers from the early stages of pregnancy.

To increase earnings, we are training Pigeon Group employees in the art of suggestion-based sales, and we are utilizing the feedback of these activities in our business negotiations. We will also continue public relations activities aimed at reinforcing ties with expectant mothers, as well as maternity hospitals and clinics nationwide.

It is vital that Pigeon takes measures to counter the growing negotiating power of large drugstore chains and leading baby boutiques, together with the accompanying decline in profitability and increase in private-brand products. To this end, our top priority will be to continue strategies for enhancing brand loyalty through direct communication with customers and other means.

Number of Childbirths in Japan



Source: Ministry of Health, Labor and Welfare

Average Monthly Expenditures per Infant

Segment	2004	2005	2006	2007	2008
Powdered milk	1,739	1,794	1,360	1,457	1,460
Baby foods	810	1,008	875	758	764
Cow's milk	473	378	352	328	418
Snacks	670	750	567	553	545
Other (foods)	1,608	2,371	2,010	1,950	1,702
Subtotal (foods)	5,300	6,301	5,165	5,047	4,889
Clothes (under, outer), shoes, etc.	3,483	4,081	3,862	3,271	3,371
Cloth diapers, diaper covers/liners, etc.	125	130	156	139	273
Disposable diapers	3,290	3,405	3,602	3,166	3,615
Cloth diaper rental	32	9	0	0	0
Subtotal (clothes, diapers)	6,929	7,625	7,620	6,576	7,259
Medical treatment, pharmaceuticals	516	521	784	428	930
Toys	1,289	1,358	1,453	1,265	1,390
Picture books	485	555	527	389	351
Subtotal (toys, picture books)	1,774	1,913	1,980	1,654	1,741
Breastfeeding, baby food crockery	336	364	422	396	358
Bathing/hygiene accessories	1,236	1,262	1,182	1,168	1,192
Subtotal (breastfeeding, baby food crockery, bathing, hygiene)	1,572	1,626	1,604	1,564	1,550
Outdoor, furniture, beds, etc.	2,030	1,782	2,186	2,823	2,426
Total	18,122	19,768	19,339	18,092	18,795

Source: Sample from September 2008 survey of 960 mothers of infants aged from birth to 24 months, related to baby care products (survey conducted by Pigeon)



Performance and Highlights

In the year under review, sales in the domestic baby and child care segment totaled ¥20,209 million, down 1.9% from the previous year.

Products in the breastfeeding-related products category, including breast pads, grew considerably compared with the previous year. We believe this is attributable to the launch of new and improved products that address the needs of mothers who want to breastfeed their babies. Sales of other products increased owing to higher sales of *MagMag* and other products achieved through an exclusive sales agreement with a leading baby boutique.

However, sales of consumables declined significantly year on year. This was due to a drop in sales volume caused by a widening price gap between our products and those of our competitors, stemming from price revisions we implemented to counter the impact of soaring raw materials prices.



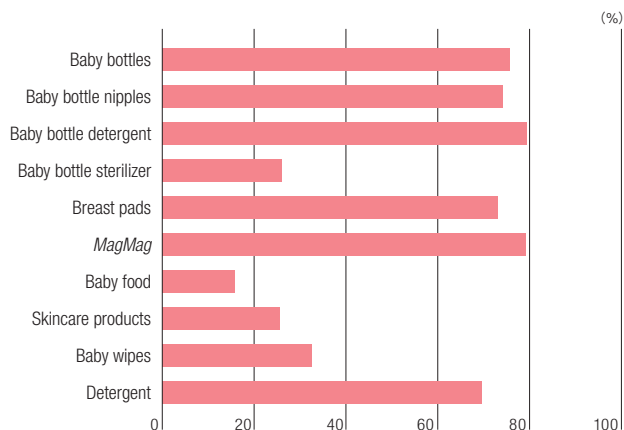
Pigeon's wide range of baby products

Outlook

For more than half a century, Pigeon has been making products that have won recognition in Japan, where consumers are said to be the most discerning in the world. The trust we have earned from consumers in Japan will help us maintain our high share of the market across many categories. Nonetheless, we are also going ahead with plans to strengthen categories where potential growth is high and to venture into new categories.

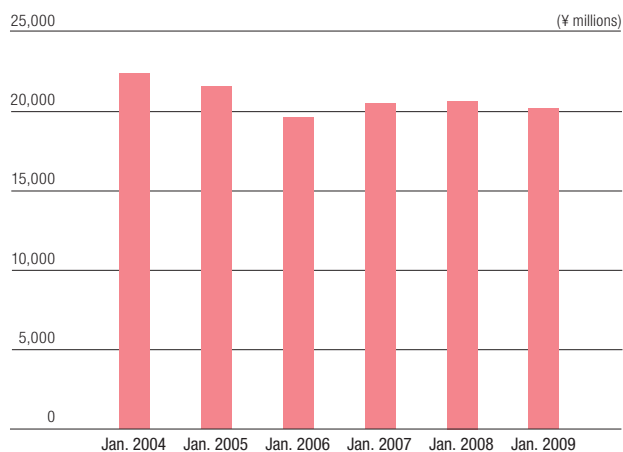
In light of our performance in the year under review, we will continue focusing on the launch of new and improved products that address changing customer needs, and we will step up sales promotion and product supply initiatives aimed at growing retail stores. We will work hard to increase sales by narrowing the price gap between our consumables and those of our competitors through the adoption of a more flexible pricing strategy, while reinforcing sales promotion activities. Meanwhile, we will continue endeavoring to reduce procurement costs as a matter of course.

Domestic Market Share of Pigeon's Main Products



Source: Extrapolated from POS data from 50,000 drugstores nationwide (INTAGE Inc., January 2009)

Domestic Sales of Baby and Child Care Products Business





Close Up

Strengthening Direct Communication

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

Events for Expectant Mothers

A total of approximately 4,000 expectant mothers attended the 48 gatherings held throughout the business year.



