



Annual Report
2015

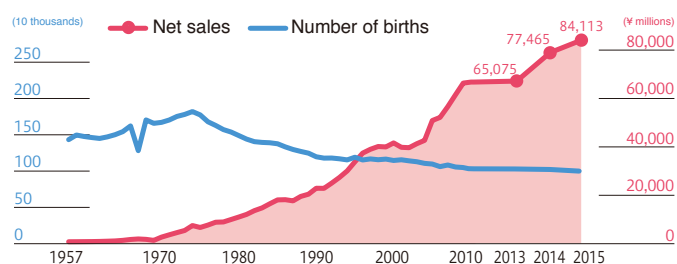
For the year ended January 31, 2015






Pigeon History

	1950~	1970~	1980~	1990~
Corporate	<ul style="list-style-type: none"> ▶ 1949 Dofu Boeki, Pigeon's predecessor, established ▶ 1952 Yuichi Nakata appointed President ▶ 1957 Pigeon Honyuki Honpo (Nursing Bottle Manufacturing) Corporation established ▶ 1966 Name changed from Pigeon Honyuki Honpo Corporation to Pigeon Corporation 	<ul style="list-style-type: none"> ▶ 1973 Head office building in Kanda-Tomiyama-cho, Chiyoda-ku, Tokyo, constructed ▶ 1975 Kyowa Tokushu Shiko Co., Ltd. (now Pigeon Home Products Corporation) joins the Pigeon Group 	<ul style="list-style-type: none"> ▶ 1982 Pigeon Textiles (Pigeon Will Corporation) established to manufacture and sell maternity wear ▶ 1983 Yoichi Nakata appointed President; Yuichi Nakata appointed Chairman ▶ 1985 Corporate identity based on the Pigeon philosophy of "Love" adopted ▶ 1988 Shares registered with the Securities Dealers Association of Japan (present-day JASDAQ) 	<ul style="list-style-type: none"> ▶ 1993 Joso Research Center (now Central Research Center) established ▶ 1995 Listed on the Second Section of the Tokyo Stock Exchange (July 7) ▶ 1996 Fukuyo Ibaraki Corporation (now PHP Ibaraki Corporation), joins the Pigeon Group ▶ 1997 Listed on the First Section of the Tokyo Stock Exchange
Domestic Baby & Mother Care Business	<ul style="list-style-type: none"> ▶ 1949 First nursing bottle in Japan with wide cap (A-type) launched ▶ 1956 Baby and child care-related products launched ▶ 1963 Milk powder case and sponge brush for nursing bottles launched ▶ 1966 Baby powder, first in a new range of baby hygiene products, launched 	<ul style="list-style-type: none"> ▶ 1975 World's first diaper liner made using binderfree manufacturing method launched ▶ Liquid cleanser for nursing bottles and vegetables launched ▶ 1976 World's first rubber toothbrush for milk teeth launched ▶ 1977 P-type nursing bottle for babies with poor sucking strength launched ▶ 1979 New-standard K-type nursing bottle (still used today) launched 	<ul style="list-style-type: none"> ▶ 1982 MagMag training cup with adjustable tops for different ages launched ▶ 1985 Fit, Japan's first seamless breast pad, launched ▶ 1987 Chibion digital thermometer for babies launched ▶ 1988 Babies' natural sucking peristaltic motion revealed 	<ul style="list-style-type: none"> ▶ 1992 Baby Wipes launched ▶ 1993 Entry into baby food market ▶ 1994 UV Baby Skincare, first ultraviolet-ray skincare product for babies, released ▶ 1995 Nursing bottle disinfectant Milkpon launched
Child-rearing Support Services				<ul style="list-style-type: none"> ▶ 1993 Pigeon Land Joso, child-minding center for infants, opened ▶ 1996 Pigeon Wendy, babysitter dispatch service, launched ▶ 1999 Pigeon Kids World Corporation (now Pigeon Hearts Corporation) established
Health Care & Nursing Care Business		<ul style="list-style-type: none"> ▶ 1975 Habis Business Department, targeting the senior market established 	<ul style="list-style-type: none"> ▶ 1983 Nursing care products under the Habinurse brand launched 	
Overseas Business	<ul style="list-style-type: none"> ▶ 1966 Exports to other countries started 	<ul style="list-style-type: none"> ▶ 1973 First overseas office established, in Singapore ▶ 1978 Pigeon Singapore Pte. Ltd. established in Singapore 		<ul style="list-style-type: none"> ▶ 1990 Thai Pigeon Co., Ltd. established in Thailand ▶ 1996 Pigeon Industries (Thailand) Co., Ltd. established in Thailand
China Business				

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



After reaching its peak in 1973, the number of birth in Japan has been declining and reached about 1,060,000 newborns in 2005 or a total fertility rate of 1.26, which is the lowest ever point in the available statistics since 1947. Although birthrate has recovered somewhat since then, the figures calculated for 2014 show an annual number of newborns of about 1,000,000 or a total fertility rate of 1.43. This shows that the downward birthrate trend is still continuing. In these conditions, the Pigeon Group managed to achieve steady growth by focusing on business for the domestic market up to around 2000, and by expanding overseas sales since then. The Group is also actively expanding its overseas operations.

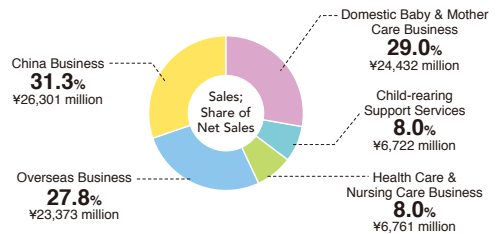
2000~	2010~
<ul style="list-style-type: none"> ▶ 2000 Seiichi Matsumura appointed President and Chief Operating Officer; Yoichi Nakata appointed Chairman and Chief Executive Officer ▶ 2002 PHP Hyogo Corporation joins the Pigeon Group ▶ 2006 Head office relocated to Nihonbashi-Hisamatsu-cho, Chuo-ku, Tokyo ▶ 2007 Akio Okoshi appointed President and Chief Operating Officer; Seiichi Matsumura appointed Chairman and Chief Executive Officer; Yoichi Nakata appointed Executive Advisor and Member of the Board 	<ul style="list-style-type: none"> ▶ 2013 Shigeru Yamashita appointed President and Chief Operating Officer; Akio Okoshi appointed Chairman and Chief Executive Officer ▶ 2014 Pigeon Corporation absorbed and merged with Pigeon Will Corporation
<ul style="list-style-type: none"> ▶ 2002 Wide neck "Bonyu Jikkan" nursing bottles, which promote babies' natural sucking peristaltic motion, launched ▶ 2003 Baby shoes, designed using research on toddlers' walking patterns, released 	<ul style="list-style-type: none"> ▶ 2010 Renewal of "Bonyu Jikkan" series of nursing bottle nipples Full-scale entry into baby stroller market 
<ul style="list-style-type: none"> ▶ 2001 Operation of in-company child-minding facilities launched ▶ 2002 Operation of approved child-care center launched ▶ 2004 Operation of 113 child-care facilities in hospitals of the National Hospital Organization (independent administrative agency) launched 	<ul style="list-style-type: none"> ▶ 2013 "Math-Program" introduced in Pigeon Kids World
<ul style="list-style-type: none"> ▶ 2000 Pigeon Manaka Corporation established ▶ 2004 Tahira Corporation (now Pigeon Tahira Corporation) joins the Pigeon Group ▶ 2007 Recoup brand of anti-aging products launched 	<ul style="list-style-type: none"> ▶ 2011 Daycare service launched by Pigeon Manaka Corporation 
<ul style="list-style-type: none"> ▶ 2004 Lansinoh Laboratories, Inc. in USA joins the Pigeon Group ▶ 2009 Pigeon India Pvt. Ltd., a sales subsidiary, established in India 	<ul style="list-style-type: none"> ▶ 2010 Lansinoh Laboratories Medical Devices Design Industry and Commerce Ltd. Co. established in Turkey ▶ 2010 Lansinoh Laboratories, Inc. in the USA acquired mOmma business ▶ 2011 Lansinoh Laboratories, Inc. in the USA similarly acquired the earth friendly baby brand ▶ 2011 Pigeon Malaysia Trading Sdn. Bhd. established in Malaysia ▶ 2012 DoubleHeart Co. Ltd. established in South Korea ▶ 2014 Pigeon Produtos Infantis Ltda. established in Brazil Lansinoh Laboratórios Do Brazil Ltda. established in Brazil
<ul style="list-style-type: none"> ▶ 2002 Pigeon (Shanghai) Co., Ltd. established in Shanghai, China ▶ 2006 Pigeon Manufacturing (Shanghai) Co., Ltd. established in Shanghai, China ▶ 2009 Pigeon Industries (Changzhou) Co., Ltd. established in Changzhou, China 	

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At a Glance

Consolidated Net Sales ¥84,113 million

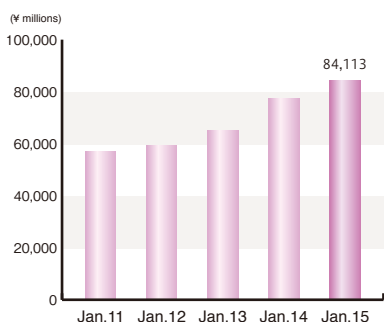


Business Categories

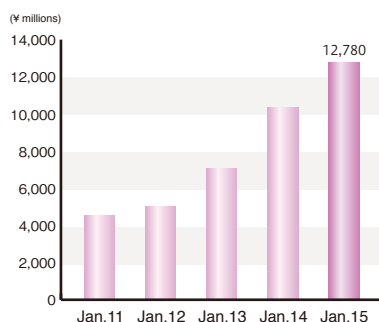
	Products; Services	Business Environment; Our Competitive Edge
Domestic Baby & Mother Care Business	<p>Breastfeeding-related products, weaning-related products, skincare products, women's care products, other baby-related products, large-sized products</p> 	<p>The number of births in Japan was 1.00 million in 2014, the lowest level since statistics were first compiled in 1899. For half a century, we have conducted in-depth research into babies' breastfeeding patterns and early childhood development and persistently developed and improved products arising from such research. Accordingly, Pigeon is widely recognized as a brand that delivers safety and peace of mind, capturing a large share of the market. We also provide high-value-added services and are strengthening direct communication with customers. This includes hosting maternity events all over Japan, as well as operating an Internet portal for word-of-mouth information about pregnancy and child care.</p> <p>Affiliated Companies Pigeon Home Products Corporation, PHP Hyogo Corporation, PHP Ibaraki Corporation</p>
Child-rearing Support Services	<p>Child-rearing Support Services, operation of in-company child-minding facilities and daycare centers, babysitter dispatch services, preschool education services</p> 	<p>There are an increasing number of women who want children but who wish to keep working. Similarly, more and more women want to return to work while raising children. These factors are providing the impetus for the advancement of Child-rearing Support Services, including the opening of child-minding centers and the enhancement and diversification of child-minding services. Through its provision of baby and mother care offerings, Pigeon has built a reputation for safe and reliable products. Deploying this brand strength, we are building a Child-rearing Support Services under the principle that "raising children comes first." By achieving a top-class domestic business scale and offering high-quality services, we are earning the trust of customers. Going forward, we will target ongoing improvements in business efficiency and reliability by further improving child-rearing quality.</p> <p>Affiliated Company Pigeon Hearts Corporation</p>
Health Care & Nursing Care Business	<p>Elder care products, anti-aging products, elder care support services</p> 	<p>In Japan, it is estimated that 26.8% of the total population, or one in every four Japanese, will be at least 65 years old by 2015. Accordingly, competing companies are launching new products and stepping up sales activities, while numerous companies are entering the market for the first time. Despite the challenges, Pigeon is building a presence in this field by deploying the strengths it has amassed in the baby and mother care business—track record, reputation for trust, and brand appeal. Pigeon plans to nurture its Health Care & Nursing Care Business into a major pillar supporting its future vision. To this end, we are focusing on strengthening our business foundation and building a growth-oriented infrastructure. Going forward, we will further strengthen sales channels via institutions and entrench our core product categories, including the Habinurse brand of elder care products. In these ways, we will work actively to address the growing market underpinned by Japan's aging society.</p> <p>Affiliated Companies Pigeon Home Products Corporation, PHP Hyogo Corporation, PHP Ibaraki Corporation, Pigeon Manaka Corporation, Pigeon Tahira Corporation</p>
Overseas Business	<p>Baby and mother related products</p> 	<p>In North America and Europe, we are targeting steady growth through expansion of our product categories.</p> <p>Affiliated Companies Pigeon Singapore Pte. Ltd., Pigeon India Pvt. Ltd., Pigeon Malaysia (Trading) Sdn. Bhd., Lansinoh Laboratories, Inc., Lansinoh Laboratories Medical Devices Design Industry and Commerce Ltd. Co., DoubleHeart Co. Ltd., Pigeon Industries (Thailand) Co., Ltd., Thai Pigeon Co., Ltd., P.T. Pigeon Indonesia (an equity-method subsidiary), Pigeon Produtos Infantis Ltda., Lansinoh Laboratórios Do Brazil Ltda.</p>
China Business	<p>Baby and mother related products</p> 	<p>In China, in addition to expanded sales, profitability has increased significantly due to our Shanghai Plant, which began operation in 2008 (production items include skincare products, toiletries, and nursing bottle nipples), as well as a new plant in Changzhou, Jiangsu Province that began operation in 2011 (production items include nursing pads, baby wipes, and baby disposable diapers).</p> <p>Affiliated Companies Pigeon (Shanghai) Co., Ltd., Pigeon Manufacturing (Shanghai) Co., Ltd., Pigeon Industries (Changzhou) Co., Ltd.</p>

Key Performance Indicators

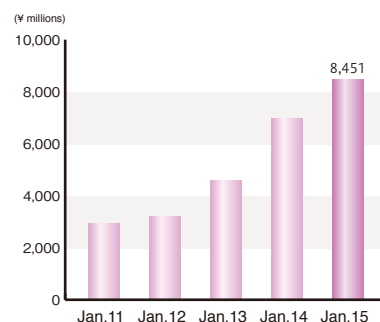
Net Sales



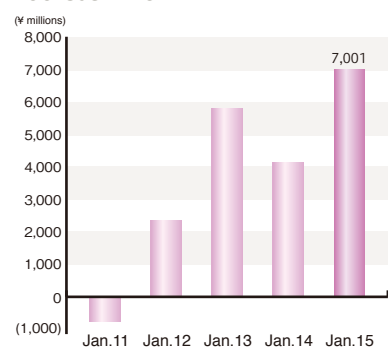
Operating Income



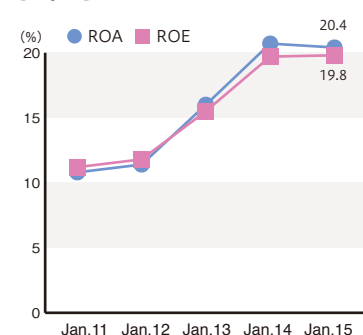
Net Income



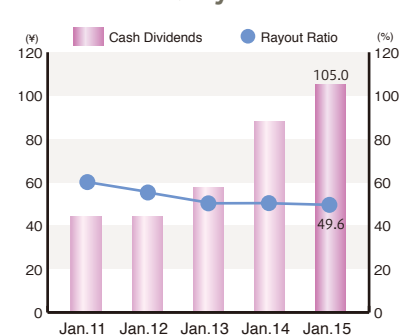
Free Cash Flow



ROA/ROE



Cash Dividends/Payout Ratio



Performance Highlights

	Jan. 11	Jan. 12	Jan. 13	Jan. 14	Jan. 15	Jan. 15 (Note 1)
Net Sales	57,061	59,145	65,075	77,465	84,113	795,169
Gross Profit	23,281	24,319	27,760	34,464	38,296	362,034
Operating Income	4,546	5,042	7,086	10,365	12,780	120,817
Ordinary Income	4,435	4,917	7,389	11,002	13,299	125,723
Net Income	2,928	3,183	4,573	6,985	8,451	79,892
Total Assets	42,684	43,772	48,538	57,955	72,367	684,127
Net Assets	27,044	27,935	32,365	39,981	47,297	447,126
Free Cash Flow	(743)	2,341	5,807	4,135	7,001	66,185
ROA (%) (Note 2)	10.8	11.4	16.0	20.7	20.4	
ROE (%) (Note 2)	11.2	11.8	15.5	19.7	19.8	
EPS (yen) (Note 3)	73.1	79.5	114.2	174.5	211.6	2.0 (US\$)
Dividend per Share (yen) (Note 3)	44.0	44.0	57.5	88.0	105.0	1.0 (US\$)
Payout Ratio (%) (Note 3)	60.1	55.3	50.3	50.4	49.6	
Employees (persons)	2,678	2,963	3,304	3,458	3,617	

Notes: 1. Figures in U.S. dollars are calculated, for convenience only, at the exchange rate of ¥105.78=US\$1.0.

