




60
years

Annual Report 2016

For the year ended January 31, 2016






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) joined 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"> ▶ 1991 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), joined 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"> ▶ 1974 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				

Pigeon Annual Report 2016 Contents

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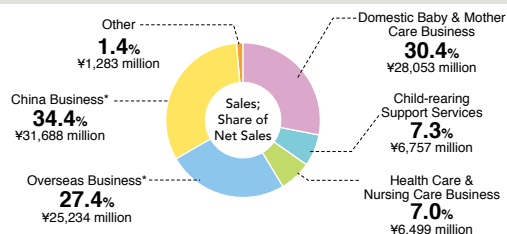
2000~	2010~
<ul style="list-style-type: none"> ▶ 2000 Seiichi Matsumura appointed President and Chief Operating Officer; Yoichi Nakata appointed Chairman and Chief Executive Officer ▶ 2002 PHP Hyogo Corporation joined the Pigeon Group ▶ 2006 Head office relocated to Nihonbashi-Hisamatsu-cho, Chuo-ku, 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 Pigeon Way formulated
<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 ▶ 2015 Runfee baby stroller that runs smoothly over uneven ground launched 
<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 ▶ 2015 Pigeon Kids World Yoga opened
<ul style="list-style-type: none"> ▶ 2000 Pigeon Manaka Corporation established ▶ 2004 Tahira Corporation (now Pigeon Tahira Corporation) joined 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 ▶ 2015 Sano Day Service Center opened 
<ul style="list-style-type: none"> ▶ 2004 Lansinoh Laboratories, Inc. in USA joined 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 Lansinoh Laboratories, Inc. in the USA acquired mOmma business ▶ 2011 Lansinoh Laboratories, Inc. in the USA similarly acquired the earth friendly baby brand Pigeon Malaysia Trading Sdn. Bhd. established in Malaysia ▶ 2012 DoubleHeart Co. Ltd. established in South Korea ▶ 2014 Lansinoh Laboratórios Do Brazil Ltda. established in Brazil ▶ 2015 Pigeon India Pvt. Ltd. plant established in India Lansinoh Laboratories Benelux established in Belgium ▶ 2016 Lansinoh Laboratories Shanghai established in China
<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 	

**About this
annual report**

The Pigeon Group (Pigeon Corporation and its consolidated subsidiaries) seeks to maximize economic and social value through communications with all stakeholders, including shareholders and other investors. This document, which contains reports on management strategies, as well as business and CSR activities, is designed to deepen people's understanding of corporate value created by the Pigeon Group. We hope you find it informative.