Pigeon antenatal class for expectant mothers

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, childbirth and child-caring. The site receives more than 40 million page views a month, and the number of new members has risen steadily. As of January 31, 2009, membership totaled more than 400,000.



<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>

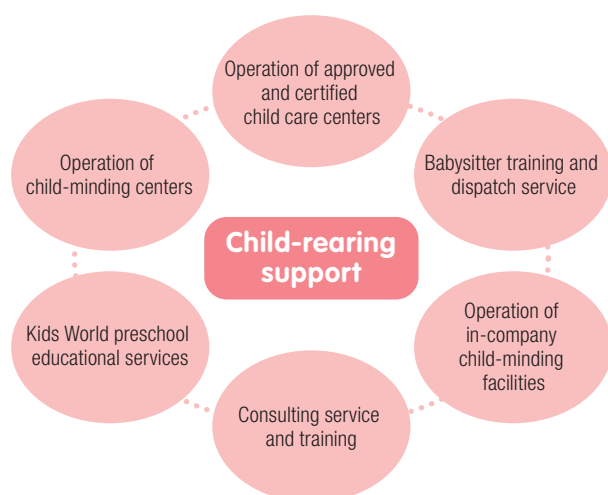
Child-Rearing Support Services

Business Environment

As the number of working mothers grows, heightened interest in a variety of activities that support child care continues to increase. Following the enactment of the Law for Measures to Support the Development of the Next Generation in March 2003, businesses have been actively developing mechanisms that enable mothers to work, as exemplified by growing demand for in-company child-minding facilities. Since the second half of 2008, when the global economy suddenly began slowing, businesses have been asked to consider a wider range of support measures.

Our Competitive Edge

The Pigeon Group is the industry leader in the provision of child-rearing support services. We operate a host of child-minding facilities, including approved and certified daycare centers, in-company child-minding facilities and the Kids World chain of child care centers. In addition, we provide babysitter dispatch services to people's homes. In these and



In-company child-minding facility

other ways, we have earned the trust of parents to whom we provide child-rearing support services.

Pigeon's strength lies in its ability to meet diverse needs by providing child-rearing support through child centers, babysitters and preschool education. A further strength is the large number of staff capable of holding direct responsibility for these businesses, which is attributable to Pigeon's robust staff training program.

Business Strategy

We will continue expanding our quality child-rearing support services by drawing on our highly competent staff, who provide value-added child care and preschool services that only the private sector can effectively deliver.

To earn ongoing market support, we will endeavor to further enhance the quality of our child care services by operating the Pigeon Heartner Open College, our training facility for child care workers.

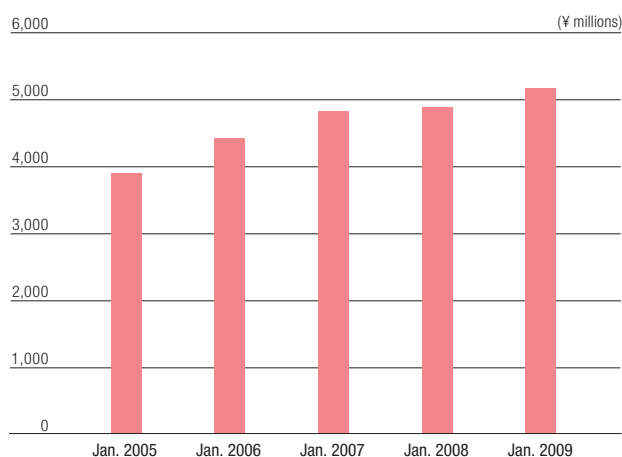
Pigeon is fully aware of its responsibility with regard to protecting the lives of the children in its care. To mitigate and avoid injuries and accidents, we ensure the safety of our facilities and implement accident prevention measures.

Performance and Highlights

In the year under review, sales from child-rearing support services amounted to ¥5,079 million, up 4.3% from the previous year.

We believe that this result derives from our ability to meet the needs of customers by providing an abundant array of service options. Also bolstering Pigeon's performance was the establishment and opening of seven new in-company child-minding facilities, one of the main activities of its child-rearing support services.

Sales from Child-Rearing Support Services



Healthcare Business

Market Trends and Business Environment

According to October 2008 estimates, the population of Japanese aged 65 or older stood at around 28,210,000. This number represents a 770,000 increase from the 27,440,000 persons in this age group in 2007 (population estimates published by the Statistics Bureau at the Ministry of Internal Affairs and Communications).

Reforms to the Nursing Care Insurance Law in 2006 have prompted a positive shift to an emphasis on prevention. By 2010, the nursing care and related markets are expected to be worth ¥11 trillion. And by 2015, one in every four Japanese will be at least 65 years old. This market is expanding steadily against the backdrop of a society that is aging more rapidly than anywhere else in the world. The result is an extremely competitive environment, where other companies are launching new products and many dynamic businesses are venturing into the market for the first time. We also recognize that customers have become more discerning in product selection. This is largely due to falling domestic consumption caused by economic turmoil in the United States.

Our Competitive Edge

Nursing care products encompass many different categories, including items related to bodily functions, bathing, hygiene, meals, sleeping and mobility. The Pigeon Group has two sales channels for nursing care products: retail stores and nursing homes and other facilities. Pigeon's strength in this segment lies in its ability to investigate unsatisfied customer demand, as well as its product planning capabilities and advanced quality control system acquired in the course of developing baby care products. Product development backed by sound basic research is another pillar that supports our healthcare business.

Business Strategy

We will boost our sales and marketing capabilities by taking advantage of the Pigeon Group's business structure. In addition, we will continue upgrading and expanding the lineup of the new *Recoup* brand of anti-aging products. We will actively invest in developing this brand through various measures, such as setting up dedicated *Recoup* sections in retail stores. Meanwhile, we have completed integrating our nursing care products into the *Habinurse* brand through a process of product consolidation. We are working to improve the productivity and profitability of our existing business through the steady creation of new distribution channels.