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.

3. The Group carried out a 2-for-1 stock split with respect to its common stock, effective as of August 1, 2013. Figures for number of shares have been calculated assuming this stock split was conducted at the beginning of the fiscal year ended January 2010.

New Product Highlights

Pigeon has created numerous “hit” products that address the concerns of babies and their mothers, including nursing bottles and nipples, as well as its “Mag Mag” range of mugs that support babies’ drinking function. In the year under review, we added some new products that have been warmly embraced by many customers.

Below, we introduce two new products that will lead the Pigeon brand into the future: “Electric Breast Pump,” which delivers a weak suction stimulus to encourage breast milk secretion, and the new “Runfee” baby stroller that moves smoothly over uneven surfaces.

“Electric Breast Pump” and “Electric Breast Pump First Class”: Supporting mothers’ breastfeeding efforts

In February 2014, Pigeon launched “Electric Breast Pump” and “Electric Breast Pump First Class.” In addition to suckling directly from the breast, mothers can pump and store breast milk for their babies to drink at any time. This provides mothers with more time flexibility and peace of mind, and enables them to continue breastfeeding their babies. The new updated products feature a “Pump Preparation Mode” that delivers a weak suction stimulus to encourage breast milk secretion, as well as “Soft Fit Cover” that perfectly fits all breast shapes to prevent air leakage while pumping. These and other features make the pumping process smoother than ever. The breast pump market continues to grow alongside the advancement of women in society. In the future, Pigeon will keep providing support to enable women to continue breastfeeding in a stress-free manner.



Electric Breast Pump First Class



Electric Breast Pump

“Runfee”: New baby stroller that addresses essential user needs

In January 2015, Pigeon unveiled “Runfee,” a new baby stroller that assures the safety of babies and is easy to push for parents. Our user surveys and behavioral observations revealed that many mothers feel stress when strollers become stuck on uneven surfaces, such as the edges of pedestrian crossings and the entrances to shops. Focusing on this issue, we developed Runfee, which is fitted with large 16.5cm-diameter tires that move smoothly over stepped surfaces. The wheels also have swing-type suspension that softens the impact caused by moving over rough surfaces. Sales have increased steadily since the launch of Runfee, which had a 12.6% share of the high-end baby stroller market (¥40,000 or higher) in February 2014 (high-end strollers occupied around 70% of the total baby stroller market in that month). We have high expectations that Runfee will help drive growth of our Domestic Baby & Mother Care Business in the future.



Runfee

Top Message

~Dear Stakeholders~

~Dear Stakeholders~

Through business growth in both advanced and emerging nations, we aim to become the Global Number One brand.



山下 茂

Shigeru Yamashita

President and Chief Operating Officer

Seeking to become the "Global Number One" manufacturer of baby and child care products

At the Pigeon Group, our mission is to bring joy, happiness, and inspiration to babies and families around the world by providing them with products and services that embody our Corporate Philosophy of "Love." For more than 50 years since our foundation in 1957, we have evolved in tandem with the babies we serve. Now, we are deepening our research related to suckling and other elements of a

baby's growth, as well as into the ageing mechanisms of the elderly. In the fields of pregnancy, childbirth, Child-rearing, and elder care, we deliver products and services that resolve customers' anxieties and enrich their lives. In these ways, we are working daily to raise corporate value in order to become the "Global Number One" manufacturer of baby and child care products.

Entrenching our Corporate Philosophy into management

The objective of our Fifth Medium-Term Business Plan is for Pigeon to become the "Global Number One" manufacturer of baby and child care products, and the slogan of the plan is "Pursuing world class business excellence, think globally, plan agilely, and implement locally." In order to become recognized as a globally excellent company, we must do more than improve our various performance indicators. It is also crucial for our employees around the world to correctly understand and share our unwavering Values and Action Principles, and to reflect them in their work. To this end, we formulated the "Pigeon Way" in March 2014.

Seeking to become Global Number One, the Pigeon Group continues to rapidly expand its business, including by establishing operations in new countries and regions. We must also keep the Pigeon Way—which embodies our Corporate Philosophy, Credo, Mission, Values, and Action Principles—firmly in mind. If we fail to embrace these, we run the risk of making business decisions based on partial optimization. A united front, consisting of all employees

heading in the same direction from the perspective of total optimization, will bring maximum returns, not only for customers but for all shareholders and other investors as well.

One year has passed since the Pigeon Way's formulation, and we are seeing positive outcomes in many areas. One is "agility." We now respond very quickly in our in-house communications. In product manufacturing and development, as well, we have always sought to keep the consumer firmly in our mind, and our employees visit homes and facilities to identify unsatisfied needs with their own eyes and propose ways to address such needs. I feel we have improved considerably in this regard. I also often notice discussions across various departments in which employees refer to the Pigeon Way to advance their arguments.

Moreover, we receive many letters from happy mothers who have used our products and services. This feedback is shared by all employees across all functions, from product development and sales to after-sales support, and also fosters the proliferation of the Pigeon Way.

Pigeon's strength: Ability to resolve customers' anxieties

Pigeon's foremost strength lies in the ability of its products to solve people's problems (the ability to address the anxieties of customers). For example, we receive feedback from many happy customers who have actually used Pigeon's products, with such comments as: "My baby rejected other nursing bottles but accepted Pigeon's." Such comments have spread through word of mouth, underscoring Pigeon's reputation as a high-quality brand. The most prominent products that solve people's problems are our nursing bottles and nipples, as well as

breastfeeding-related products, such as breast pumps. While we are advancing our nursing bottles and nipples on a global scale, we are proud of our core competence, which lies in our ability to develop such products.

Underpinning Pigeon's product development capabilities is its Central Research Center. The three pillars of the Center's R&D activities—basic research, behavioral monitoring, and product design—represent key Pigeon strengths. In addition to conducting basic research into products earmarked for global rollout, we undertake

behavioral observations by visiting childcare and elder care facilities to personally view conditions for babies and the elderly. We keep our eyes open to identify where customers' anxieties actually exist, and sometimes uncover things that consumers don't realize. Through our products and services, we aim to deliver new levels of value by

addressing people's anxieties and proposing convenient solutions. The source of Pigeon's strength—its ability to solve problems—lies in its observational powers. Even in the context of global business development, it is a strength that is unmatched by other companies.

Fifth Medium-Term Business Plan: Establishing world-class operational management quality

The period under review was the first year of our Fifth Medium-Term Business Plan. The slogan of the plan is "Pursuing world class business excellence, think globally, plan agilely, and implement locally." Under the plan, we have formulated "Vision 2016" aimed at expanding Group operations and improving management quality. Vision 2016 has five key objectives to be achieved within the period covered by the plan: (1) Become the Global Number One in childcare products; (2) Strengthen the management framework for continuous business development; (3) Improve management quality by focusing

on cash flows; (4) Establish global human resource training and personnel systems and promote employee dynamism; and (5) Further enhance enterprise value.

The key to success in realizing Vision 2016 is to achieve "speed" in decision-making and "overall optimization" when rendering judgments. In each of our businesses, we will continue pursuing priority initiatives. At the same time, we will launch major reforms across our entire organization. Specifically, we will seek to delegate more authority to the Strategic Business Units (SBUs*) in each geographical region—Japan, China, Europe/Americas, and Asia—to allow

Research and Development

Our R&D Mission

The role of the Pigeon Group's R&D is to identify new needs based on research into people's various life scenarios—including pregnancy, childbirth, and raising children, as well as old age and elder care—and to use the Group's technological resources to create products and services.

How do babies develop, what kind of behavior do they display, and what kind of processes do they experience as they grow? Also, what makes mothers anxious during these processes, and what do they need in response? In addition, what do the elderly worry about or desire when receiving care at home or in institutions?

The role of our research is to investigate deeply to uncover the latent and visible needs of consumers and translate our findings into commercially viable offerings that we can provide to society. We manufacture products based on many years of basic research into babies and behavioral observations of the elderly. Through our products, we are constantly making new lifestyle proposals.

Basic Research and Achievements

In many cases, R&D revolves around research into new materials and new technologies. At Pigeon, however, we adopt a unique approach emphasizing "research focusing on people who use products, rather than the products themselves." Unlike adults, babies cannot use words to express their experiential feelings. Understanding how our products are used requires research into various attributes of babies through behavioral observations and other means. This represents the centerpiece of Pigeon's research.

For example, artificial nipples attached to nursing bottles are important devices that babies actually put in their mouths to drink breast milk or baby formula. We refer to research into how babies use this device as "nursing research." Its aim is to reach an understanding about how babies are nursed directly from the mother's breast. Based on this understanding, we strive to make drinking from artificial nursing bottle nipples as close as possible to the real thing.

One outcome of this research is a new nursing bottle and nipple called Bonyu Jikkan, which underwent a renewal in spring 2010.

swift decision-making and implementation close to the front lines. Meanwhile, our Global Head Office (GHO^{*2}) will function as a corporate center, promoting and managing overall strategies and handling such tasks as business planning, accounting and finance, and personnel and general affairs. We will also establish Pigeon Functional Units (PFUs^{*3}) at each business operation to handle product development, quality assurance, and logistics. Together, the SBUs, GHO, and PFUs will enable us to maintain a firm grip on our operations from the perspective of overall optimization.

Through the aforementioned activities, we have set the following consolidated targets for the year ending January 2017: Net sales of ¥100.0 billion (up 29.1% from the year

ended January 2014), operating income of ¥15.0 billion (up 44.7%), and net income of ¥9.0 billion (up 28.8%).

- * 1 Strategic Business Unit
- * 2 Global Head Office
- * 3 Pigeon Functional Unit



Fifth Medium-Term Business Plan: Making solid progress

In the year under review, we made good progress under the plan. During the year, we revised our segment classification, creating the new China Business segment (previously, our Chinese business was included in the

Overseas Business segment). As shown in our financial results, our China business remained healthy and bolstered our overall performance. We also expanded our business in Europe, the Americas, and elsewhere.

Overseas Research and Development

Overseas Business and R&D

For more than 50 years since our founding, we have created a diverse range of products based on research into breastfeeding and other aspects of child development, spearheaded by our Central Research Center in Japan. Overseas, we have successfully marketed the same products that were originally known in Japan for their high quality and advanced technological functions. This has enabled Pigeon to satisfy customers and earn their trust in overseas markets, such as China.

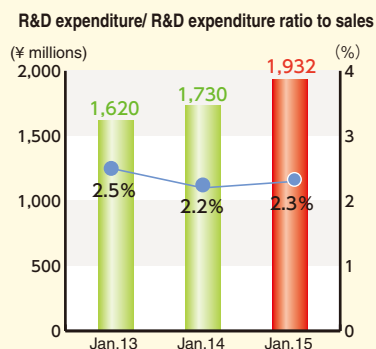
By contrast, some products, such as breast pumps and other breastfeeding-related products, may have different

features according to user ethnicity. In 2011, we opened a monitor room in Singapore, which collects local statistical data relevant to breastfeeding-related products, as well as data from behavioral observations of consumers, including through field surveys.

Localized R&D and Quality Control

Pigeon is steadily expanding its business in China, North America, and other countries and regions. The establishment of product supply and development systems and the training of personnel are pivotal for promoting further globalization. Consequently, Pigeon's R&D focuses on developing products that address local needs and on establishing a highly reliable quality control system. At present, we have regional product development bases in Shanghai and Singapore, which receive research personnel dispatched from Japan.

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



Consolidated net sales for the year amounted to ¥84,113 million, up 8.6% year on year. The cost of sales ratio improved around 1.0 point, thanks to enhanced capacity utilization of production facilities in line with business expansion, as well as higher net sales. Operating income grew 23.3%, to ¥12,780 million, and ordinary income rose 20.9%, to ¥13,299 million. During the year, the Company undertook a voluntary product recall, which resulted in a loss on recall, reported as an extraordinary loss. Consequently, net income for the year increased 21.0%, to ¥8,451 million.

The China Business segment made the greatest contribution to the Group's results, with sales rising 19.7%, to ¥26,301 million. In terms of both revenue and earnings, the China Business segment surpassed the Domestic Baby & Mother Care Business segment, where sales edged down 0.1%, to ¥24,432 million. Pigeon is well known throughout China as a high-quality, reliable brand. In the year under review, we tried entering new product categories, for example by launching disposable diapers. Because our original plan for disposable diapers was bullish, we did not reach our sales target for this category. However, the China Business segment overall performed very well in terms on revenue and earnings, buoyed by healthy sales of existing products (nursing bottles and nipples), the launch of feminine care items and other new products, and the added benefit of the yen's depreciation.

In the year under review, the Overseas Business segment posted sales of ¥23,373 million, up 15.1% year on year. In this segment, we enjoyed solid business growth in India, where we project that sales will reach ¥1.0 billion and make a contribution to earnings in the year ending January 2016.

Products sold under the Lansinoh brand also performed well in North America, where we launched nursing bottles, and in Europe.

Forming the basis for our rapidly growing overseas operations is our successful domestic business model. Amid declining birthrates, our Domestic Baby & Mother Care Business segment boasts an overwhelming market share in excess of 80% for its mainstay products. In the year under review, segment sales remained mostly unchanged, edging down 0.1%, to ¥24,432 million. During the year, we released large-sized products, including a new baby stroller that runs smoothly over uneven ground, as well as electric breast pumps and other new items. During the year, we also held various events as part of our direct communications approach, including events for women approaching childbirth and those preparing for pregnancy. Thanks to these and other efficient marketing expenditures, segment income increased 10.0% year on year.

In the year under review, sales in the Child-rearing Support Services segment rose 1.9%, to ¥6,722 million, and sales in the Health Care & Nursing Care Business segment, where sales/marketing departments were integrated, edged up 0.6%, to ¥6,761 million. Thanks to efficient management, all three of our domestic business segments achieved improved profitability for the year.



China Business: Ongoing initiatives aimed at renewed growth

In the year ending January 2016, we forecast sales in the China Business segment of ¥35,000 million*. In the year under review, we did not reach our sales target for disposable diapers. Nevertheless, we have recognized the underlying issues and responded by modifying and enhancing our products and packaging while reorganizing our sales system, including distributors. In light of current sales trends, we feel confident that we can now reach our sales target.

Our successful growth in the Chinese market, which we entered in 2002 with the establishment of a local subsidiary, is deeply meaningful. The basis for advancing our Chinese operations is the business model that has succeeded in Japan. Through strong and globally competitive products,

such as nursing bottles and nipples, the Pigeon brand has proliferated widely in Japan. In totally new markets, however, we must begin by achieving a broad recognition among consumers that our products are good.

In Japan, we pursue a meticulous policy of direct communication with customers to ensure that they personally understand the quality of our products. When customers feel that our products are good, they will spread the information through word of mouth, leading to purchases by other customers. Another major purchasing motivation is recommendations from specialists, such as doctors and nurses in hospitals. Comments such as "We use Pigeon products in our hospitals" and "You can trust this manufacturer" provide peace of mind and represent a

powerful impetus to purchase.

In China, as well, we embrace a proactive direct communication approach, working together with the government to promote breastfeeding. Our initiatives there include opening Pigeon Breastfeeding Advice Offices in large hospitals and clinics in various regions.

Our distributors in China are now proceeding smoothly, but when we first entered that market, we faced difficult challenges with our distributors. Compared with Japan, the turnover of salespeople at Chinese retail stores is high, and there are not only primary distributors but also secondary ones, as well as distributors in each region. For these distributors, we have held regular product information meetings and other forums.

One challenge is establishing a brand in a new market. Another is to build and entrench distribution and sales networks to ensure delivery of products to customers. If we can overcome such challenges, we can expedite growth leveraged by our strong products. This is what we have learned through our business growth in China. And the time and repeated effort involved have enabled us to build a reliable business model with two advantages—it is both

simple yet hard to imitate.

Practically all of our mainstay products sold in China are manufactured locally. This brings merits in terms of high capacity utilization at our factories and also underpins the profitability of the China Business segment. In the year to January 2017, the final year of the Fifth Medium-Term Business Plan, we are targeting segment sales of ¥34,694 million, with a view to achieving ¥40 billion soon thereafter.

In the current fiscal year ending January 2016, our businesses in South Korea, Taiwan, and other areas where our performance has been lackluster will come under the jurisdiction of the China Business segment. At the same time, we will shift to a more grass-roots sales and marketing system to address changes in product distribution within the Group. To match these changes, we will also reclassify our segments for disclosure purposes. With its expanded jurisdiction, we expect the China Business segment to achieve ¥40 billion in sales at an early stage. Nevertheless, we will work to expedite growth to swiftly reach the ¥40 billion mark even under the previous classification.