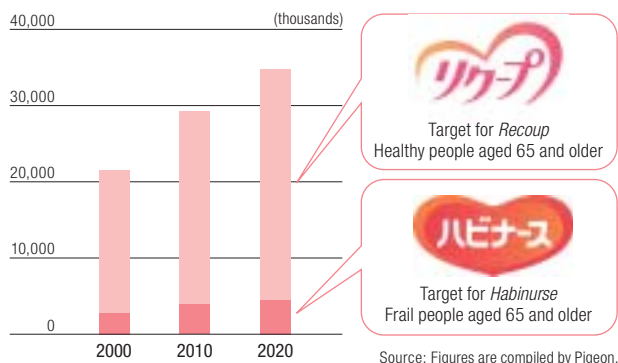
There is a risk that our market share could shrink due to the appearance of dominant products made by rival manufacturers of diaper pads and similar products. Nonetheless, we will strive to maintain our market position by reassessing our sales strategies and launching distinctive products.

Performance and Highlights

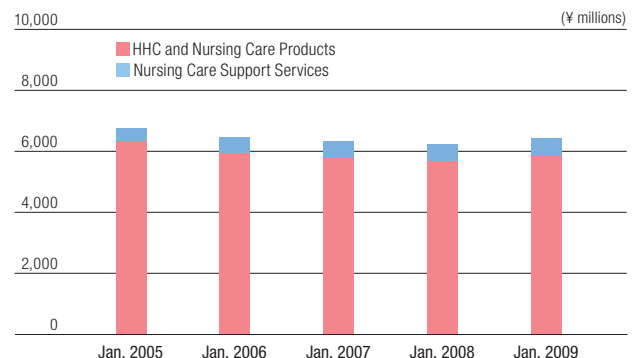
Total sales in the healthcare segment rose 3.1% to ¥6,422 million. Within this amount, sales of nursing care products grew 2.8% to ¥5,839 million and sales from nursing care support services increased 6.7% to ¥582 million.

We made good progress in integrating the brand of consolidated subsidiary Pigeon Tahira Co., Ltd., which had been an issue, into the *Habinurse* brand of nursing care products and consolidating the *Habinurse* lineup. We also generated strong sales of skincare products in the year under review. The Group positioned skincare products as a competitive product category from the beginning. We also achieved a considerable revenue boost thanks to the sales expansion efforts of Pigeon Tahira Co., Ltd., which handles sales channels for nursing homes and hospitals. Our entire healthcare business has benefited from these initiatives. By contrast, sales of incontinence pads, adult disposable diapers and other products were down year on year, largely

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



Sales from the Healthcare Business





due to increasing competition and our inadequate response to escalating commoditization.

We reported healthy sales of supporters for reducing strain on the body. These products are marketed under the *Recoup* brand, launched in August 2007. We believe that having a retail business with strong sales capabilities has its own distinctive merits. This, coupled with a promotional campaign targeting women, contributed to our good result.

Outlook

The Group will continue expanding its healthcare segment, recognizing the important role of this business in boosting the

earnings of its domestic operations. In addition to launching new products in the *Recoup* brand, we will take measures to raise customer brand recognition. 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 and boost sales activities targeting retail stores, facilities and hospitals.

The Group will also 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 and older.

Close Up

Recoup Brand and Pigeon-hhc.info

Recoup Brand

Recoup is an anti-aging brand targeting healthy elderly 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.

In the year under review, *Recoup* products performed better than expected, accounting for more than 20% of sales of HHC and nursing care products. We believe this success is attributable to two factors. First, we launched offerings that matched customer needs, and second, by focusing on women as our target customers, we were able to implement efficient marketing activities.

In addition to the ongoing release of new products, we will promote customer recognition of the *Recoup* brand. Our branding strategy is based on five key strategies: (1) sponsoring educational events, (2) the distribution of a catalog dedicated to the *Recoup* brand, (3) magazine advertisements, (4) establishing *Recoup* sales sections in retail stores and (5) a revamp of the *Recoup* Web site. The effectiveness of these activities will be further enhanced through endorsements by actress Yoshiko Kayama, who enjoys huge popularity among women in their 60s and 70s.

At present, *Recoup* products are based on the theme of assisting the elderly to spend time outside the home and feature mainly walking-related and oral hygiene products. In the medium to long terms, however, we will expand our product range to include items that resolve the various problems associated with aging.

Whereas the development of the *Habinurse* brand of

nursing care products is based on a strategy of competition, for the *Recoup* brand we place importance on adhering to a growth strategy. In the period under review, sales of some products were weak due to a lack of diversity in sales channels, which form the interface between product and customer. For this reason, we have set the development of new sales channels as a priority task.



Pigeon-hhc.info

At present, the percentage of *Recoup* and *Habinurse* customers who use the Internet is not high when compared to that of expectant mothers and mothers. Nonetheless, the percentage of older customers using the Internet is expected to increase steadily.

The primary purpose of the Pigeon-hhc.info site is to provide information. However, the site is not particularly user-friendly, and the speed at which information is updated could be faster. For this reason, we plan to make the site easy for everyone to use by establishing an in-house system that will both enhance the site's content and enable the timely updating of information.

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. The average age of marriage for women, our target customers, is rising annually, and today stands at 28.2 years. 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 product purchasing channels as women become more discerning about product selection.

Performance and Highlights

In the year under review, the women's care products and other products segment posted sales of ¥4,005 million, a year-on-year increase of 8.6%.

This segment is growing steadily, with results expanding at Pigeon Will Co., Ltd., our consolidated subsidiary that makes and sells maternity undergarments. During the year, we also upgraded our lineup of nutritional supplements for women during pregnancy, childbirth and child-rearing, and we launched women's care products in China.



Women's care products launched in China

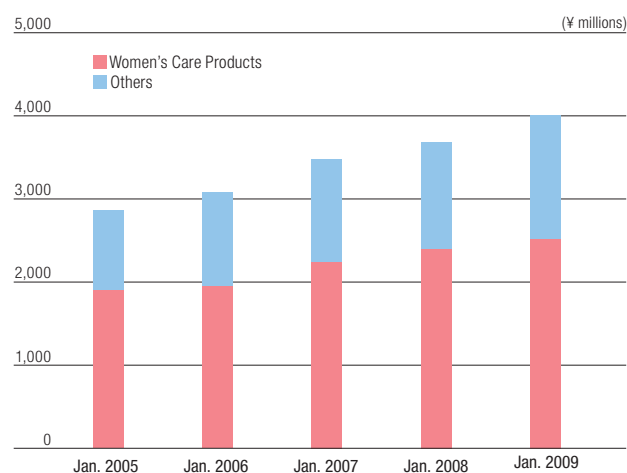
We posted a 121% year-on-year jump in sales of nutritional folic acid supplements, which represent the largest product category in this segment. This strong performance is attributable to consumer confidence in the Pigeon brand, coupled with recognition of the functions of the products themselves. By contrast, sales of skincare products declined, due to consumers' increasingly selective approach to purchasing.

Outlook

The Group will strengthen its lineup in the growing nutritional folic acid supplement category and step up efforts to establish dedicated supplement sections in drugstores.

Despite the potential of leading supplement manufacturers entering the market, we will cement our position as a major player by boosting our promotional campaign, centering on the "Pigeon for Folic Acid" catchphrase. At the same time, we will bolster online sales.

Sales of Women's Care Products/Others



Close Up

Pigeon Will Co., Ltd.

Sales of Pigeon Will Co., Ltd., are increasing slightly despite Japan's declining birthrate. We will continue improving that company's performance by harnessing the strengths of the Pigeon brand to expand sales while boosting the lineup of stylish products.



Corporate Governance

Basic Stance

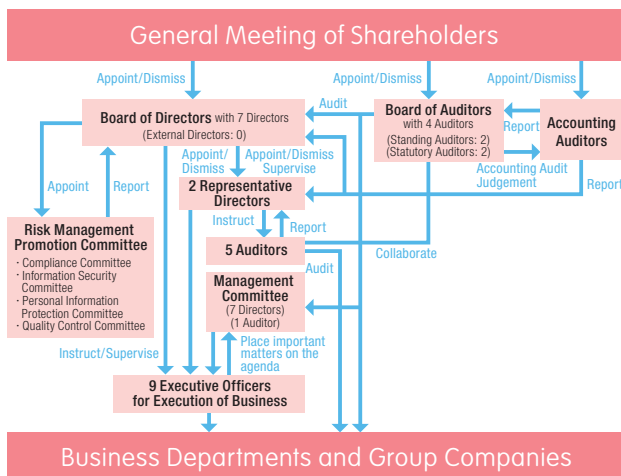
Adhering to the Pigeon Group's corporate motto, "Only love generates love," all executives and employees of the Pigeon Group embrace a strong sense of ethics. They promote compliance-oriented management across all areas of the Group's business activities and are committed to helping Pigeon fulfill its 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. The role of the seven directors is to respond appropriately and swiftly to changes in the business environment and thus ensure sustained growth and establish a sound operating foundation. To this end, we are building a structure that ensures rational and effective decision making.

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

Organization of Corporate Governance



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 system, in July 2008 we established the Pigeon Partners Line as a reporting system for our business partners. This new system complements the in-house reporting system established some time ago to encourage employees to speak up when they encounter problems. Mindful of the need to protect the parties involved if a problem occurs inside or outside the Group, the matter is handled via a Compliance Committee. This system seeks to resolve any issues as soon as possible by taking appropriate measures, including investigations into the facts.

In February 2008, we established our Quality Control Committee, headed by the President and Chief Operating Officer. We took this step when we voluntarily recalled the *Dashiire Kantang* microwave steam sterilization packs in response to an accident. Our aim is to implement rigorous quality control to ensure the prevention of recurring problems.

At Pigeon, we will work hard to further reinforce our internal control systems and strive to enhance management by implementing meticulous risk management and compliance procedures.

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

The Pigeon Group works hard to improve its information security and personal information protection systems, which it regards as crucial for the effective delivery of products, services and information to customers. One key objective has been to acquire the Privacy Mark certification awarded by Japan Information Processing Development Corporation (JIPDEC) to businesses with appropriate mechanisms in place to protect personal information. As a result of establishing the Personal Information Protection Committee and undertaking Group-wide initiatives, we received certification in July 2005. This Privacy Mark certification has recently been renewed.

Corporate Social Responsibility

Concept of CSR Initiatives

The Pigeon Group's business philosophy of "providing the gift of love to all" is embodied in its mainstay business of providing 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 of the CSR dimension of our business activities themselves.

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.

Why Newborn Baby Commemorative Tree-Planting?

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 1987, 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 22nd event in 2008, a total of 90,000 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 tree-planting campaign are recorded in the register at Sukusuku House, a leisure facility in the forest.



The 23rd New Baby Commemorative Tree-Planting Campaign

Tomorrow's Science Children's Art Exhibition

Pigeon uses prize-winning pictures from the Tomorrow's Science Children's Art Exhibition, sponsored by the Japan Institute of Invention and Innovation, for the covers of reports produced for its shareholders. The adoption of this custom stems from an endowment made to the Institute by Pigeon founder Yuichi Nakata in order to help foster children's creativity. The endowment funds prize money presented every year by the Institute to special and outstanding kindergartens, in a program that was launched in 1983 when the exhibition was in its fifth year. Pigeon will continue sponsoring such activities and share with its stockholders the drawings of children full of dreams of tomorrow.



The 31st Dream in the Future Science Art Show victory ceremony

For Customers

Customer-Focused Business

The Pigeon Group adopts a customer-focused approach to its business activities. Through our Baby Care Solutions initiative aimed at reducing and eliminating stress felt by parents, we provide a variety of services in addition to the Pigeon line of products. We provide support primarily for pregnant women and mothers through the exchange and gathering of information via our child care Web site portal. This interactive site with extensive content receives 40 million page views per month.