* Sales and income of South Korea, Taiwan and Hong Kong, etc. have been transferred from the Overseas Business segment to the China Business segment in line with product distribution changes within the Group.

Overseas Business: India and other emerging nations earmarked as next growth markets after China

Compared with China, with births numbering 15–17 million per year, India has very high growth, with number of childbirths projected to reach 26 million per year. Although we entered the Indian market in 2009, we expect sales to reach the ¥1.0 billion mark in the year to January 2016. We began local production of nursing bottles and nipples in March 2015, and anticipate turning a profit in the current fiscal year.

Naturally, there are differences between nations in terms of consumer preferences, distribution systems, and the like, so we recognize that we cannot replicate our successful Chinese business model in its entirety in the Indian market. However, our successful performance in China is extremely significant, because it serves as a case study and guideline for entry into other new markets.

In the huge Indian market, our initial target was the top 3% of income-earners in the four Tier 1 cities with populations of 4 million or higher. In India, however, the geographical distribution of affluent people is not skewed towards large cities. Indeed, more than half of such people live in regional areas, so it is not easy to pinpoint our target customers. For this reason, we are expanding the number of cities and broadening our target customer base to the

top 10% of affluent people.

With respect to sales channels, initially we tried using baby specialty stores as leverage to advance our business, as we did in China. However, the number of such stores in India is rising very slowly, and even department stores that previously handled baby and childcare products have declined in number, which we did not anticipate. Accordingly, we are deploying drugstores as our main sales channel. Of the 7,400 stores that carry our products, around 4,000 are drugstores. Meanwhile, recommendations from doctors and nurses in hospitals and



Pigeon's Indian production plant opened in March 2015

clinics have also product good results, similar to China, so we are actively pursuing this avenue as well.

Moreover, compared with China, which used to have a one-child policy, expenditure per child is completely different in India. Accordingly, products that sell well in China will not necessarily be popular in India. For this reason, we are launching lower-priced products in that market as we take the distinctive attributes of Indian consumers into account. Achieving growth in India may take longer than in China, but we have high expectations for the Indian market over the next five or 10 years.

Meanwhile, we are breaking ground in other markets. For example, in Russia, where we started selling nursing bottles and nipples, we have built a framework in which powerful local hospitals and doctors can recommend our products in the course of performing their duties. Despite concerns that the ruble's sharp depreciation will cause economic recession, we plan to continue planting seeds for future business growth in Russia. In Brazil, we established a local

subsidiary in 2014 and plan to launch our business after acquiring sales approvals. In Latin America, there are many competitors in that market, including from the United States and Europe. Leveraging the problem-solving ability of our products, acquired through grass-roots basic research and behavioral monitoring, we will establish our brand and conduct sales promotion activities targeting hospitals in Latin America. While also drawing on our success in China, we will overcome any difficulties that may arise to achieve sustained growth.



"Lansinoh" brand products

Year ending January 2016: Strengthen earnings power with emphasis on core priorities

In the year ahead, we will seek to reinforce our sales and marketing system, which has close regional ties. Specifically, we will establish a sales and marketing system for overseas businesses that were previously under the jurisdiction of Japan. In addition, our operations in South Korea, Taiwan, Hong Kong, and the Philippines will come under the jurisdiction of the China Business segment, and our operations in Latin America will come under the jurisdiction of Lansinoh Laboratories.

In the China Business segment, we will build a business management structure that includes our South Korean subsidiary, and we will reassess our sales strategies according to business expansion. With respect to disposable diapers, which underperformed our forecast in the year to January 2015, we will target steady growth with top priority on maintaining profits.

In the Overseas Business segment, we will strive to increase sales in five key categories—nursing bottles and nipples, breast pumps, pacifiers, skincare products, and breast pads. In North America and Europe, we will boost sales of our mainstay nursing bottles and nipples, while broadening our sales capabilities in Latin America. In Europe, we will work to expand our business and build systems. With respect to Asia, we will reorganize our business operational system and rebuild our sales, marketing, and SCM systems in Singapore, in order to improve our performance. In India, we will commission a

new factory and strive to turn a profit as mentioned earlier. As for new markets, we will continue pursuing activities aimed at entering the Brazilian market.

In the Domestic Baby & Mother Care Business segment, we will target steady sales growth for large-sized products through the launch of competitive new offerings. At the same time, we will implement strategic PR measures to improve brand loyalty. In addition, we will step up our approach to the maternity market in order to expand sales in the women's care category.

In the Child-rearing Support Services segment, we will strive to increase profitability by reassessing our growth strategies and business system. Amid an ongoing shortage of childcare professionals, we will strive to maintain and improve business quality by fostering and educating such professionals.

In the Health Care & Nursing Care Business segment, we will strengthen our sales capabilities, centered on care facilities, while solidifying relationships with sales distributors. By also introducing competitive new products, we will work to further improve this segment's gross margin.

By implementing these priority measures, we have set the following consolidated targets for the year to January 2016: Net sales of ¥92.0 billion, operating income of ¥13.9 billion, ordinary income of ¥14.0 billion, and net income of ¥8.9 billion.

Further improve corporate value through cash-flow-oriented management emphasizing capital costs

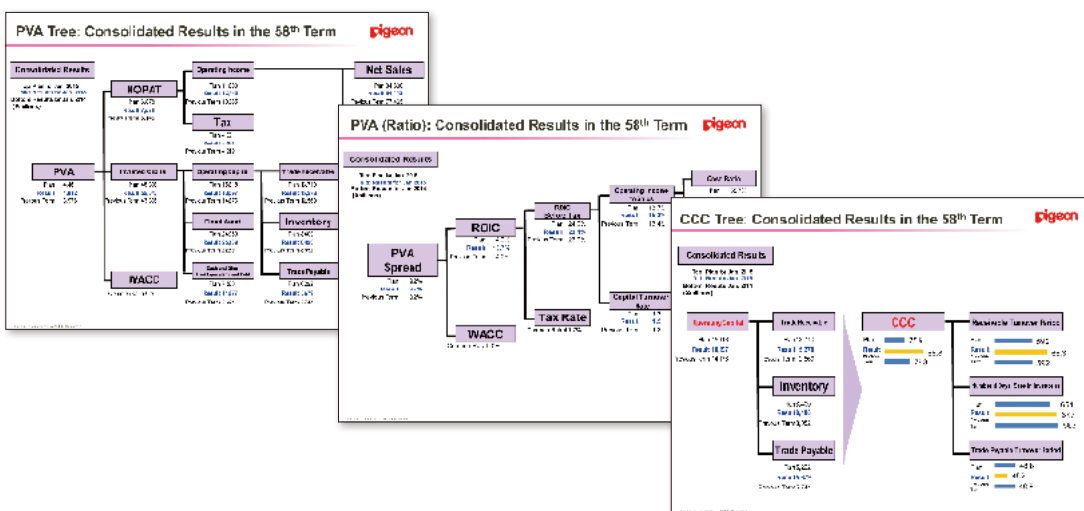
In recent years, we frequently hear the term “creating shared value (CSV)” — a combination of economic value and social value — when referring to corporate value. In the context of Pigeon’s corporate value, we regard our social value as our ability to deliver joy and happiness to customers and the world and generate positive impressions. We do this by offering solutions for the anxieties, issues, and problems confronted by our target customers, including babies, mothers, families, and the elderly. In other words, providing social value means “being an indispensable company.” In the case of nursing bottles and nipples, for example, we have conducted R&D on nursing bottles using both mother’s milk and artificial milk in order to minimize any confusion felt by babies who are fed both types of milk. In health care and nursing care, meanwhile, our employees personally visit care facilities and resolve any problems. In this way, we work to create products and services that alleviate the burdens carried by both care facilities and people in care.

Underpinning our corporate value are our individual employees, who share the Group’s global Corporate Philosophy, Mission, Values, and Action Principles and possess strong product development, brand, marketing, and innovation capabilities. Leveraging these assets, we are committed to benefiting society while being a company that provides motivation to employees. This is the key to generating and improving social value.

With respect to economic value, it is important to efficiently and strategically expand free cash flow, which is used to calculate corporate value.

Underpinning our economic value is our business model, which forms the source of our sustained competitive position and is simple, yet is difficult to imitate. Other important elements are corporate governance, efficient investment returns, return on equity (ROE), return on invested capital (ROIC), cash conversion cycle (CCC), Pigeon Value Added (PVA, a performance indicator), and various key performance indicators (KPIs). By fully understanding these important elements within the Group and using them as benchmarks for quantitative evaluation and confirmation, we can improve the quality of management.

By offering value demanded by consumers and efficiently utilizing money entrusted to us by all investors, we seek to generate maximum cash flows. This is a specific example of further improving corporate value targeted by Pigeon. Since 2014, we have used PVA as a yardstick for evaluating our business departments. Acquiring capital to conduct business incurs a cost, and if the business does not generate profit in excess of such cost, it will not contribute to overall corporate value improvement. We endeavor to make all employees recognize this and relentlessly pursue management based on recognizing the true cost of capital. Fortunately, none of our businesses have a negative PVA at present. If our employees can grasp their own business’s PVA and formulate plans accordingly, and also perform evaluations every six months, this will lead to improved quality of management.



Proactive shareholder return based on securing adequate investment capital

Cash generated through our business activities is returned to shareholders after retaining funds necessary for growth, which is a priority. Over the three-year period of the Fifth Medium-Term Business Plan, we expect to generate ¥27.0 billion in net cash from operating activities. Of this amount, our policy is to make ¥15.0 billion in investments and return ¥12.0 billion to shareholders.

Specifically, we are targeting a consolidated return of 45–50%, with year-on-year increases in cash dividends in

each fiscal period. Based on this policy, we declared cash dividends of ¥105.00 per share for the year under review. At present, we plan to pay dividends of ¥108.00 per share in the year ending January 2016.

We believe it is important to increase free cash flow while also considering capital productivity. For this reason, we seek to expand shareholder returns in a flexible manner, including through share buybacks. With respect to CCC, one of our KPIs, we recognize there is room for further improvement, and such improvement will lead to efficient generation of cash, allowing us to seek more diverse forms of shareholder return.

We also plan to make investments of ¥15.0 billion, of which ¥11.5 billion will be allocated overseas and the remaining ¥3.5 billion invested in Japan. For more than 10 years, Pigeon has used the hurdle rate as a criterion for investment decisions. Since the weighted average cost of capital (WACC) is 5%, we have also set 5% as the hurdle rate for Japanese investments. However, for our overseas businesses, which have greater risks than Japan, our hurdle rate is 10% or higher. With respect to investment necessity, we will continue explaining and reporting to shareholders and other investors in a rational and transparent manner, in order to gain their understanding in combination with desired shareholder return policy.



Recognize and reinforce management of global risk

Pigeon recognizes that various risks will increase as it expedites its global business development.

The Risk Management Committee is responsible for identifying, quantifying, and devising measures to address risks not only in Japan but also in our overseas operations. According to the Committee's calculations, the greatest risk to Pigeon is factory fires. In response, it has prepared a preemptive risk management flow process aimed at preventing such a risk from materializing. In the event that an accident does occur, the Committee has response measures in place and conducts regular checks of restoration and other activities as part of its risk management.

Recently, our business in China has been growing rapidly. Given that laws and regulations change more often in China than in Japan, we recognize the importance of

information management and responses from the perspective of compliance in our risk management activities. Many people are also concerned about food safety. When making and selling our baby food, we have an exhaustive management system in which we check the safety and hygiene aspects of our food in partnership with a Japanese food manufacturer. This includes management of pesticide residue as far back as the materials procurement stage. If an unprecedented risk materializes, its management comes under the jurisdiction of the Risk

Management Committee. Meanwhile, management of operational risk related to baby food, for example, is spearheaded by the Quality Control Division under a monitoring system.

In addition to China, we plan to further advance our operations globally, highlighting the importance of reinforcing corporate governance. With respect to internal audits, previously we conducted visiting audits only in Japan. Since 2014, however, we have strengthened and expanded the system to overseas subsidiaries.

Optimal corporate governance system conducive to growth

While the passion and DNA of our founder was originally passed down in the form of a family-run business, since listing publicly we have achieved growth as a truly public company. With this in mind, the Board of Directors recently selected an outside director, whose appointment was confirmed at the Ordinary General Meeting of Shareholders. When strengthening governance, it is important to have a highly transparent system that does not impede our current business expansion, where speed is key. Generally speaking, outside executives are expected to perform a monitoring role (management oversight) and an advisory role (reflecting outside opinions in management). At Pigeon, however, corporate auditors not only oversee the legitimacy of management (the legal role of auditors) from the shareholder's perspective, but also performed a monitoring role to check the appropriateness of management decisions.

As we seek to further strengthen governance, we understand the importance of raising management transparency from independent and impartial perspectives. To this end, we have sought to elect an outside director who, as a representative of stakeholders, will help increase corporate value by providing advice on management strategies and ensuring impartiality of decision-making.

As a result, we concluded that a person who can make observations from the viewpoints of shareholders and other investors would be most suitable, and we selected Mr. Takayuki Nitta, who has a wealth of experience in business consulting and investment management companies, to fill that position. We believe it is rare for a company to choose someone with a background as an investor spokesperson to become an outside director. In addition to assisting the decision-making process from an impartial perspective, we expect Mr. Nitta to perform an advisory role aimed at ensuring shareholder-oriented

management with an emphasis on capital efficiency.

In recent years, more and more companies have sought to elect female directors, but Pigeon does not currently have female directors. We hear many comments from shareholders and other investors asking why we don't have female directors, even though babies and their mothers represent our target market. Personally, I regard this as an issue of diversity. From the perspective of optimal corporate governance, the election of directors in particular should be a matter of building a framework that is most conducive to enhancing corporate value—rather than a choice between men and women. The result is our current system, for which we ask the understanding of shareholders. As for diversity, moreover, we are promoting the advancement of women through three core initiatives: “expansion of compatibility support system,” “workplace mindset reforms,” and “backup for women's feelings and skills.”

Rather than enhancing our system based on lateral concepts, we are constantly seeking an optimal governance system for Pigeon based on our own thinking, for which we request your understanding.

We look forward to the long-term support of shareholders and other investors.

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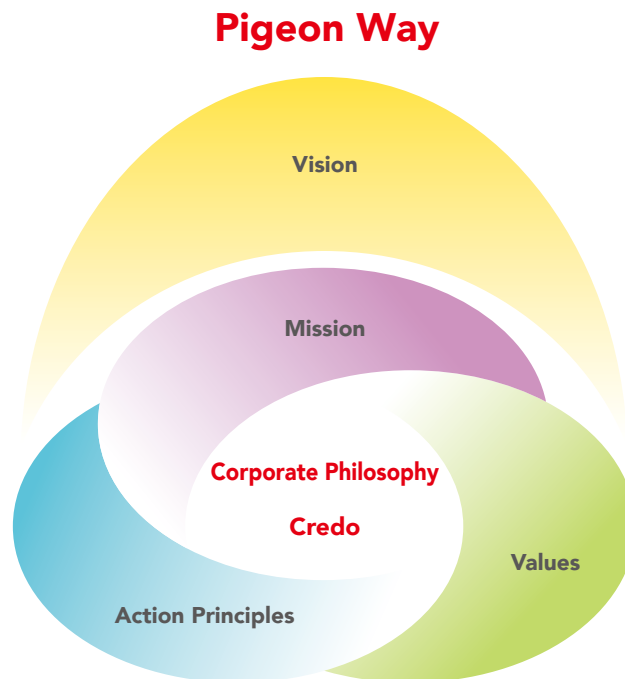
Shigeru Yamashita

President and Chief Operating Officer

Pigeon Way

What is the Pigeon Way?

The "Pigeon Way" is the cornerstone of all our activities. It embodies our "heart and soul" and sets the grounds for our actions to stream from this core.