In addition, we hold nationwide events for expectant mothers, including antenatal classes. Pigeon continues to provide detailed and abundant information based on data collected over many years of research in breastfeeding and infant and child development.

In our healthcare business too, we conduct research into the weakening of physical mechanisms. This provides a solid basis for the development of products that ameliorate the difficulties experienced as a result of aging.



For Business Partners

Providing World-Leading Products

The bottom line for Pigeon's business is to provide profitable products to clients who sell the Group's brands. The wide range of clients in Japan who handle Pigeon's child care, nursing care, antenatal and other products includes drugstores, baby boutiques, supermarkets, home centers, department stores, old people's homes and hospitals. Our range of products sold overseas consists primarily of child care products sold by department stores and baby boutiques. Pigeon's reputation for the depth of its product lineup is rare even by world standards.

For the Global Environment

Environmental Benefits of Our Tree-Planting Campaign

Pigeon's tree-planting activities benefit the natural environment in the following ways.

- **Recharging of water sources**

A forest stores water temporarily before it seeps out slowly to other areas. This action helps alleviate flooding and drought through the equalization of river flows and aids water purification.

- **Landslide prevention**

The covering of soil by leaves and vegetation within a forest prevents soil erosion caused by rain and the washing away of soil by landslides.

- **Storage and absorption of carbon dioxide**

Trees remove carbon dioxide from the atmosphere during photosynthesis. This produces organic matter, and the storage of the carbon dioxide in wood mitigates global warming.

Environmentally Friendly Products

- **Absorbent diaper liners**

Using a pant diaper in combination with an absorbent liner cuts down on the number of diapers used by around half and has the added environmental benefit of reducing waste.

- **Liquid cleanser for baby bottles and vegetables**

Pigeon's liquid cleanser for baby bottles and vegetables, developed 30 years ago, is made from all natural food ingredients. This special formulation ensures safety and is 100% environmentally friendly.



Acquisition of Certification

The Pigeon Group has acquired ISO-14001 certification, the international standard for environmental management systems, for its Tsukuba Distribution Center and some of its production bases in Japan. In addition to initiatives aimed at temporarily easing the burden placed on our natural environment, our activities include a management framework based on the continuous improvement spiral of the plan-do-check-act (PDCA) cycle.

For Local Communities

In December 2000, our Tsukuba plant, which is responsible for the stocking, storage and forwarding of products, as well as the sorting and recycling of returned goods, launched a campaign to keep the surrounding community tidy. This has developed into a culture that sees all plant employees perform such activities as part of their everyday work.

For Employees

At Pigeon, we recognize that corporate value represents the summation of shareholder value, customer value and employee value. To provide high-quality products, we must create an environment that motivates employees to work. If we do not take care of our employees, we cannot succeed in business. For this reason, we are upgrading our frameworks and systems to create an appropriate working environment, while building a corporate culture that helps employees perform their tasks more easily.

As part of this strategy, in February 2006 we established a new parental leave scheme for men with one month's paid leave. More and more male employees are taking advantage of this scheme, which is an important step toward creating a work environment in which men feel entitled to take child care leave. In 2007, this and other initiatives resulted in Pigeon's accreditation under the Law for Measures to Support the Development of the Next Generation.

Information Disclosure Initiatives

We believe that one fundamental mission of a corporation is to return an appropriate level of profits to shareholders based on transparent business management. To achieve this, we must conduct business activities under clear management policies and disclose information on operating conditions and new businesses in an appropriate manner. It is also important to maintain clear channels of communication with shareholders and other investors, and reflect such communication in our management decisions.

Management's Discussion and Analysis

Business Environment and Performance

Business Conditions in Fiscal 2008

The domestic baby and child care products category represents the Pigeon Group's main field of involvement. According to estimates announced by Japan's Ministry of Health, Labor and Welfare, both childbirths and marriages increased year on year in 2008. However, business conditions remain difficult with a sustainable turnaround nowhere in sight. Furthermore, the global economy is growing more and more severe as the world financial crisis deepens.

Under these conditions, the Pigeon Group reported steady performance in the year under review, with consolidated net sales of ¥53,092 million, up 7.8% from the previous year.

Income Statement Analysis

Cost of sales rose 7.6% to ¥32,927 million due to surging prices of raw materials accompanying rising crude oil prices in the first half of the year. Thanks to the expansion of our overseas business where profitability is high, however, gross profit increased 8.2% to ¥20,164 million—posting stronger growth than net sales.

Selling, general and administrative expenses rose 2.9% to ¥15,895 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. Advertising and sales promotion expenses grew ¥169 million as the Group launched new products and upgraded various Web sites as part of its direct communication activities.

In line with business expansion, the number of employees rose to 2,226 at the fiscal year-end, up from 2,087 a year earlier.

Nevertheless, we worked hard to control overall costs and succeeded in limiting the increase in personnel expenses to ¥107 million. The result was significant growth in operating income, which jumped 33.7% to ¥4,269 million. Despite the considerable expansion of our overseas business, the Group posted ¥9 million in non-operating income, following a ¥91 million foreign exchange loss the previous fiscal year. Accordingly, ordinary income rose 35.1% to ¥4,293 million, practically the same level as operating income.

The Group reported total extraordinary losses of ¥289 million, including a ¥153 million loss on valuation of investment securities and a ¥94 million expense related to a voluntary product recall. Nevertheless, net income practically doubled, jumping 94.0% to ¥2,854 million.

Financial Position

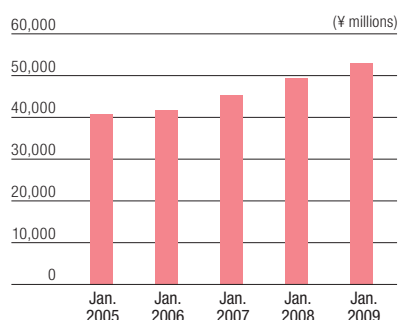
Assets

As of January 31, 2009, Pigeon had consolidated total assets of ¥38,407 million, up ¥966 million (or 2.6%) from a year earlier. The major factors boosting current assets were a ¥1,622 million (37.3%) jump in cash and time deposits, a ¥417 million (4.3%) rise in notes and accounts receivable and a ¥207 million (4.7%) increase in inventories. The main reasons for the decline in fixed assets were a ¥390 million (64.3%) fall in construction in progress, a ¥367 million (15.4%) decrease in machinery and transportation equipment and a ¥91 million (10.0%) decline in goodwill.

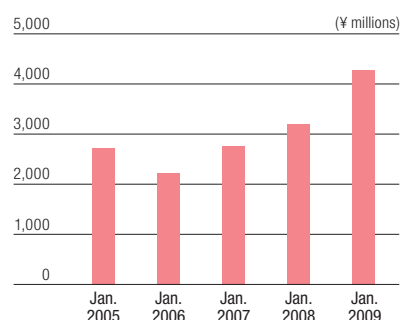
(¥ millions)

Sales by Segment	Jan. 2008				Jan. 2009			
	Amount	Percentage	YoY Change	Gross Margin	Amount	Percentage	YoY Change	Gross Margin
Net Sales	49,237	100.0%	108.7%	37.9%	53,092	100.0%	107.8%	38.0%
Baby and Child Care Products (Domestic)	20,602	41.9%	100.9%	39.6%	20,209	38.1%	98.1%	39.6%
Baby and Child Care Products (Overseas)	13,849	28.1%	134.8%	48.3%	17,374	32.7%	125.5%	48.6%
Child Care Support Services	4,869	9.9%	101.3%	13.6%	5,079	9.6%	104.3%	11.2%
HHC/Nursing Care Products	5,680	11.5%	98.0%	30.2%	5,839	11.0%	102.8%	29.2%
Nursing Care Support Services	545	1.1%	103.7%	19.7%	582	1.1%	106.7%	14.4%
Women's Care Products	2,396	4.9%	107.1%	37.2%	2,515	4.7%	104.9%	36.6%
Other	1,291	2.6%	103.9%	31.6%	1,490	2.8%	115.4%	28.9%
Overseas Business	14,349	29.1%	135.5%	48.5%	17,847	33.6%	124.4%	48.7%

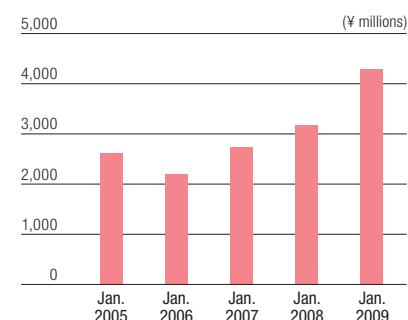
Net Sales



Operating Income



Ordinary Income





Liabilities

Total liabilities at the fiscal year-end stood at ¥14,083 million, up ¥473 million (3.5%) from a year earlier. The main factors holding down current liabilities were a ¥1,040 million fall in long-term debt redeemable within one year and a ¥541 million (10.4%) decline in notes and accounts payable. The main reason for the increase in total long-term liabilities was ¥1,319 million in new long-term borrowings.

Net Assets

Consolidated net assets amounted to ¥24,324 million, up ¥493 million (2.1%) from a year earlier.

Sound Financial Position

At the fiscal year-end, the Group had ¥5,972 million in cash and time deposits versus ¥3,139 million in interest-bearing debt, including new long-term borrowings. For practical purposes, therefore, Pigeon is a debt-free company. The equity ratio also remained high at 62.3%. These figures underscore the Group's ability to continue making proactive investments, even in the face of such challenges as the current global credit squeeze.

Cash Flows

Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥4,206 million, up 13.4% from the previous year. Factors boosting operating cash flows included ¥4,020 million in income before income taxes (up 43.6% year on year) and ¥1,626 million in depreciation (up 5.1%). Contrasting factors included a ¥1,267 million increase in trade receivables (up 370.6%) and ¥932 million in income taxes paid (down 18.3%).

Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥1,279 million (down 47.6%). The main factors included ¥1,373 million in acquisition of property, plant and equipment (down 20.0%). Contrasting factors included ¥471 million in reversal of time deposits.

Cash Flows from Financing Activities

Net cash used in financing activities was ¥110 million (down 35.7% from the previous year). This resulted primarily from ¥767 million in payment of cash dividends (up 37.8%), which outweighed a ¥506 million net increase in short- and long-term debt (up 25.2%).

ROA and ROE

Seeking to improve profitability and capital efficiency, Pigeon uses return on equity (ROE) as a key performance indicator. At the fiscal

year-end, ROE was up 5.7 percentage points from a year earlier (from 6.4% to 12.1%) and well above the 12.0% target set under the Group's medium-term business plan. We will watch this figure closely and redouble our efforts to keep it above the minimal target. Return on assets (ROA) at the fiscal year-end reached 11.3%, up 2.6 percentage points from a year earlier (8.7%).

Profit Appropriation Policy

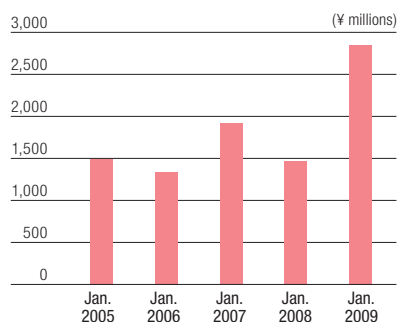
The Pigeon Group regards the return of profits to shareholders as an important management priority. Our policy is to actively return profits to shareholders through the appropriation of retained earnings and other means, while reinforcing our financial position based on considerations of medium-term 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 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. Based on this policy, we paid an interim cash dividend of ¥23.00 per share, and we declared a year-end dividend of ¥32.00. This brings the total annual dividend to ¥55.00 per share (¥55.00 per share of common stock, up ¥27.00 from the previous year).