Corporate Philosophy
The essence and core of our company

Love

Credo
Our fundamental brief based on the corporate philosophy

Only love can beget love

■ Vision

The goal Pigeon Group aims to achieve

To be the baby product manufacturer most trusted by the world's babies and families, i.e. "Global Number One"

■ Mission

Our purpose of working and what we promise to achieve for consumers

- **We will bring joy, happiness and inspiration to babies and families around the world by providing them with products and services that embody love.**

■ Values

Important attributes for all Pigeon employees

- **Integrity**
- **Communication, Consent, Trust**
- **Passion**

■ Action Principles

The basic guideline for driving all of our actions

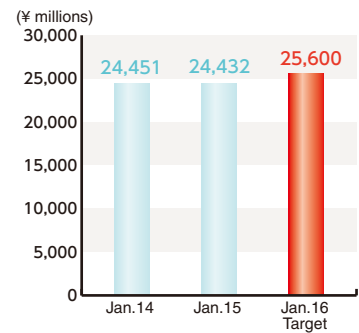
- **Agility**
- **Keep sight of customers**
- **Global collaboration among competent individuals**
- **Leadership and logical working style**
- **Willingness to change**

Pigeon Group Activities

Pigeon Group Activities

Domestic Baby & Mother Care Business

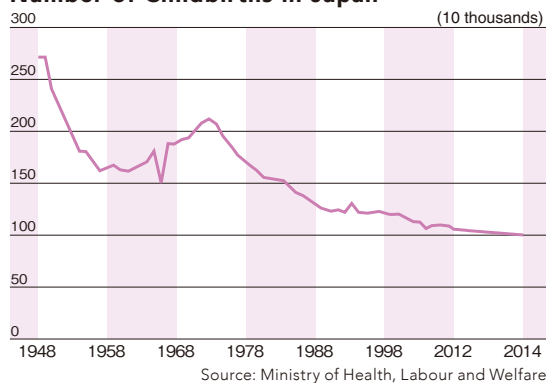
Sales of Domestic Baby & Mother Care Business



Business Environment

In 2014, the total number of births in Japan was 1.001 million in 2014, down 290,000 from 2013. This represents the fourth consecutive year-on-year decrease and the lowest level since statistics began. Although the domestic economy showed a recovery trend in 2014, there are no signs of a recovery in childbirths, and our business environment will continue to defy optimism amid progressive oligopolization of retailers and uncertainty among consumers about the future.

Number of Childbirths in Japan



Our Competitive Edge

Based on half a century of research into breastfeeding and infant and child development, the predominance of the Pigeon brand is the result of creating and developing a wide range of high-quality products. Here, we use the discoveries we have made via in-depth research into the growth processes of babies, and we have uncovered various problems that parents encounter when raising children. Our competitive edge lies in our high public profile as an industry leader and creator of the very strong Pigeon brand.



Wide variety of baby and mother care-related products

Business Strategy

In the year under review, despite no signs of recovery in childbirths, we introduced large-sized products and otherwise worked to expand and upgrade our product lineup from the perspective of maintaining topline sales growth. We also strengthened efforts to expand market share by stepping up our approach to the maternity market through our ongoing direct communication policy. In addition, we strove to improve the profitability of existing businesses through the effective and efficient deployment of selling, general, and administrative expenses.

Existing Market Initiatives

We are conducting more in-depth research into the physical development of babies with the aim of further raising the appeal of our products. At the same time, we are working to expand our target market, including by providing products for children in an older age bracket than our traditional baby segment. We are also striving to boost our market shares for all product categories by stepping up educational activities. Pigeon is renowned for its ability to offer a full range of baby products. Deploying this capability, we have been working in collaboration with large retailers to establish in-store Pigeon product sections and develop sales promotion strategies.

New Market Initiatives

Amid changes in consumer purchasing behavior, the Pigeon Group is creating business models that are appropriate for such patterns. In large-sized products, a new category, we launched the "Mahalo laule'a" reversible stroller, designed to ensure baby comfort, in February 2014, followed by the "Runfee" baby stroller, which runs smoothly over uneven ground thanks to its large-diameter tires, in December 2014. In these ways, we enhanced our product lineup. In the Internet shopping business, where we can reduce inventory levels compared with conventional retail sales, we actively advanced initiatives aimed at improving the cash conversion cycle (CCC). Since July 2012, for example, we have placed a Pigeon-brand store within Amazon.co.jp, a comprehensive online shopping site, enabling us to offer all of our products, from maternity items to baby-related products.

We are also emphasizing direct communication to strengthen our brand appeal. In this context, we hold maternity events around Japan, which is reaping benefits in terms of attracting pregnant women. Through such measures, we continue to ensure a high level of brand loyalty even though Pigeon's customer base changes from year to year.

Performance and Highlights

Despite ongoing contraction of the market, the Domestic Baby & Mother Care Business maintained sales at the previous year's level, with segment sales edging down 0.1% year on year, to ¥24,432 million. Segment income rose 10.0%, to ¥3,752 million. This resulted from a decrease in costs of our production subsidiary—thanks to increased production of items manufactured internally, including new products—as well as a decline in SG&A expenses stemming from a reassessment of marketing expenditures.

We launched a host of new products during the year. These included “Electric Breast Pump” and “Electric Breast Pump First Class”—which provide a comfortable breastfeeding routine while reducing stress of mothers wanting to breastfeed their babies—as well as the aforementioned “Runfee” baby stroller.

We also held various events as a part of our direct communications program. These included “Breast Feeding Seminars” for women expecting to give birth in the near future and “Working Women Meetings for Pregnancy Training” for those preparing for pregnancy. In fiscal 2014, we held a total of 40 such events, with participation from around 2,120 people. We also staged 10 seminars for healthcare professionals, addressing the theme of breastfeeding while parenting, with total attendance of around 1,030 people. Through products, events, and information provision, we will help families during times of pregnancy, childbirth, and childcare in order to steadily expand our business.

Outlook

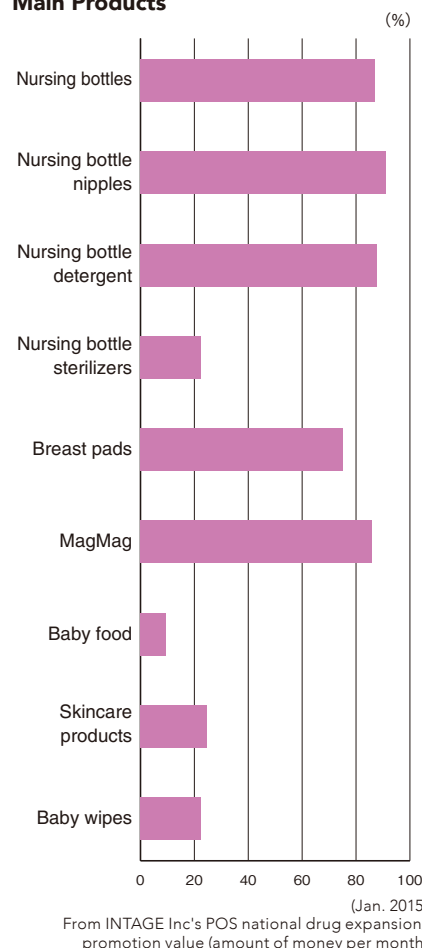
The number of births in Japan is expected to decline in the future. To achieve growth amid such conditions, Pigeon will deploy its strengths in basic research and behavioral observation to develop high-value-added products and reinforce existing businesses, in order to raise profitability. At the same time, we will focus on steadily expanding our business in large-sized products, by launching competitive new offerings. Meanwhile, we will work to increase brand loyalty through strategic PR and other initiatives. We will also step up our approach to the maternity market with the aim of expanding sales in the women's care category. In addition, we will work to further strengthen store-based initiatives and continue enhancing profitability by engaging more closely with distributors and retailers. Through these measures, we forecast sales in the Domestic Baby & Mother Care Business segment of ¥25.6 billion for the year ending January 2016.

Average Monthly Expenditures per Infant

Segment	2010	2011	2012	2013	2014
Baby formula	1,188	1,203	994	828	1,020
Baby foods	673	755	645	572	587
Cow's milk	245	259	354	360	302
Snacks	536	494	578	576	597
Other (foods)	1,296	1,380	1,632	1,741	1,616
Subtotal (foods)	3,940	4,094	4,203	4,077	4,123
Clothes, underwear, shoes, etc.	2,601	2,558	2,483	2,679	2,530
Cloth diapers, diaper liners, etc.	171	149	160	120	154
Disposable diapers	3,279	3,117	3,002	3,176	3,169
Subtotal (clothes, diapers)	6,051	5,824	5,646	5,974	5,853
Medical treatment	1,157	755	705	912	1,715
Toys	1,145	1,313	1,240	1,137	1,291
Picture books	384	469	467	372	464
Subtotal (toys, picture books)	1,530	1,783	1,707	1,509	1,755
Breastfeeding, baby food crockery	315	324	292	343	442
Bathing/hygiene accessories	1,165	1,146	1,080	1,285	1,505
Subtotal (breastfeeding, baby food crockery, bathing, hygiene)	1,480	1,470	1,372	1,628	1,947
Outing products, furniture, beds, etc.	2,038	2,362	2,087	1,987	2,803
Total	16,198	16,291	15,719	16,087	18,196

Source: Figures compiled by Pigeon.

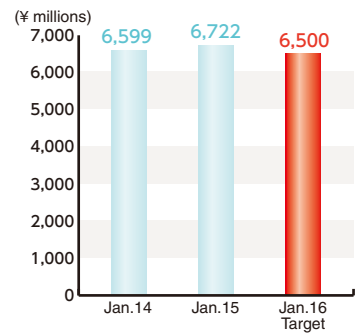
Domestic Market Share of Pigeon's Main Products



Pigeon Group Activities

Child-rearing Support Services

Sales of Child-rearing Support Services



Business Environment

There are an increasing number of women who want children but who wish to keep working. Similarly, more and more women want to return to work while raising children. Despite a declining birthrate, the market for Child-rearing Support Services is expanding. In addition, the problem of children on waiting lists to enter daycare remains unsolved, particularly in urban areas. There is a strong push for action to be taken immediately, and the national government is establishing promotional frameworks, such as laws supporting children and child-rearing and certified daycare centers. In April 2015, the “Comprehensive Support System for Children and child-rearing” was set up.

Such measures are being implemented through the cooperation of the public and private sectors. All of society is working to enact measures for addressing the declining birthrate and for supporting child-rearing. There are high expectations for our company to fulfill a major role. Specifically, we believe that there will be a positive influence on the expansion of our Child-rearing Support Services business. For example, new child-minding centers will be established and a variety of childcare services will be enhanced.

Our Competitive Edge

Through its provision of baby and child-care offerings, Pigeon has built a reputation for safe and reliable products. Deploying this brand strength, we are building our Child-rearing Support Services business under the principle that “children’s growth is first priority.” Today, the Pigeon Group provides a host of Child-rearing Support Services that meet the varied needs of users. These include the operation of child-minding facilities, such as licensed and certified daycare centers and in-company child-minding facilities. The Pigeon Group also operates preschool education facilities, such as Kids World, which is implementing new programs, and a service that dispatches babysitters to people’s homes. Pigeon has earned the trust of customers for the high quality of its services while operating one of Japan’s largest child-care service businesses.

Business Strategy

The solid reputation and trust earned by our Child-rearing Support Services business represent real social value, which in turn leads to further business growth. For this reason, we are working to raise the quality of our services, which are directly tied to the quality of our business, as our top priority. We are targeting business expansion by providing child-care and educational services with added value that only the private sector can effectively deliver. This is spearheaded by highly competent staff working within systems that incorporate crisis management to guarantee safety and peace of mind. Through ongoing classes at Pigeon Heartner Open College, our training facility for child-care workers and other staff members, we endeavor to uphold the Pigeon Group’s reputation as a provider with unparalleled knowledge of babies. We will also strive to improve business profitability.

Performance and Highlights

In the year under review, sales in the Child-rearing Support Services segment amounted to ¥6,722 million, up 1.9% from the previous year. Segment income climbed 7.9%, to ¥189 million, as effective use of SG&A expenses compensated for increased recruitment costs caused by an ongoing shortage of childcare teachers.

During the year, we were newly entrusted to operate four in-company child-care facilities, bringing the total number of facilities under our management, including in the National Hospital Organization, to 190. We also improved the quality of our services, resulting in a healthy sales increase. Moreover, “Math-Program,” a mathematical experience program introduced at our early childhood education centers in April 2013, has been well received.

Going forward, we will step up our pursuit of highly specialized child-minding capabilities to address the distinctive characteristics of children. At the same time, we will strengthen our management framework to deliver greater levels of safety and peace of mind.

Outlook

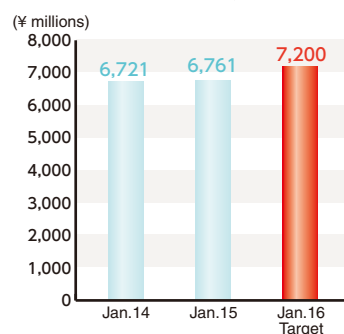
The Pigeon Group plans to reassess its business structure according to a growth strategy targeting improved profitability. We will also continue working to maintain and improve business quality by fostering and educating child-minding personnel. Through these measures, we forecast sales in the Child-rearing Support Services segment of ¥6.5 billion for the year ending January 2016.



Child-minding facility

Health Care & Nursing Care Business

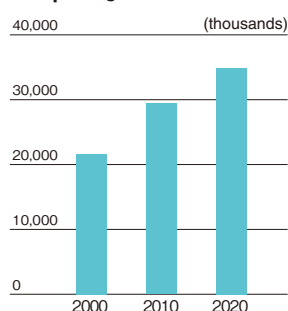
Sales of Health Care & Nursing Care Business



Business Environment

Japan's population is aging rapidly while the number of births declines. When baby boomers born between 1947 and 1949 begin to enter the 65-plus age bracket in 2015, it is estimated that this group's population will grow to 33,950,000, equivalent to 26.8% of the total population. This means that one in every four Japanese will be 65 years old or older by 2015.

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



To address continuously increasing elderly care costs, the national government took the opportunity in 2015 to clarify its policies for the elderly care system, emphasizing a shift from institutions to at-home care. These policies include raising the personal contribution to elderly care insurance and tightening preconditions for moving into special elderly nursing homes.

Meanwhile, the upward population trend will continue. Although the number of elderly will start declining from around 2042, the percentage of elderly in the total population will rise further. Against this backdrop, the market is expanding steadily, but the result is an extremely competitive environment, where other companies are launching new products and many dynamic enterprises are venturing into the market for the first time.

Our Competitive Edge

Pigeon's Health Care & Nursing Care Business revolves around two brands: the Habinurse brand of elder care products and the Recoup brand of products that support the active elderly. Together, these two brands offer items in many product categories, including toileting, bathing, hygiene, meals, sleeping, and mobility. Pigeon's strengths in this segment lie in its product planning capabilities—which use behavioral observations of consumers to accurately pinpoint unsatisfied customer demand—as well as its advanced quality control systems acquired in the course of developing baby care products. The Pigeon Group has two sales channels for health and elder care products: retail stores and institutions/hospitals. We also possess know-how and a proven track record in public information events and communication activities to support provision of health and elder care services.

Business Strategy

To date, we have advanced our Health Care & Nursing Care Business through the aforementioned Habinurse and Recoup brands. In the fiscal year ended January 2012, we restructured the organization of this segment by slimming down and concentrating managerial resources around the Habinurse brand of elder care products that are enjoying strong demand. We are now striving to improve the

competitive power of our products by focusing on core categories. We sell our products through retail store and institution/hospital sales channels. In order to meet the needs of people receiving care in their homes or in healthcare facilities, in the fiscal year ended January 2015 we integrated the sales/marketing function of subsidiary Pigeon Tahira Corporation with that of the parent company. Going forward, we will focus our sales activities on the institutional channel while targeting improved product competitiveness.

Performance and Highlights

Amid intensifying competition in the consumables market, sales in the Health Care & Nursing Care Business segment edged up 0.6% year on year, to ¥6,761 million. During the year, we sought to efficiently deploy SG&A expenses while pursuing proactive marketing activities tailored to the specific attributes of products and sales channels. Accordingly, segment income grew 22.9%, to ¥260 million.

We released several new products during the year. In February 2014, for example, we launched "Recoup Karuru", a new undergarment featuring improved comfort and urine leakage absorption. In August 2014, we released "No Spread Sheet", a support product that addresses the fear of leakage when toileting.

Meanwhile, users of "Sansan" day service centers operated by Pigeon Manaka Corporation have continued to increase. During the year, Pigeon Manaka held training lectures for elder care staff. In October 2014, it received the "Kurumin" next-generation accreditation mark and was certified as a standards-compliant general business owner under the Law for the Promotion of Measures to Support the Development of the Next Generation.

Going forward, the Group will continue introducing highly competitive products in core priority categories. We will also intensify sales activities and strategies focusing on institution-based sales channels.

Outlook

The Group will continue expanding the scale of its Health Care & Nursing Care Business segment, recognizing the important role of this business in boosting revenue and earnings in view of market growth potential.

Going forward, we will reinforce sales activities centered on elder care facilities and step up initiatives with sales agents. At the same time, we will work to improve gross margins by introducing new, highly competitive products.