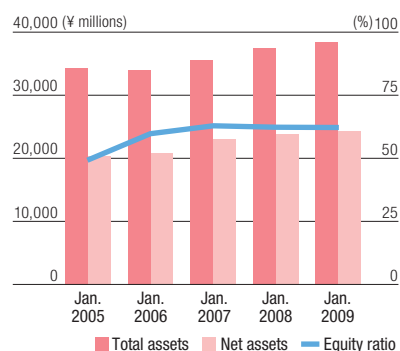
Outlook

The year ending January 2010 is the second 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 performance targets for the fiscal year ending January 31, 2010: net sales of ¥56.0 billion (up 5.5% year on year), operating income of ¥4.4 billion (up 3.1%), ordinary income of ¥4.35 billion (up 1.3%) and net income of ¥3.0 billion (up 5.1%).

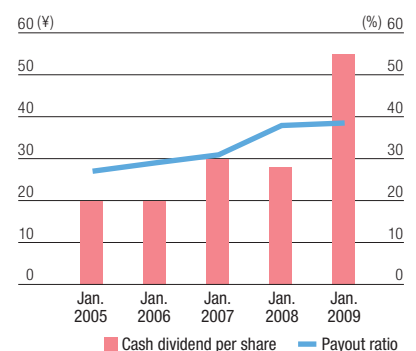
Net Income



Total Assets/Net Assets/ Equity Ratio



Cash Dividend per Share/ Payout Ratio



Financial Data

Consolidated Balance Sheets (January 31, 2008 and 2009)

Item	Period	¥ millions		US\$ thousands
		2008	2009	2009
Assets				
Current Assets				
Cash and Time Deposits		4,350	5,972	65,605
Notes and Accounts Receivable		9,701	10,118	111,150
Marketable Securities		—	—	—
Inventories		4,433	4,641	50,983
Other Current Assets		910	898	9,865
Total Current Assets		19,395	21,630	237,614
Fixed Assets				
Tangible Fixed Assets		14,124	13,308	146,194
Intangible Fixed Assets		1,741	1,544	16,961
Investments and Other Assets		2,180	1,923	21,125
Investment Securities		1,464	1,268	13,929
Total Fixed Assets		18,045	16,777	184,302
Total Assets		35,648	38,407	421,916
Liabilities				
Current Liabilities				
Notes and Accounts Payable		5,216	4,674	51,346
Accrued Account Payable		2,212	2,341	25,717
Income Taxes Payable		373	426	4,680
Accrued Employees' Bonuses		509	522	5,734
Other Current Liabilities		3,755	3,278	36,010
Total Current Liabilities		12,065	11,243	123,509
Long-Term Borrowings		—	1,319	14,490
Long-Term Liabilities		1,544	1,520	16,698
Total Long-Term Liabilities		1,544	2,839	31,188
Total Liabilities		13,610	14,083	154,707
Shareholders' Equity				
Capital Stock		5,199	5,199	57,113
Additional Paid-in Capital		5,167	5,180	56,904
Retained Earnings		13,389	15,484	170,098
Net Unrealized Gain (Loss) on Securities		△5	0	0
Adjustment on Foreign Currency Statement Translation		242	△1,493	△16,401
Treasury Stock		△624	△442	△4,856
Minority Interests		462	396	4,350
Total Net Assets		23,831	24,324	267,209
Total Liabilities, Minority Interests and Net Assets		37,441	38,407	421,916

Note: Figures in U.S. dollars are calculated, for convenience only, at the exchange rate of ¥91.03 = US\$1.00.

Consolidated Statements of Income (For the years ended January 31, 2008 and 2009)

Item	Period	¥ millions		US\$ thousands
		2008	2009	2009
Net Sales		49,237	53,092	583,236
Cost of Sales		30,597	32,927	361,716
Gross Profit		18,640	20,164	221,509
Selling, General and Administrative Expenses		15,447	15,895	174,613
Operating Income		3,192	4,269	46,897
Other Income		404	406	4,460
Other Expenses		419	381	4,185
Ordinary Income		3,177	4,293	47,160
Extraordinary Income		120	16	176
Extraordinary Losses		497	289	3,175
Income before Income Taxes		2,800	4,020	44,161
Income Taxes		971	1,041	11,436
Adjustment for Corporate Tax		261	△26	△286
Less: Minority Interest in Net Income of Consolidated Subsidiaries		96	150	1,648
Net Income		1,471	2,854	31,352

Note: Figures in U.S. dollars are calculated, for convenience only, at the exchange rate of ¥91.03 = 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, 2008	5,199,597	5,167,362	13,389,545	△624,063	23,132,442	△5,586	242,186	236,599	462,162	23,831,205
Changes during Period										
Distribution of Earnings	—	—	△759,019	—	△759,019	—	—	—	—	△759,019
Net Income	—	—	2,854,390	—	2,854,390	—	—	—	—	2,854,390
Disposal of Treasury Stock	—	12,884	—	188,136	201,021	—	—	—	—	201,021
Acquisition of Treasury Stock	—	—	—	△7,009	△7,009	—	—	—	—	△7,009
Changes during Period Not Related to Shareholders' Equity (net)	—	—	—	—	—	5,335	△1,735,708	△1,730,373	△65,624	△1,795,997
Total Changes During Period	—	12,884	2,095,370	181,127	2,289,382	5,335	△1,735,708	△1,730,373	△65,624	493,384
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

Financial Indicators (January 31)