Regarding the Habinurse brand, we will enhance our product lineup by bringing to market items in our well-performing skincare and food-related areas. We will also boost sales activities targeting retail stores, care facilities, and hospitals. In addition, we will enhance the content and user-friendliness of the "Pigeon Tahira Health Care & Nursing Care Product Guide" site, which provides information on health and home nursing care for people aged 50 or older.

We forecast sales in this segment of ¥7.2 billion in the year ending January 2016.

Pigeon Group Activities

Overseas Business

Business Overview

In the year under review, the Overseas Business segment posted sales of ¥23,373 million, up 15.1% year on year, and segment income jumped 19.7%, to ¥4,969 million.

In North America, we continued upgrading our product categories, with the full-scale commencement of nursing bottle sales in January 2014. We also worked to strengthen brand power as a company that provides total breastfeeding-related support.

In India, we continued proactive sales and marketing activities aimed at market proliferation of our brand. Going forward, we will further reinforce our sales and distribution systems in India, and deploy our factories to establish a reliable product supply system for our mainstay products, including nursing bottles and nipples.

In March 2014, we established Pigeon Produtos Infantis Ltda., a consolidated subsidiary, in Brazil to conduct local market research with a view to market entry, and we will further expand our business in the future.

Business Strategies

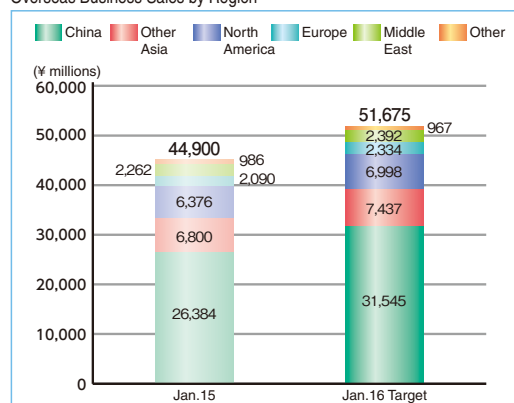
Our competitive advantage in overseas markets derives from two key strengths. One is the appeal of our products. We conduct basic research and behavioral observations through in-depth consideration of “what is the best for babies and their mothers?” and make products accordingly. In stores, meanwhile, we create displays to permit an instant understanding of our product appeal.

Another strength is teamwork with high-quality business partners. To advance our overseas business, it is extremely important that we build good relationships with local partners—including distributors and retailers—with excellent local knowledge. In the year under review, we held Pigeon Global Partners Conference 2014 in Hawaii, attended by sales agency representatives from 14 nations and regions. At the event, we discussed future brand-building and sales strategies. When selecting sales agents, we are mindful that reviews and updates of our promotions and their results are in the best interests of our customers. Accordingly, we closely monitor market conditions, and take timely action where necessary.

Outlook

Going forward, we will establish an in-house sales and marketing system, with the aim of strengthening our business operational system, which has close regional ties. Specifically, the Latin American market, currently under the jurisdiction of Japan, will be taken over by Lansinoh Laboratories, while South Korea, Hong Kong, Taiwan, and the Philippines, previously handled by the Overseas Business Division, will

Overseas Business Sales by Region



move to the jurisdiction of the China Business Division, including for disclosure purposes.

In our Overseas Business, we will cultivate and entrench our positions in new and existing markets, as stated in our Fifth Medium-Term Business Plan. We will also work to expand sales in five priority categories: nursing bottles and nipples, breast pumps, skincare products, breast pads, and pacifiers. In addition, we will horizontally advance our business model, based on activities targeting hospitals and maternity clinics, to strengthen brand power and generate synergies.

In North America and Europe, we will strive to boost sales of nursing bottles and nipples, which are core mainstay products. In Latin America, we will broaden our sales capabilities through changes in product distribution. In Europe, we will work to broaden our business and establish systems. In Asia, we will reorganize our business operational framework by rebuilding our sales, marketing, and SCM systems in Singapore, in order to improve our performance. In India, we will target improved earnings by commissioning a new factory. And we will continue activities aimed at entering the Brazilian market. Through these initiatives, we forecast sales in the Overseas Business segment of ¥23.8 billion in the year ending January 2016.

We recognize the particular importance of recruiting and promoting highly talented staff in realizing our global strategies. Pigeon already has numerous personnel with diverse skills in the Overseas Business Division and the China Business Division. Going forward, we will focus on enhancing the mobility of personnel in Japan and overseas, strengthening language training, and recruiting more local employees at our overseas sites, in order to fortify our operating foundation.

North America & Europe

Business Overview

With respect to total fertility rate and childbirth numbers, the United States is relatively stable among advanced countries. In that nation, where breastfeeding is recommended, specialist “lactose consultants” provide general support for women around the time of birth by emphasizing the importance of breastfeeding and providing guidance and advice related to suckling and breastfeeding. Accordingly, demand for breast pumps and other breastfeeding-related products is rising.

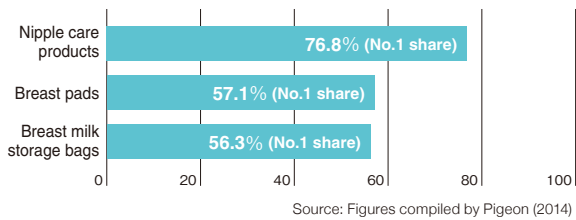
In April 2004, Pigeon acquired Lansinoh Laboratories, Inc., based in Virginia, and transformed it into a wholly owned subsidiary. Since then, Lansinoh has been building sales platforms in the United States and Europe based on medium- and long-term perspectives. Amid increasing demand for breastfeeding-related products, Lansinoh’s offerings have garnered strong support thanks to their high quality. In December 2010, Lansinoh took over business related to the “mOmma” brand of child-care products, sold mainly in Europe, from Baby Solutions SA and Baby Solutions Italia Srl. Targeting further business expansion, in November 2011 U.K.

company HealthQuest, which sells the “earth friendly baby” brand and other organic/natural skincare products mainly in Europe, was merged into Lansinoh Laboratories, Inc.

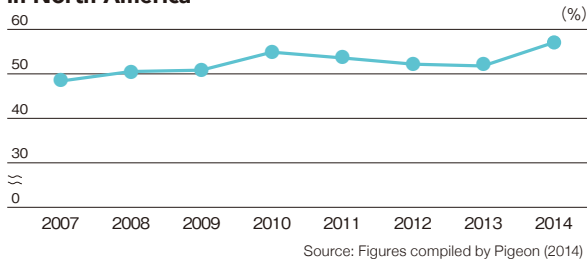
Our Position

The Lansinoh range of breastfeeding-related products includes nipple creams, breast pads, breast milk storage bags, and breast pumps. It is recognized for its unmatched brand strength and product quality, and its offerings are handled by more than 40,000 stores in the United States. In January 2014, Lansinoh made a full-scale launch of nursing bottles. Going forward, we will continue upgrading our product categories and enhancing our brand power as a company that supports breastfeeding.

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



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



Performance and Outlook

In the year under review, we successfully reinforced our sales activities in North America, where sales totaled ¥6,376 million, up 17.6%, from the previous year (up 8.7% on local-currency basis). In Europe, we expanded our lineup of offerings for the breastfeeding-related market while increasing the number of retailers and stores handling our products. Going forward, Lansinoh will continue strengthening its brand. At the same time, we will launch new offerings and cultivate new markets in Latin America, such as Brazil, in order to expand our business.

Other Countries

Business Strategies

The Pigeon Group is actively entering new markets in order to expand its business. In November 2014, we completed construction of a new plant in India after establishing a subsidiary there. In March 2015, that plant started making nursing bottles and nipples. We are also building a distribution network in India, increasing the number of outlets handling our products, and establishing dedicated Pigeon sections in retail stores. In South Korea, we transformed our sales branch into a subsidiary in order to reinforce our structure and achieve business expansion. In Russia, we hold breastfeeding- and maternity-related seminars for healthcare workers, and we are building a framework for promoting Pigeon-brand nursing bottles and nipples at hospitals and maternity clinics. We also established a subsidiary in Brazil with a view to market entry, reflecting our steady progress in cultivating new markets.

Initiatives in Asia

Pigeon launched its business in South Korea in the 1980s, focusing primarily on exports from Japan. In February 2009, we changed our brand name for the local market to “DoubleHeart,” which has since won high recognition mainly for its breastfeeding- and weaning-related products. Our branch office in South Korea, opened in July 2010, has been gathering information and conducting activities while also providing sales support. Seeking to reinforce our operations and achieve future business expansion, in August 2012 we transformed the branch office into a subsidiary. Through the new subsidiary, in the year under review we worked to further raise brand recognition and broaden our range of offerings through collaboration with local distributors. In line with product distribution changes, we will reorganize our business management structure by placing our South Korean operations under the jurisdiction of the China Business Division.

In Malaysia, our local sales company, now a Pigeon Group member, will target business expansion while deploying our strong brand power and marketing expertise.

In India, the population has been growing at the rate of more than 10 million per year, and has reached 1.25 billion according to a 2013 world population white paper. 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. Indeed, the number of childbirths is projected to reach 27 million per year, significantly higher than China.

Since there are no dominant brands of baby and child care products in India, we will work to raise recognition of Pigeon as a top-quality brand with high added value, as we have done in Japan and China. In India, we have already expanded mainly in major cities such as Delhi and Mumbai. We are also arranging sales displays in pharmacies and other outlets linked closely with local communities. Since April 2010, we have engaged in full-scale activities in India, including local procurement of skincare items and establishment of dedicated Pigeon sections in retail stores. Going forward, we will work to reinforce our distribution system and expand our sales network. In March 2015, we started local production of nursing bottles and nipples. We will broaden our business base with the aim of turning a profit for the year ending January 2016.



Staff of India factory

Other Markets

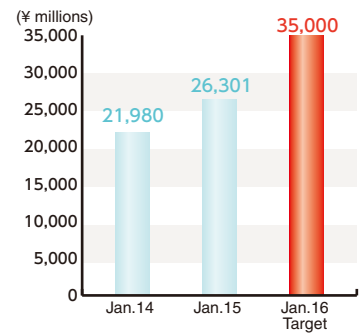
In the Middle East, we will reinforce strategies for our flagship nursing bottles and other products while expanding our categories to include skincare products.

In Russia, we are advancing our business, centering on our new distribution agency, appointed in 2010. In the year under review, we held breastfeeding- and maternity-related seminars for healthcare professionals. In this way, we are striving to increase recognition of Pigeon-brand nursing bottles and nipples.

Pigeon Group Activities

China Business

Sales in China

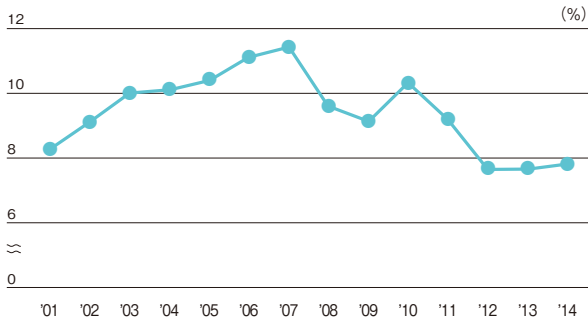


Business Overview

With a population of around 1.36 billion, China's annual childbirths have averaged about 16 million over the past several years, which is 16 times the number of births of Japan. Pigeon is targeting the wealthiest 15%–20% of the market, representing 2.4–3.2 million people. Given that we generate around ¥24.4 billion from our baby and mother care business in Japan, where only 1.001 million babies are born annually, we feel it is possible to achieve annual sales in China of around ¥40 billion.

Since our full-scale entry into the Chinese market in 2002, we have broadened our sales coverage across the entire nation, from such large cities as Shanghai and Beijing to interior regions.

Annual GDP Growth in China



Source: The figures are compiled by Pigeon Corporation with data from the International Monetary Fund (IMF) (-2006) and the Organization for Economic Cooperation and Development (OECD) (2007-).

Our Position

The target for Pigeon's products is the "new rich" market. We are advancing our business by proposing innovative lifestyle scenarios, with an emphasis on toiletry-related products. With more than 500 types of products on the Chinese market, we supply higher-priced items to meet high-end demand from the growing number of newly wealthy people in major coastal cities.

Despite recent signs of a slowdown, economic growth in China still continues at rapid speed, and we have steadily expanded our business through various measures. These include good timing of market entry, extensive face-to-face sales activities based on high product quality and stable pricing, and increasing the number of stores and dedicated in-store Pigeon sections handling our offerings. Recognition of Pigeon as a safe, reliable, high-quality brand is spreading as a result.

Business Strategies

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

In Chinese hospitals, for example, we have held various events, such as product exhibitions, product explanation forums, and child-care information sessions. In 2009, we opened Pigeon Breastfeeding Advice Offices in 34 hospitals as a joint project with China's Ministry of Health (45 hospitals as of January 2015). In these ways, we have stepped up our focus on brand appeal reinforcement. Including Pigeon Breastfeeding Advice Offices, we have formed partnerships with around 250 hospitals throughout the country (as of January 2014) in order to offer educational activities related to breastfeeding.



A Mother receiving counseling in the Breastfeeding Advice Offices

With respect to manufacturing, Pigeon Manufacturing (Shanghai) Co., Ltd., established in Shanghai's Qingpu Industrial Zone in January 2008, has been manufacturing and assembling various products. These include silicon nursing bottle nipples, detergents, and toiletries, as well as nursing bottles. In January 2011, Pigeon Industries (Changzhou) Co., Ltd. started operations at its plant in Changzhou, Jiangsu Province, producing breast pads, baby wipes, and disposable baby diapers.

Pigeon's sales growth in China has been steady. With its products available at around 15,000 retail outlets, Pigeon is becoming widely recognized among customers as a highly reliable brand. We achieved Chinese sales of ¥26,301 million in the year under review. Seeking to strengthen our sales system, which has close regional ties, we will move our businesses in South Korea, Hong Kong, and Taiwan to the jurisdiction of the China Business Division in the year to January 2016. Accordingly, we expect to reach our initial segment sales target of ¥40 billion at an early stage. (Even under the former segment classification, the potential of achieving growth to such a level is high.)

In China, we expect the large birthrate to continue for some time, and with disposable incomes rising among Chinese people in general, consumers are growing more and more conscious of product safety. We regard this as a positive factor that will underpin growth of our Chinese business. In addition to existing products, notably nursing bottles and nipples and toiletries, we anticipate sharp growth in the market for consumables, such as breast pads and baby wipes. We augmented our offerings in China with the launch of disposable diapers, which we do not sell in Japan, in July 2013, followed by baby food in November 2013.

Recently, there have been concerns about rising anti-Japanese sentiment in China. However, the impact on the Group's business in China has been minimal.

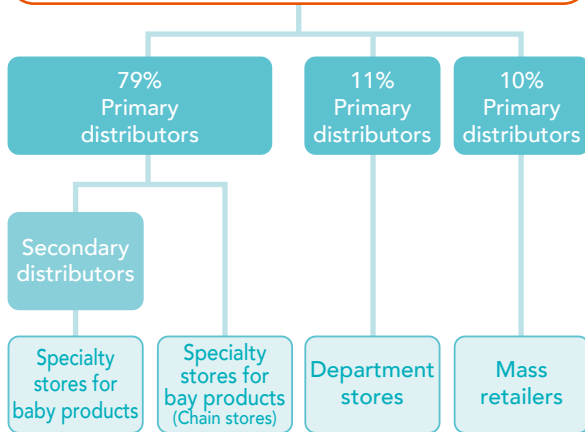
Sales Development

We are expanding ties with local distributors in order to develop our sales network across the entire nation. Through agreements with three primary distributors by sales channel and establishment of secondary distributors for baby specialty stores, we are steadily increasing the number of stores handling our products.

In the future as well, seeking to further boost sales in China, we will rebuild our distribution network by selecting and mobilizing both primary and secondary distributors.

Sales Organization

PIGEON (SHANGHAI) CO., LTD.



*Figures marked with "%" shows the composition ratio out of total sales in fiscal 2014.

Expanding Our Sales Network

Through our focus on establishing dedicated Pigeon sections within baby specialty stores, we are making steady sales progress in China's interior regions. As of January 31, 2015, a total of 2,763 such dedicated sections were in operation, up 272 from a year earlier. In addition to Shanghai, where we have a business base, we opened a branch in Beijing in 2008 and Guangzhou in 2009. We will continue expanding our presence across the nation.

Sales Channel Expansion in China



Business Performance

In the year under review, sales of the China Business segment totaled ¥26,301 million, up 19.7% (14.0% on local-currency basis) from the previous fiscal year. Despite an increase in SG&A expenses stemming from marketing activities accompanying proactive business development, segment income grew 24.6%, to ¥7,525 million.

In China, we have finished rebuilding our distribution system and continue to maintain favorable relationships with distributors. Sales of new products are progressing well, and we are steadily expanding production at our two manufacturing bases in line with business growth. These factors have contributed significantly to improved profitability. Both segment sales and income have increased year on year for several reasons. These include steady progress of nursing bottles and nipples and other products owing to continuous reinforcement of marketing and sales promotional activities, as well as improved capacity utilization at our production bases in China associated with healthy sales of consumables and other existing products.

We have continued conducting educational activities related to breastfeeding in cooperation with China's Ministry of Health. We also focus on promotional activities, such as hosting seminars in hospitals and maternity clinics and establishing Pigeon Breastfeeding Advice Offices. Through effective sale promotion activities, we will target steady sales growth into the future.



PIGEON MANUFACTURING (SHANGHAI) CO., LTD.

Outlook

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

While we recognize the existence of income differences between people living in coastal and interior areas, our total sales in China have grown steadily thanks to our nationwide business advancement strategy. Indeed, sales in interior regions now exceed those in major coastal cities, such as Shanghai, Beijing, and Guangzhou, and we look forward to further growth in the future.

In the year ending January 2016, we will rebuild our business operational system, including our South Korean subsidiary, while reorganizing our sales strategies to address business expansion. Due to our bullish original plan for disposable diapers, inventory adjustment has become an issue. Nevertheless, we will modify and enhance our products and packaging and reorganize our sales organization, including distributors, in order to foster steady growth while protecting earnings. In the year ending January 2016, we forecast sales in the China Business segment of ¥35.0 billion.

Pigeon CSR Initiatives

Reflecting its Corporate Philosophy, "Love," Pigeon is committed to supporting the lives of women—while pregnant, approaching childbirth, and when raising children—as well as the elderly, through the provision of specific products and services. In this respect, we believe our business activities themselves entail an element of corporate social responsibility (CSR). Moreover, we feel that building favorable relationships with all stakeholders, whom we treat as customers, is key to effective CSR and also helps increase corporate value. Guided by the Pigeon Way, formulated in 2014, all employees of the Group share the meaning and significance of our Corporate Philosophy, which is thus reflected in the specific actions of each individual. This is the true essence of Pigeon's CSR.

For Consumers

Customer-focused management

Companies that fail to satisfy customers with their products and services cannot be expected to return profits to shareholders. Since the 1960s, Pigeon has established customer consultation rooms, which were unusual in those days, to quickly gain customer feedback for reflection in its business. These activities underscore our commitment to customer-focused management. Recently, we have stepped up activities aimed at delivering safe, reliable products according to our own quality standards.

Products derived from more than 50 years of research into infants

The Pigeon Group deploys its brand appeal and management quality to achieve a global presence as a lifestyle support company centered on child-rearing. This is our ongoing objective. The development of Pigeon's products is based on more than 50 years of research into infants and feedback from customers raising children. For example, the Company's nursing bottles and nipples are being created based on an ongoing research into the breastfeeding exercise, from various perspectives including observation of baby's oral cavity through monitoring and measurement conducted at the Central Research Center, home visit observation, and ultrasonic tomography (echo). The Group has been also jointly conducting observation and research with medical doctors on breastfeeding of babies with low birth weights.

■ For all babies

Pigeon produces nursing bottles and nipples in order to "allow all babies enjoy a better suckling." Moreover, the Group has been developing exclusive products so that for infants with low birth weight or special needs can also suckle milk with limited effort required. Regarding "nipples for infants with

low birth weight", we reduced the size of the teat so that even babies with small lips may hold naturally the nipple in their mouth.

Also, we created a "nursing bottle specially designed for babies with cleft

lips and/or palates" by providing them with an ingenious selection of their structure, shape, and even bottle. These activities reflect Pigeon's ongoing support for breastfeeding exercise for babies lacking strength to suckle milk on their own.



Child-rearing and nursing care information

In modern Japan, with the emergence of the nuclear family, there are many mothers who have nobody to consult when faced with anxieties about child-rearing. To address such difficulties, Pigeon aims through its business activities to reduce and even eliminate the anxieties and inconveniences our customers face while raising a child. To this end, the Company provides a wide range of services and information, not only through its products but also through its website and events. For example, we operate Pigeon.info, a community website that serves as a forum for customers raising children around Japan to exchange and gather helpful information. As for nursing care, we introduce our products and describe how to use them according to specific purpose and scenario, by providing the "Guide for Pigeon Tahira's Health and Nursing Care Products," which even beginners can easily understand.

For the Environment

Basic approach to environmental protection

The Pigeon Group regards global warming as a very serious problem and is committed to preventing such warming and realizing a sustainable society. In addition to complying with relevant laws, such as the Energy Saving Act and Law Concerning the Promotion of Measures to Cope with Global Warming, each year we step up Groupwide environmental initiatives. These include establishing energy-efficient systems and various specific activities. As a maker of daily commodities, the Group is committed to ensuring that its products do not have a bad effect on the global environment, not only while in use but also after they are discarded. To this end, we pay meticulous attention at each stage of manufacture, including selection of raw materials and parts.

In addition to product-related initiatives, for the past 28 years we have held the annual Newborn Baby Commemorative Tree-Planting Campaign at the "Pigeon Miwa no Mori site", leased from Japan's Forestry Agency in a national forest near Hitachi-Omiya City. So far, more than 120,000 people have taken part in tree-planting activities, within a total plantation area greater than 33ha. Pigeon is responsible for the sustainable management of the part of the site until the trees are ready to be felled (around 50 or 60 years). Revenue raised from tree-felling will be donated to social benefit causes. As well as creating lifelong memories

for parents and children, the tree-planting campaign helps safeguard the environment by protecting the forest. It also contributes to educational awareness about global environmental protection.

Environmental initiatives

In Japan, the Tsukuba Office and PHP Hyogo Corporation earned certification in 2001 and 2006, respectively. Overseas, Pigeon Industries (Thailand) Co., Ltd. was received ISO-14001 certification in 2000, followed by Thai Pigeon Co., Ltd. in 2002. At our production facility in China, meanwhile, we have started trialing the use of solar and wind power generation on a small scale.

■ Environmental management certification

The Pigeon Group has obtained ISO-14001 certification for environmental management systems at many of its business operations and affiliated companies. Our environmental activities are not aimed simply at temporarily reducing the impact of our operations on the environment. By adopting the PDCA (plan-do-check-act) cycle as well, we work hard to maintain an upward spiral for our environmental management systems.

For Local Communities

From local activities to global development

The Pigeon Group has achieved harmonious coexistence with people in local communities through a positive communication approach, which fosters a sense of trust. As our business becomes more and more global in nature, we will broaden this approach and pursue related actions on a global scale.

[Japan]

■ Environmental benefits of tree-planting campaign

In 1986, Pigeon launched the Newborn Baby Commemorative Tree-Planting Campaign, and since 1987 it has held tree-planting drives on an annual basis, which in 2014 saw its 29th anniversary. Under the slogan "Raising Children, Raising Trees: The Spirit Is The Same," the campaign seeks to share the emotion and joy of childbirth with as many people as possible. It also serves to create forests and environments that will remain into the children's future. This ongoing initiative is helping to make people more conscious about the issues of environmental conservation. The campaign was launched in 1987 and has managed to plant so far more than 110,000 trees through 28 years of activity within a total plantation area greater than 33ha.



■ Supporting children's creativity

Pigeon is a supporter of the Tomorrow's Science Children's Art Exhibition, which encourages children, our future world leaders, to freely express their visions of future science. The exhibition is hosted by the Japan Institute of Invention and Innovation (JIII). Our involvement stems from an endowment made to JIII by Pigeon founder Yuichi Nakata in order to help foster children's creativity. The endowment funds prize money presented every year by the Institute to kindergartens attended by children who win the JIII Chairman's Award or the Excellence Award in the Kindergarten Section.



[Overseas]

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

Following the Sichuan Earthquake of 2008, our local Chinese subsidiary Pigeon (Shanghai) Co., Ltd. provided various aid, including donating funds for the reconstruction of a local elementary school. Construction of the school buildings proceeded smoothly, and an opening ceremony was held in December 2009 for the Pigeon Hope Elementary School in Meishan District of Sichuan Province. (In 2011, we revisited that school and spent time interacting with the students and delivering donated school equipment.) In 2010, we donated a school building to Huzhu Tu Autonomous County in Qinghai Province, in 2011 we donated a kindergarten building to Xinjiang Uygur Autonomous Region, and in 2012 we donated a school building to Yuping Dong Autonomous County in Guizhou Province. In August 2013, meanwhile, we held the groundbreaking ceremony for our sixth Pigeon Hope Elementary School, in an autonomous region of Inner Mongolia. In the future, we plan to continually donate primary school buildings at the pace of one building per year.

Our exchange-related activities are ongoing. In May 2012, for example, we invited teachers and students to attend a ceremony in Shanghai, commemorating Pigeon's 10th anniversary of doing business in China.



For Business Partners

Providing products to be appropriately used worldwide

An important raison d'être for Pigeon is to boost the profits of business partners who handle its products. In Japan, we have a diverse array of such business partners, including drugstores, specialty stores for babies, supermarkets, home centers, department stores, nursing homes, and hospitals. These partners handle a variety of Pigeon items, such as child care products, elder care products, and maternity products. Overseas, our offerings, mainly child care products, are sold via department stores, specialty stores for babies, and other stores. We receive acclaim as an exceptional company for the diversity of our offerings.

Support for raising children and women's social advancement

In our Child-rearing Support Services, we help employees of companies and government entities raise children, including through the operation of in-company child-minding centers, in which we are an industry leader.

Fair trading

In addition to its own CSR, the Pigeon Group believes that it must first win the understanding and support of its clients, who are important business partners, in order to promote CSR activities across the entire supply chain.

Regarding transactions with antisocial forces, we have already received confirmation from all business partners that they do not engage in such transactions and are taking stringent measures to ensure against such transactions from

occurring.

In addition, we are working to resolve various other issues across the supply chain, including such social issues as human rights and labor, as well as global environmental problems. To this end, we ensure that business partners understand the importance of legal compliance, as well as the need to work together with the Pigeon Group to meet the expectations of society.

Pigeon Partners Line

(Counter for compliance reporting and consultations for our business partners)

We established Speak Up as a reporting/consulting system for employees who learn of any compliance violation in the Company and other Group companies. In order to expand a system similar to Speak Up to our business partners as well, we established Pigeon Partners Line (a counter for compliance reporting and consultations for our business partners) in August 2008. Employees can use this line for compliance reporting and consultations if they suspect that actions deemed to infringe corporate ethics (compliance violations) are occurring in transactions made with the Company or other Group companies, or if such actions have bred their mistrust.

Human Rights

Policy of respecting human rights

The Pigeon Group cites "integrity" as one of the basic values to be observed by each and every employee. By "integrity," we mean embracing a feeling of sincerity, using correct policies to realize our mission, and striving to build "win-win" relationships with stakeholders instead of simply pursuing profit. It also means embracing and respecting diversity in such areas as human rights, gender, and customs.

Our Corporate Philosophy—the essence and core of our company—is "Love," and our Credo based on that philosophy is that "Only love can beget love." With this in mind, our employees constantly reflect on our Credo when performing their tasks.

Embracing diversity

One of our Corporate Ethics Policies is that "Pigeon shall respect its employees' human rights and personalities at all times, ensuring them discrimination-free, equal job opportunities and rewarding work environments, and offering them fair merit ratings to help their self-fulfillment."

In conjunction with its business growth on a global scale, the Pigeon Group is rapidly increasing the number of non-Japanese employees. Our aim is to create work environments in which employees of diverse backgrounds can excel, regardless of such aspects as gender, nationality, age, employment status, and income. For this reason, the Group undertakes a variety of activities to promote diversity.

Strengthening support for advancement of women

Now, more than ever, women are seeking to advance in the workplace, so creating an environment and corporate culture enabling women to truly excel is a crucially important priority for the Pigeon Group in its constant pursuit of "world-class business excellence."

Back in 2007, Pigeon received "Kurumin" accreditation as a "Child-rearing Support Company." We have also established and upgraded various childcare frameworks aimed at promoting advancement of women and encouraging men to participate in childcare, and more and more employees are making use of these systems. Going forward, we will step up our support for the advancement of women by strengthening efforts to improve women's employment and career consciousness and raise understanding of superiors and peers of the need to support female employees.



Lecture about balance between work and family

For Employees

Building motivating work environments and corporate culture

Pigeon recognizes that corporate value represents the summation of shareholder value, customer value, and employee value. In order to deliver high-quality products to the world, we must create an environment that motivates employees to work. If we don't take care of our employees, we cannot succeed in business. For this reason, we are upgrading various frameworks and systems to create an appropriate working environment, while building a corporate culture that helps employees perform their tasks more easily.

Previous to the enactment of the Law for the Equal Employment Opportunity of Men and Women, we established a corporate culture where there is no gender difference in the occupational course, and employees, including the president, are on last name followed by “-san” (Mr./Mrs.) terms with each other, thus avoiding calling each other by one's position.

Child-rearing support activities

As a company involved in baby and child care, Pigeon has constantly upgraded its systems for supporting the child-rearing activities of employees. Back in 1999, for example, we received an award from the Tokyo Metropolitan Government

for helping employees balance work and family life. We also implemented a 12-month parental leave system one year before it became a legal requirement in Japan. Female employees took advantage of this system as a matter of course, but it was not well utilized by male employees. For this reason, in February 2006 we adopted a new parental leave scheme offering one month's paid leave for men as a means of encouraging more men to take parental leave, prompting 15 male employees to take leave in the subsequent three-year period. Indeed, we are gradually progressing to the stage where parental leave for male employees becomes commonplace. (For the fiscal year ended January 2015, the ratio of men entitled to the one month's paid leave reached 21.1%). In addition to this, we focused on assisting women employees to smoothly return to work after childbirth, through programs for early reinstatement of women workers, monetary support for children waiting for admission to daycare, and the like. Going forward, we will continue creating work environments aimed at fostering employees who are well-versed in the subject of raising children.

Corporate Governance

Governance System

Since its public listing, Pigeon Corporation has strengthened corporate governance under its current management format underpinned by the Board of Directors and the Audit & Supervisory Board. To date, we have steadily improved our business results under this system, which we therefore deem to be functioning effectively.

Pigeon is a company with an Audit & Supervisory Board. As of April 2015, Pigeon's Board of Directors had nine members, including one outside director, and its Audit & Supervisory Board had four members, including two outside corporate auditors. In addition to the Board of Directors and Audit & Supervisory Board, the Company is enhancing corporate governance through its Management Committee, headed by the president, and its internal control system. In order to respond swiftly and appropriately to changes in the business environment, as well as achieve sustained growth and establish a solid operational foundation, the Board of Directors seeks to ensure rational and effective decision-making by management.

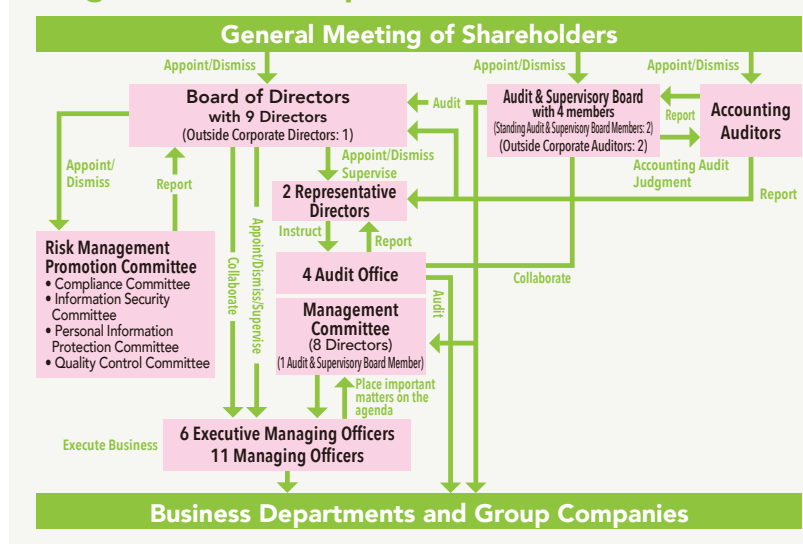
The Company continues working to enhance its corporate governance. On April 26, 2012, for example, we introduced a commissioned operating officer system to complement our existing managing officer system. Here, our aim was to ensure reciprocal collaboration between the governance (management decision-making and oversight) function and the business execution function, as well as to clarify the business execution responsibility of directors.