Item	Period	2005	2006	2007	2008	2009
Profitability						
Gross Margin (%)		38.5	37.5	37.8	37.9	38.0
Operating Margin (%)		6.7	5.3	6.1	6.5	8.0
Ordinary Margin (%)		6.4	5.3	6.1	6.5	8.1
ROA (Operating Income to Total Assets) (%)		8.4	6.5	7.9	8.7	11.3
ROA (Ordinary Income to Total Assets) (%)		8.1	6.4	7.9	8.7	11.3
ROE (Return on Equity) (%)		7.7	6.7	9.0	6.4	12.1
Cost of Sales Ratio (%)		61.5	62.6	62.2	62.1	62.0
Stability						
Current Ratio (%)		141.6	131.8	169.5	160.8	192.4
Fixed Ratio (%)		93.2	92.0	82.1	77.2	70.1
Fixed Assets to Long-Term Capital Ratio (%)		81.5	85.2	73.9	72.4	62.7
Equity Ratio (%)		58.2	59.9	63.0	62.4	62.3
Interest Coverage Ratio (times)		31.4	43.4	61.3	73.6	59.5
Interest-Bearing Debt to Total Assets Ratio (%)		8.7	9.9	6.5	7.3	8.2
Interest Expenses to Interest-Bearing Debt (%)		3.2	1.6	1.6	1.8	2.5
Efficiency						
Total Assets Turnover (times)		1.3	1.2	1.3	1.4	1.4
Receivables Turnover (days)		77.1	67.1	75.4	71.9	69.6
Inventory Turnover (days)		50.1	62.0	53.8	52.9	51.5
Accounts Payable Turnover (days)		90.0	64.1	58.4	62.2	51.8
Growth Ratios						
Sales Growth Ratio (% YoY)		19.2	2.5	8.5	8.7	7.8
Ordinary Income Growth Ratio (% YoY)		4.7	△16.1	24.8	15.7	35.1
Other Indices						
Shares Issued (thousands)		20,275	20,275	20,275	20,275	20,275
Net Income per Share (yen)		74.2	67.8	97.0	73.9	142.8
Shareholders' Equity per Share (yen)		989.4	1,029.4	1,128.7	1,173.9	1,195.5
Cash Dividend per Share (yen)		20.0	20.0	30.0	28.0	55.0
Payout Ratio (%)		21.5	32.8	25.7	37.9	38.5
Dividend to Equity (%)		1.6	2.2	2.2	2.4	3.2
Number of Employees		1,840	2,008	2,018	2,087	2,226

Note: Figures in U.S. dollars are calculated, for convenience only, at the exchange rate of ¥91.03 = US\$1.00.

Consolidated Statement of Cash Flows (For the years ended January 31, 2008 and 2009)

Item	Period	¥ millions		US\$ thousands
		2008	2009	2009
Cash Flows from Operating Activities		3,707	4,206	46,205
Cash Flows from Investing Activities		△2,443	△1,279	△14,050
Cash Flows from Financing Activities		△172	△110	△1,208
Translation Gain (Loss) Related to Cash and Cash Equivalents		3	△618	△6,789
Net Change in Cash and Cash Equivalents		1,095	2,197	24,135
Cash and Cash Equivalents at Beginning Year		2,680	3,775	41,470
Cash and Cash Equivalents at End of Year		3,775	5,972	65,605

Note: Figures in U.S. dollars are calculated, for convenience only, at the exchange rate of ¥91.03 = US\$1.00.

Corporate Information

Corporate Data (As of January 31, 2009)

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 — 849 (non-consolidated)

Stock Data (As of January 31, 2009)

Shares Authorized — 60 million
 Shares Issued — 20,275,581
 Number of Shareholders (includes odd-lot shares) — 6,073

Board of Directors, Auditors and Officers

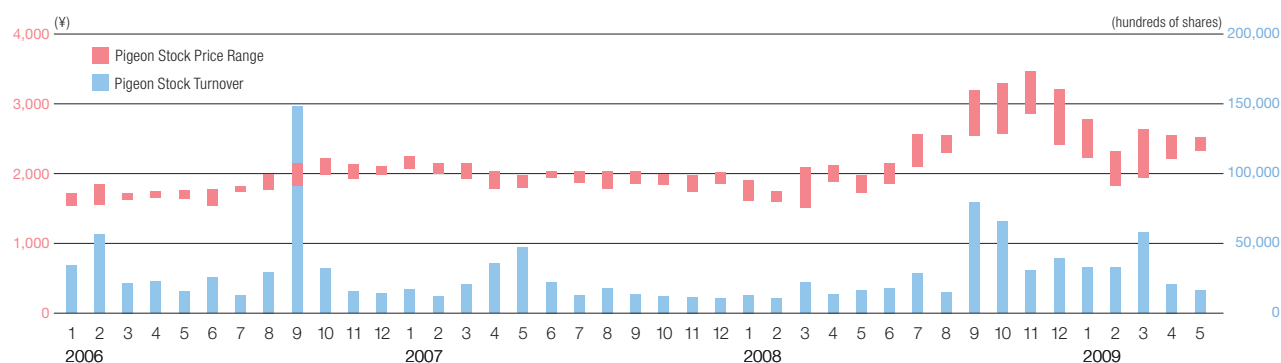
(As of April 28, 2009)

Executive Advisor 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 — Isao Kosaka
 Yasushi Takashima
 Tadashi Itakura
 Hiroki Yuda
 Yasunori Kurachi
 Shinobu Iwamoto
 Norimasa Kitazawa
 Eiji Akamatsu
 Koji Ishigami

Ten Largest Shareholders (As of January 31, 2009)

Shareholder's Name	Shares Held (thousands)	Ownership (%)
Yoichi Nakata Japan	3,087	15.2
The Master Trust Bank of Japan, Ltd. (Trust Account)	2,769	13.7
Japan Trustee Services Bank, Ltd. (Trust Account)	2,574	12.7
Goldman Sachs International	1,457	7.2
Japan Trustee Services Bank, Ltd. (Trust Account 4G)	569	2.8
NikkoCity Trust and Banking Corporation (Trust Account)	484	2.4
The Chase Manhattan Bank N.A. London SL (Omnibus Account)	377	1.9
Pigeon Corporation Employees' Stock	363	1.8
BBH for Variable Insurance Products FD 3M ID Capport	343	1.7
Nippon Life Insurance Company	228	1.1

Stock Price Range/Turnover of Common Stock



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>