The Board of Directors is strengthening the control/oversight function of business execution by eliciting robust opinions from its outside directors, as well as from both inside and outside corporate auditors.

Outside directors offer advice on the Company's business strategies and otherwise fulfill a role in ensuring impartial decision-making and improving corporate governance. According to audit policy and allotment of duties, Pigeon's four corporate auditors (including two outside auditors) attend Board of Directors' meetings and other important meetings, where they listen to directors, view important resolution documents, examine the current status of business and financial assets, and otherwise conduct meticulous supervision and oversight.

Seeking to further strengthen corporate governance and raise corporate value, Pigeon appointed an outside director at its General Meeting of Shareholders, held on April 28, 2015. The new appointee, Mr. Takayuki Nitta, has valuable knowledge about business management based on a wealth of experience in business consulting and investment

Organization of Corporate Governance



management companies. We therefore believe he can provide advice on business strategies, ensure impartial decision-making, and help improve corporate governance.

To perform the management oversight function from an external perspective, the Audit & Supervisory Board has appointed two outside corporate auditors. Under the Companies Act, Audit & Supervisory Board members are given strong authority to audit and supervise the Company's directors, including the right to attend Board of Directors' meetings to voice their opinions and the authority to examine the Company's business operations and financial status. Moreover, they are guaranteed terms of four years.

The outside auditors are Mr. Shigeru Nishiyama, a graduate school professor and certified public accountant, and Mr. Shuji Idesawa, who is an attorney. Because both auditors are highly impartial and have specialist knowledge, their role

extends beyond compliance to include raising corporate value.

In addition to Board of Directors' meetings, the outside corporate auditors ask questions and provide opinions at face-to-face meetings with representative directors and other directors. Based on their independent viewpoints and impartial perspectives, they not only exercise their legally accepted authority to audit the legal appropriateness of business, but also fulfill a monitoring function by examining the suitability of business decisions.

Rather than be satisfied with the current situation, we will continue making improvements aimed at maximizing corporate value in the future, through ongoing communication with stakeholders, including shareholders and other investors.

■ Board of Directors, Auditors and Officers (As of April 28, 2015)

Executive Advisor and Member of the Board	Yoichi Nakata	
Chairman of the Board and CEO	Akio Okoshi	
President and COO	Shigeru Yamashita	
Director, Senior Managing Executive Officers	Eiji Akamatsu	In charge of: Supervision of Corporate Administration Div./ Supervision of Accounting & Finance Div./ Supervision of Human Resources & General Affairs Div./ Supervision of Audit Dept.
	Norimasa Kitazawa	Overseas Business Division Manager/ In charge of Supervision of China Business Div.
Director, Junior Managing Executive Officers	Kazuhisa Amari	Logistics Division Manager
	Yasunori Kurachi	In charge of: Supervision of Domestic Baby & Mother Care Business Div./ Supervision of Health Care & Nursing Care Business Div./ Supervision of Child-rearing Support Services Div.
	Tadashi Itakura	In charge of: Supervision of Research & Development Div./ Supervision of Quality Control Div./ Supervision of Customer Service Center
Outside Director	Takayuki Nitta	
.....		
Audit & Supervisory Board Members	Yasushi Takashima Hiroki Yuda	
Outside Audit & Supervisory Board Members	Shigeru Nishiyama Shuji Idesawa	
.....		
Managing Officers	Tsutomu Matsunaga Hiroyasu Maki Takatoshi Urakari Kaoru Kasahara Shinobu Iwamoto Nobuyuki Hashimoto Koji Ishigami	Corporate Administration Division Manager Accounting & Finance Division Manager Human Resources & General Affairs Division Manager Research & Development Division Manager Quality Control Division Manager Domestic Baby & Mother Care Business Division Manager Health Care & Nursing Care Business Division Manager/ President of Pigeon Tahira Co., Ltd.
	Ken Kaku Takanori Tsuru	China Business Division Manager Child-rearing Support Services Division Manager/ President of Pigeon Hearts Co., Ltd.
	Yusuke Nakata Hiroyuki Masunari	President of Pigeon Singapore Pte. Ltd. President of Pigeon Produtos Infantis Ltda.

*Mr. Shigeru Nishiyama and Mr. Shuji Idesawa are Outside Corporate Auditor stipulated in Item 16 of Article 2 of the Corporate Law.

*Mr. Takayuki Nitta is Outside Director stipulated in Item 15 of Article 2 of the Corporate Law.

Management's Discussion and Analysis

Financial Data

Management's Discussion and Analysis

Business Environment and Performance

Business Conditions in Fiscal 2014

The Pigeon Group made a new start as it embarked on its Fifth Medium-Term Management Plan, covering the three-year period to January 2015. The slogan of the plan is "Pursuing excellence, think globally, plan agilely, and implement locally." Under the plan, we have formulated "Vision 2016" aimed at expanding Group operations and improving management quality. Vision 2016 has five key objectives: (1) Reinforce brand power (become the Global Number One in childcare products); (2) Strengthen the management framework for continuous business development; (3) Improve management quality by focusing on cash flows; (4) Foster global human resources, construct a global personnel system, and promote employee dynamism; and (5) Further enhance enterprise value.

In fiscal 2014, the first year of the plan, we implemented the aforementioned business policies and pursued strategies for our various business and functions. As a result, consolidated net sales for the year amounted to ¥84,113 million, up 8.6% from fiscal 2013. Boosting our performance was continued healthy business growth overseas, especially in China.

Income Statement Analysis

The cost of sales ratio improved around 1.0 point year on year, thanks to enhanced capacity utilization of production facilities in line with business expansion, as well as higher net sales. Cost of sales rose 6.5% year on year, to ¥45,817 million. As a result, gross profit climbed 11.1%, to ¥38,296 million, growing at a higher rate than net sales.

Selling, general, and administrative (SG&A) expenses rose 5.9%, to ¥25,515 million. This was due mainly to increased personnel expenses in our overseas business, as well as our emphasis on efficiency of expenditures, including sales and marketing costs associated with cultivating new businesses. Operating income grew 23.3%, to ¥12,780 million, and the operating margin rose 1.8 point, to 15.2%. Among non-operating items, there was a ¥247 million year-on-year decrease in foreign exchange gains. As a result, ordinary income rose 20.9%, to ¥13,299 million. During the year, the Company undertook a voluntary product recall, which resulted in a loss on recall, reported as an extraordinary loss. Consequently, net income for the year increased 21.0%, to ¥8,451 million.

Sales by Segment (Consolidated)

(¥ millions)

	Jan. 2014				Jan. 2015				
	Amount	Percentage (%)	Gross Margin(%)	Segment income	Amount	Percentage (%)	YoY Change (%)	Gross Margin(%)	Segment income
Registered amount	77,465	100.0%	44.5%	10,365	84,113	100.0%	108.6%	45.5%	12,780
Domestic Baby & Mother Care Business	24,451	31.6%	45.8%	3,411	24,432	29.0%	99.9%	46.0%	3,752
Child-rearing Support Services	6,599	8.5%	11.5%	176	6,722	8.0%	101.9%	11.2%	189
Health Care & Nursing Care Business	6,721	8.7%	29.8%	212	6,761	8.0%	100.6%	28.7%	260
Overseas Business	20,305	26.2%	53.1%	4,152	23,373	27.8%	115.1%	53.7%	4,969
China Business	21,980	28.3%	42.9%	6,041	26,301	31.3%	119.7%	43.7%	7,525
Other	1,151	1.5%	20.5%	204	1,276	1.5%	110.8%	16.6%	173

The consolidated segment incomes are adjusted (they are all unclassifiable expenses), and are posted as operating income in the consolidated statements of income.

Performance by Segment

Domestic Baby & Mother Care Business

In fiscal 2014, sales in this segment totaled ¥24,432 million, down 0.1% from fiscal 2013. Segment income rose 10.0%, to ¥3,752 million. This resulted from a decrease in costs of our production subsidiary—thanks to increased production of items manufactured internally, including new products—as well as a decline in SG&A expenses stemming from a reassessment of marketing expenditures.

We launched a host of new products during the year. These included the "Mahalo laule'a" reversible stroller (launched in February 2014), designed to ensure baby comfort; in December 2014 we launched the new "Runfee" baby stroller, which runs smoothly over uneven ground thanks to its 16.5cm-diameter tires.

In the Internet shopping business, since July 2012 we have placed a Pigeon-brand store within Amazon.co.jp, a comprehensive online shopping site, enabling us to offer all of our products, from maternity items to baby-related products.

We also held various events as a part of our direct communications program. These included "Breast Feeding Seminars" for women expecting to give birth in the near future and "Working Women Meetings for Pregnancy Training" for those preparing for pregnancy.

Child-rearing Support Services

Sales in this segment rose 1.9% year on year, to ¥6,722 million. Segment income climbed 7.9%, to ¥189 million, as effective use of SG&A expenses compensated for increased recruitment costs caused by an ongoing shortage of childcare teachers.

During the year, we were newly entrusted to operate four in-company child-care facilities, bringing the total number of facilities under our management, including in the National Hospital Organization, to 190. We also improved the quality of our services, resulting in a healthy sales increase. Moreover, "Math-Program," a mathematical experience program introduced at our early childhood education centers in April 2014, has been well received. Going forward, we will step up our pursuit of highly specialized child-minding capabilities to address the distinctive characteristics of children. At the same time, we will strengthen our management framework to deliver greater levels of safety and peace of mind.

Health Care & Nursing Care Business

Amid intensifying competition in the consumables market, sales in this segment edged up 0.6% year on year, to ¥6,761 million. Despite proactive activities, we sought to effectively deploy SG&A expenses. Accordingly, segment income grew 22.9%, to ¥260 million.

In February 2014, we launched "Recoup Karuru", a new undergarment featuring improved comfort and urine leakage absorption while maintaining the functionality of existing

products. In August 2014, we released “No Spread Sheet”, a support product that addresses the fear of leakage when toileting. Meanwhile, users of “Sansan” day service centers operated by Pigeon Manaka Corporation continue to increase. During the year, Pigeon Manaka held training lectures for elder care staff. In October 2014, it received the “Kurumin” next-generation accreditation mark and was certified as a standards-compliant general business owner under the Law for the Promotion of Measures to Support the Development of the Next Generation.

Going forward, the Group will continue introducing highly competitive products in core priority categories. We will also intensify sales activities and strategies focusing on facility-based sales channels.

Overseas Business

Sales in this segment increased 15.1%, to ¥23,373 million, and segment income jumped 19.7%, to ¥4,969 million.

In North America, we continued upgrading our product categories, with the full-scale commencement of baby bottle sales in January 2014. We also worked to strengthen brand power as a company that provides total breastfeeding-related support, from breast pumps to storage of breast milk and breastfeeding itself.

In India, we continued proactive sales and marketing activities aimed at market proliferation of our brand. Going forward, we will further reinforce our sales and distribution systems in India, and establish a reliable product supply system for our mainstay products, including nursing bottles and nursing bottle nipples, in line capacity utilization at our factories.

In March 2014, we established a consolidated subsidiary in Brazil to conduct local market research with a view to market entry, and we will further expand our business in the future.

China Business

In this segment, sales rose 19.7% year on year, to ¥26,301 million. Segment income climbed 24.6%, to ¥7,525 million, despite an increase in marketing costs and other SG&A expenses.

Both revenue and earnings were boosted by steadily growing sales of nursing bottles and nipples, due to ongoing reinforcement of marketing and sales promotion activities, as well as more efficient utilization of production bases in China accompanying strong sales of existing products, including consumables. Through effective marketing initiatives, we aim to steadily expand sales in the future.

Other

Sales in this segment grew 10.8%, to ¥1,276 million, owing to increased orders for OEM products. Segment income declined 15.2%, to ¥173 million.

Financial Position

Assets

As of January 31, 2015, Pigeon had consolidated total assets of ¥72,367 million, up ¥14,411 million (24.9%) from a year earlier. Within this amount, current assets increased ¥47,027 million (33.0%), and fixed assets rose ¥25,339 million (12.2%). Main factors boosting current assets were a ¥8,488 million (64.8%) jump in cash and time deposits and a ¥2,709 million (21.6%) rise in notes and accounts receivable. The main factors boosting fixed assets were a ¥1,224 million (24.9%) increase in machinery and transportation equipment and a ¥563 million (9.0%) rise in buildings and structures.

Liabilities

Total liabilities at fiscal year-end stood at ¥25,069 million, up ¥7,096 million (39.5%) from a year earlier. Within this total, current liabilities increased ¥2,453 million (19.1%), and long-term liabilities surged ¥4,642 million (90.1%). The main factors boosting current liabilities were a ¥494 million (125.2%) jump in short-term borrowings, a ¥478 million (40.5%) increase in accrued expenses (included in “Other current liabilities”), a ¥379 million (32.8%) rise in income taxes payable, and a ¥377 million (11.1%) increase in accrued account payable. Main factors boosting long-term liabilities were a ¥3,916 million (194.7%) jump in long-term borrowings and a ¥682 million (28.9%) rise in deferred tax liabilities.

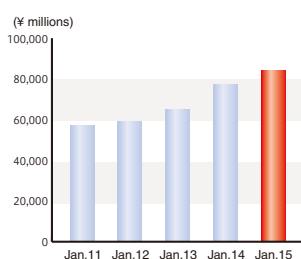
Net Assets

Consolidated net assets at fiscal year-end amounted to ¥47,297 million, up ¥7,315 million (18.3%) from a year earlier. This was due mainly to a ¥3,065 million (136.8%) surge in adjustment on foreign currency statement translation and a ¥4,453 million (16.5%) rise in retained earnings.

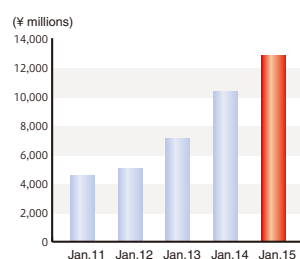
Sound Financial Position

At fiscal year-end, the Group had cash and cash equivalents of ¥21,590 million, and interest-bearing debt of ¥8,018 million, up ¥4,606 million (235.0%). The equity ratio remained high, at 63.8%. As these figures suggest, the Group is well positioned to make flexible and aggressive investments, including in M&As, even in the event of a global credit contraction.

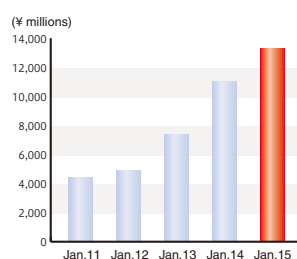
Net sales



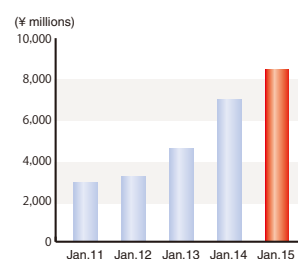
Operating income



Ordinary income



Net income



Cash Flows

Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥10,135 million, from ¥7,930 million in the previous year. Factors boosted operating cash flows included ¥13,140 million in income before income taxes and ¥1,914 million in depreciation. Contrasting factors included a ¥1,312 million increase in trade receivables and ¥3,444 million in income taxes paid.

Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥3,134 million, from ¥3,794 million in the previous year. Main factors included ¥2,682 million in acquisition of property, plant, and equipment.

Cash Flows from Financing Activities

Net cash used in financing activities was ¥150 million, from ¥3,163 million in the previous year. Main factors boosting cash flows included ¥1,390 million in proceeds from short-term borrowings and ¥5,000 million in proceeds from long-term loans payable. Contrasting factors included ¥1,000 million in repayment of short-term borrowings and ¥3,995 million in payment of cash dividends.

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 0.1 percentage point from a year earlier, from 19.7% to 19.8%. Return on assets (ROA) at fiscal year-end was 20.4%, down 0.3 percentage point from 20.7% a year earlier.

Pigeon Value Added (PVA) and Cash Conversion Cycle (CCC)

Seeking to increase enterprise value, we are mindful of free cash flow when conducting internal controls, and we employ an indicator called Pigeon Value Added (PVA), which is based on economic added value, to make various investment and other decisions and to make performance evaluations of each business segment. In fiscal 2014, invested capital totaled ¥55,315 million, compared with the fiscal 2013 amount of ¥43,393 million and our target of ¥48,338 million, resulting in a PVA spread of 8.7% (both fiscal 2013 result and fiscal 2014 target were 9.2%). The PVA for fiscal 2014 was ¥4,812 million, higher than the fiscal 2013 figure of ¥3,976 million and our target of ¥4,461 million.

In addition, the cash conversion cycle (CCC) in fiscal 2014 was 88.8 days, which was 10.0 days more than 78.8 days in fiscal 2013 and short of our target of 75.6 days.

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 Fifth Medium-Term Management Plan we plan to pay increased year-on-year cash dividends for each business period, targeting a consolidated total shareholder return of 45–50%. To this end, we will strive to further strengthen and upgrade measures for returning profits to all shareholders in a flexible manner, including through share buybacks.

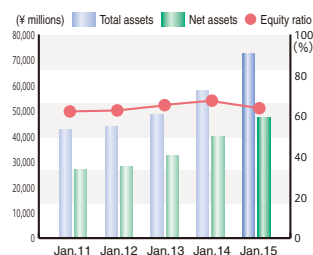
For the year, we paid an interim cash dividend of ¥45.00 per share and a year-end dividend of ¥60.00, bringing total annual dividends to ¥105.00 per share. This represents a ¥17.00 year-on-year increase after accounting for a two-for-one stock split effective August 1, 2013. The consolidated dividend payout ratio was 49.6%.

Outlook

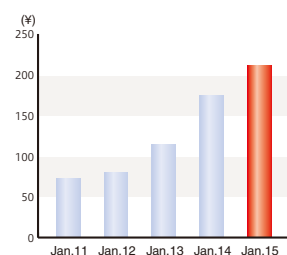
We have set the following consolidated performance targets for fiscal 2015, the second year of the plan: Net sales of ¥92.0 billion (up 9.4% year on year), operating income of ¥13.9 billion (up 8.8%), ordinary income of ¥14.0 billion (up 5.3%), and net income of ¥8.9 billion (up 5.3%).

(In this annual report, statements other than historical or present-day facts are regarded as future forecasts. Such future forecasts reflect the Pigeon Group's hypotheses and judgments based on information currently available, and thus contain discernable and unpredictable risks, uncertainties, and other factors that may impact on the Group's performance and financial position.)

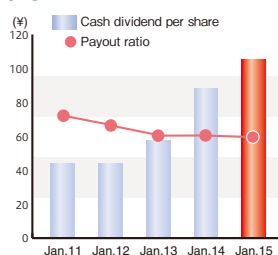
Total assets/Net assets/Equity ratio



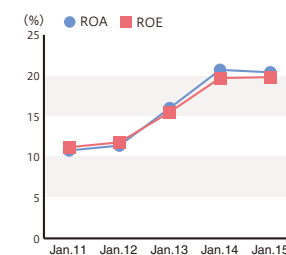
Net income per share



Dividend per share/Dividend payout ratio



ROA/ROE



Note: The Group carried out a 2-for-1 stock split with respect to its common stock, effective as of August 1, 2013. Figures for number of shares have been calculated assuming this stock split was conducted at the beginning of the fiscal year ended January 2010.

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

Financial Data

Consolidated Balance Sheets

(¥ millions) (US\$ thousands)

Item	Period	Jan. 2011	Jan. 2012	Jan. 2013	Jan. 2014	Jan. 2015	Jan. 2015
Assets							
Cash and Time Deposits		6,827	7,293	10,574	13,102	21,590	204,103
Notes and Accounts Receivable		9,874	9,993	10,540	12,569	15,278	144,432
Inventories		—	—	6,776	8,052	8,498	80,337
Goods and Products		4,549	5,332	4,816	5,350	5,899	55,767
Other Current Assets		2,911	2,823	3,171	4,340	4,258	40,253
Total Current Assets		24,162	25,443	29,103	35,363	47,027	444,574
Tangible Fixed Assets		15,409	15,058	16,208	19,023	21,383	202,146
Intangible Fixed Assets		1,188	1,285	1,176	1,441	1,724	16,298
Investment Securities		1,316	1,344	1,420	1,448	1,531	14,473
Investments and Other Assets		1,924	1,985	2,051	2,127	2,232	21,100
Total Fixed Assets		18,521	18,329	19,435	22,591	25,339	239,544
Total Assets		42,684	43,772	48,538	57,955	72,367	684,127
Liabilities							
Notes and Accounts Payable		3,984	3,758	3,864	4,518	4,462	42,182
Accrued Account Payable		2,687	2,755	3,179	3,401	3,778	35,716
Income Taxes Payable		561	704	1,134	1,155	1,535	14,511
Accrued Employees' Bonuses		537	587	606	782	783	7,402
Other Current Liabilities		4,455	4,577	2,832	2,962	4,714	44,564
Total Current Liabilities		12,227	12,382	11,615	12,818	15,272	144,375
Long-Term Borrowings		1,615	1,642	2,204	2,011	5,928	56,041
Long-Term Liabilities		1,798	1,812	2,353	3,143	3,869	36,576
Total Long-Term Liabilities		3,413	3,454	4,557	5,154	9,797	92,617
Total Liabilities		15,640	15,836	16,173	17,973	25,069	236,992
Shareholders' Equity							
Capital Stock		5,199	5,199	5,199	5,199	5,199	49,149
Additional Paid-in Capital		5,180	5,180	5,180	5,180	5,180	48,970
Retained Earnings		18,451	19,873	22,686	26,929	31,383	296,682
Treasury Stock		(447)	(448)	(450)	(455)	(942)	(8,905)
Net Unrealized Gain (Loss) on Securities		11	10	26	30	36	340
Adjustment on Foreign Currency Statement Translation		(1,861)	(2,386)	(970)	2,240	5,306	50,161
Minority Interests		510	507	693	856	1,132	10,701
Total Net Assets		27,044	27,935	32,365	39,981	47,297	447,126
Total Liabilities and Net Assets		42,684	43,772	48,538	57,955	72,367	684,127

Note: Figures in U.S. dollars are calculated, for convenience only, at the exchange rate of ¥105.78=U S\$1.00.

Equity Ratio, ROA/ROE

(%)

	Jan. 2011	Jan. 2012	Jan. 2013	Jan. 2014	Jan. 2015
Equity Ratio	62.2	62.7	65.3	67.5	63.8
ROA	10.8	11.4	16.0	20.7	20.4
ROE	11.2	11.8	15.5	19.7	19.8

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.

Consolidated Statements of Income

Item	Period						(¥ millions)	(US\$ thousands)
		Jan. 2011	Jan. 2012	Jan. 2013	Jan. 2014	Jan. 2015	Jan. 2015	
Net Sales		57,061	59,145	65,075	77,465	84,113	795,169	
Cost of Sales		33,780	34,826	37,314	43,000	45,817	433,135	
Gross Profit		23,281	24,319	27,760	34,464	38,296	362,034	
Selling, General and Administrative Expenses		18,734	19,276	20,674	24,098	25,515	241,208	
Operating Income		4,546	5,042	7,086	10,365	12,780	120,817	
Other Income		372	373	656	974	923	8,726	
Other Expenses		484	499	352	337	404	3,819	
Ordinary Income		4,435	4,917	7,389	11,002	13,299	125,723	
Extraordinary Income		20	19	7	8	8	76	
Extraordinary Losses		86	213	26	24	167	1,579	
Income before Income Taxes		4,369	4,723	7,369	10,986	13,140	124,220	
Income Taxes		1,331	1,463	2,128	3,077	3,768	35,621	
Adjustment for Corporate Tax		21	(10)	526	705	734	6,939	
Minority Interest in Net Income of Consolidated Subsidiaries		88	87	140	217	185	1,749	
Net Income		2,928	3,183	4,573	6,985	8,451	79,892	

Note: Figures in U.S. dollars are calculated, for convenience only, at the exchange rate of ¥105.78=US\$1.00.

Consolidated Statement of Cash Flows

Item	Period						(¥ millions)	(US\$ thousands)
		Jan. 2011	Jan. 2012	Jan. 2013	Jan. 2014	Jan. 2015	Jan. 2015	
Cash Flows from Operating Activities		3,206	4,212	7,656	7,930	10,135	95,812	
Cash Flows from Investing Activities		(3,949)	(1,871)	(1,848)	(3,794)	(3,134)	(29,628)	
Cash Flows from Financing Activities		886	(1,776)	(3,149)	(3,163)	(150)	(1,418)	
Translation Gain (Loss) Related to Cash and Cash Equivalents		(220)	(98)	622	1,556	1,637	15,476	
Net Change in Cash and Cash Equivalents		(77)	465	3,280	2,528	8,488	80,242	
Cash and Cash Equivalents at Beginning Year		6,905	6,827	7,293	10,574	13,102	123,861	
Cash and Cash Equivalents at End of Year		6,827	7,293	10,574	13,102	21,590	204,103	

Note: Figures in U.S. dollars are calculated, for convenience only, at the exchange rate of ¥105.78=US\$1.00.

Per Share Data

						(¥)	(US\$)
	Jan. 2011	Jan. 2012	Jan. 2013	Jan. 2014	Jan. 2015	Jan. 2015	
Net Income (yen)	73.1	79.5	114.2	174.5	211.6	2.0	
Cash Dividends (yen)	44.0	44.0	57.5	88.0	105.0	1.0	
Payout Ratio (%)	60.1	55.3	50.3	50.4	49.6		
Total Net Assets (yen)	662.8	685.2	791.2	977.5	1,156.3	10.9	

The Group conducted a stock split at the ratio of 2 shares for every 1 share of common shares.

The effective date of the stock split was August 1, 2013.

The stock split is reflected in the amount of the EPS and the year-end annual dividends for the year ended January 31, 2010.

Employees

						(persons)
	Jan. 2011	Jan. 2012	Jan. 2013	Jan. 2014	Jan. 2015	
Employees	2,678	2,963	3,304	3,458	3,617	

Corporate Information

Corporate Information

■ Corporate Data (As of January 31, 2015)

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	•••••••• (Consolidated) 3,617 persons, (regular and contract employees in the main unit of the Group) 963 persons

■ Consolidated Subsidiaries

- Pigeon Home Products Corporation
- Pigeon Hearts Corporation
- PHP Hyogo Corporation
- PHP Ibaraki Corporation
- Pigeon Tahira Corporation
- Pigeon Manaka Corporation
- Pigeon Singapore Pte. Ltd.
- Pigeon India Pvt. Ltd.
- Pigeon Malaysia (Trading) Sdn. Bhd.
- Pigeon (Shanghai) Co., Ltd.
- Pigeon Manufacturing (Shanghai) Co., Ltd.
- Pigeon Industries (Changzhou) Co., Ltd.
- Lansinoh Laboratories, Inc.
- Lansinoh Laboratories Medical Devices Design Industry And Commerce Ltd. Co.
- Lansinoh Laboratórios Do Brazil Ltda.
- DoubleHeart Co., Ltd.
- Pigeon Produtos Infantis Ltda.
- Pigeon Industries (Thailand) Co., Ltd.
- Thai Pigeon Co., Ltd.

■ Equity Method Affiliate

- P.T. Pigeon Indonesia

■ Stock Data (As of April 30, 2015)

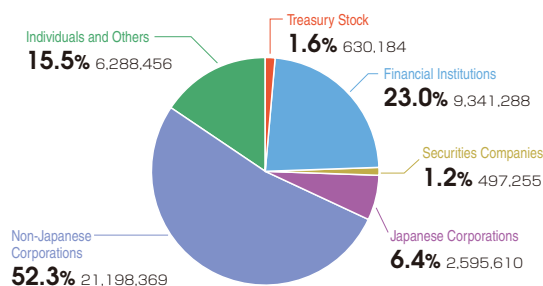
- Shares Authorized 120 million
- Shares Issued..... 40,551,162
- Number of Shareholders..... 11,104
- Treasury Stock 630,184

■ Ten Largest Shareholders (As of April 30, 2015)

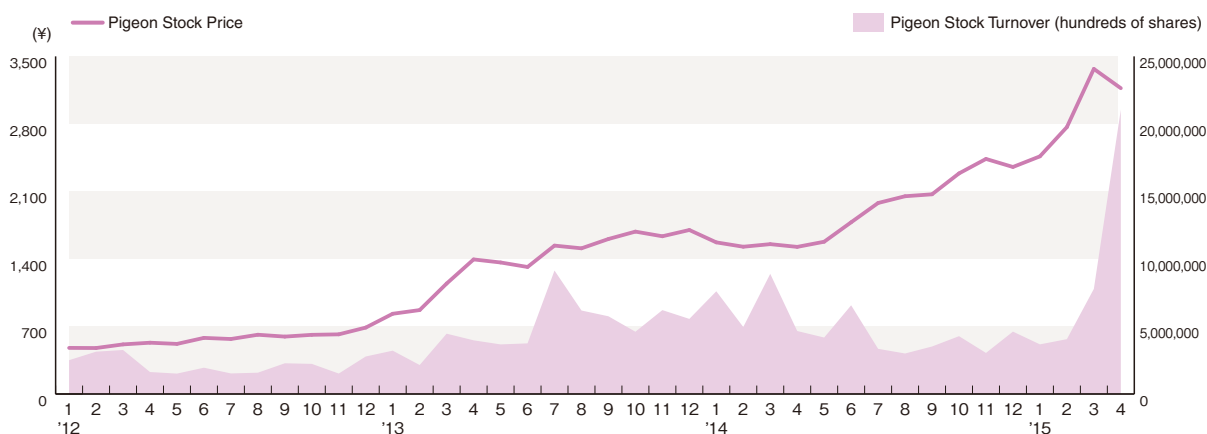
Shareholder's Name	Shares Held (thousands)	Ownership* (%)
State Street Bank and Trust Company 505041	2,761	6.80
Japan Trustee Services Bank, Ltd. (Trust Account)	2,507	6.18
BBH Matthews Asia Dividend Fund	2,377	5.86
BNP Paribas Sec Services Luxembourg/Jasdec/Aberdeen Global Client Assets	1,876	4.62
Yoichi Nakata	1,847	4.55
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,601	3.94
State Street Bank and Trust Company	1,091	2.69
Y.N Corporation	1,000	2.46
The Bank Of New York, Non-Treaty Jasdec Account	847	2.08
HSBC Bank plc - Clients Nontax Treaty	712	1.75


*Percentage of Ownership figures are based on 40,025,510 shares (40,551,162 shares issued and outstanding, minus 630,184 shares of treasury stock).

■ Shareholder by Type



■ Stock Price Range/Turnover of Common Stock



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Brief outline of investor information including business, strategies, performance and stock data.


Shared@research
Click here for Shared Research Inc. research report.

"Our Love to Your Baby and People who Need Assistance."
This is our corporate philosophy.



Investor News

- May 13, 2015 [Corporate Governance Report](#)
- May 01, 2015 [Extraordinary Report](#)
- April 20, 2015 [Announcement Regarding Partial Revision of Basic Internal Control Policy](#)
- April 06, 2015 [Notice of 58th Ordinary General Meeting of Shareholders](#)
- March 30, 2015 [Notice Regarding a Stock Split, Partial Amendment of the Articles of Incorporation, and Revision of Dividend Forecast](#)
- March 04, 2015 [Summary of Results of Fiscal Year ended January 2015](#)
- March 02, 2015 [Notice Regarding Appointment of Candidate for Outside Director](#)
- March 02, 2015 [Notice Regarding Dividends \(Dividends Increase\) for Retained Earnings in the Year Ended January 31, 2015](#)
- March 02, 2015 [Summary of Financial Results for the Fiscal Year Ended January 31, 2015 \(Japanese Standard\) \(Consolidated\)](#)
- January 13, 2015 [Notice Regarding Change of Name of Chinese Subsidiary, Increase in Capital Participation in Sakti Subsidiary and Change of its Business Format to Management Corporation](#)

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Brief outline of investor information including business, strategies, performance and stock data.


Shared@research
Click here for Shared Research Inc. research report.

What is the Pigeon Way?


The "Pigeon Way" is the cornerstone of all our activities. It embodies our "heart and soul" and sets the grounds for our actions to stream from this core.

Pigeon Way

<p>Corporate Philosophy Love</p>	<p>Credo Only love can baget love</p>
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<p>Vision To be the baby product manufacturer most trusted by the world's babies and families, i.e. "Global Number One"</p>	<p>Mission We will bring joy, happiness and inspiration to babies and families around the world by providing them with products and services that embody love.</p>
<p>Action Principles</p> <ul style="list-style-type: none"> • Agility • Keep sight of consumers • Global collaboration among management individuals 	<p>Values</p> <ul style="list-style-type: none"> • Integrity • Communication, Consent, Trust • Passion

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Corporate Movie


Click on the image to watch the video.

Full version (16 minutes 9 seconds)


This video introduces an important vision of Pigeon - "We will be foremost in supporting mothers, babies, and families by creating products made with love that's as strong as the love for our own children."



You can see in each part.



Pigeon Corporate Movie "Great"



Pigeon Corporate Movie "The"

Pigeon Website
<http://english.pigeon.co.jp/>

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As part of our ongoing support to the reconstruction efforts in the Tohoku region, we enlisted a design company from Tohoku to create this issue.



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