At a Glance

Consolidated Net Sales: ¥92,209 million

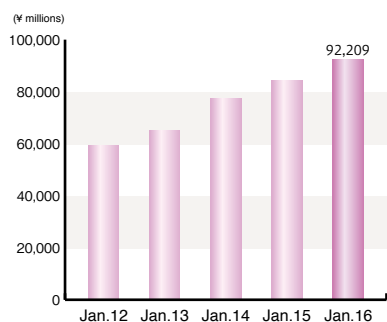


Business Categories

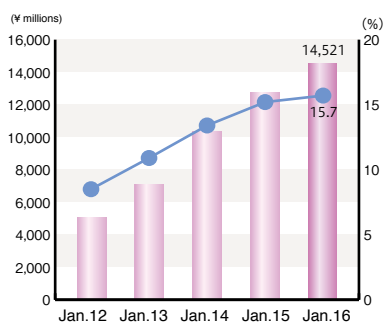
	Products; Services	Business Environment; Our Competitive Edge
Domestic Baby & Mother Care Business	<p>Breastfeeding-related products, weaning-related products, skincare products, women's care products, other products for babies and mothers, large-sized products</p> 	<p>Based on half a century of research into breastfeeding and early childhood development, we have gained an in-depth understanding of babies' growth processes and identified areas of concern in child-rearing. This has led to our development and launch of numerous high-quality products, resulting in widespread recognition of Pigeon as a leading company in the industry and a very strong and prominent brand. Going forward, we will expand our business with a focus on large-sized products centered on baby strollers.</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, event child-care services, preschool education services</p> 	<p>An increasing number of women want children but 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 our Child-rearing Support Services. Leveraging Pigeon's reputation for safety, peace of mind, and reliability acquired in baby and child-care products, we will earn the confidence of customers by offering high-quality services as one of Japan's largest companies in the sector.</p> <p>Affiliated Companies Pigeon Hearts Corporation</p>
Health Care & Nursing Care Business	<p>Elder care products, anti-aging products, elder care support services</p> 	<p>To address continuously increasing elderly care costs, the national government amended the nursing care insurance system by raising the personal contribution to nursing care insurance and tightening preconditions for moving into special elderly nursing homes, reflecting a policy shift from care in institutions to at-home care. As the market steadily increases in size, we will entrench various measures, including introduction of new, competitively superior products and raising the quality of nursing care services.</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>Spearheaded by Lansinoh Laboratories, Inc., based in the U.S. state of Virginia, we are expanding our business in the United Kingdom, Germany, and elsewhere in Europe. Going forward, we will strengthen our brand while upgrading our nursing bottles and other product categories. In Asia, meanwhile, we expanded our production base in Thailand while building a distribution system and broadening our sales network in India.</p> <p>Affiliated Companies Pigeon Singapore Pte. Ltd., Pigeon Malaysia (Trading) Sdn. Bhd., Lansinoh Laboratories, Inc., Lansinoh Laboratories Medical Devices Design Industry and Commerce Ltd. Co., Lansinoh Laboratórios Do Brasil Ltda., Lansinoh Laboratories Benelux, Lansinoh Laboratories Shanghai, Pigeon India Pvt. Ltd., Pigeon Industries (Thailand) Co., Ltd., Thai Pigeon Co., Ltd., P. T. Pigeon Indonesia (equity-method affiliate)</p>
China Business	<p>Baby and mother related products</p> 	<p>In China, a huge nation with annual childbirths of 15–17 million, 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 nursing bottles and nipples, toiletries, and high-end skincare 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.</p> <p>Affiliated Companies Pigeon (Shanghai) Co., Ltd., Pigeon Manufacturing (Shanghai) Co., Ltd., Pigeon Industries (Changzhou) Co., Ltd., Doubleheart Co. Ltd.</p>

Key Performance Indicators

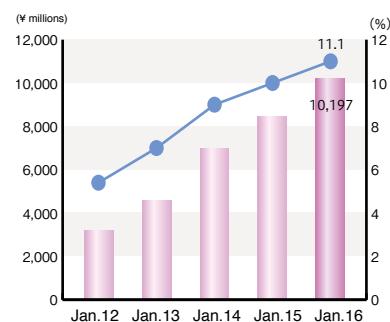
Net Sales



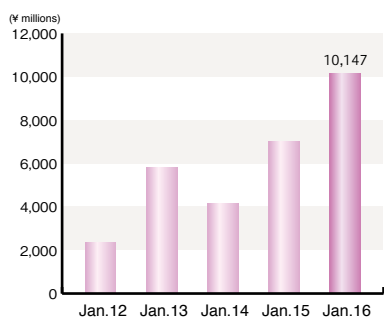
Operating Income



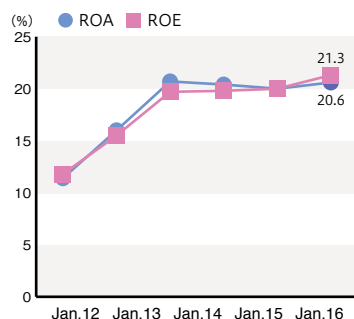
Net Income



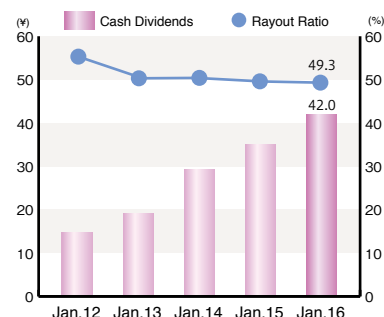
Free Cash Flows



ROA/ROE



Cash Dividends/Payout Ratio



Performance Highlights

	Jan. 12	Jan. 13	Jan. 14	Jan. 15	Jan. 16	Jan. 16 (Note 1)
Net Sales	59,145	65,075	77,465	84,113	92,209	761,429
Gross Profit	24,319	27,760	34,464	38,296	43,345	357,944
Gross Profit/Net Sales	41.1	42.7	44.5	45.5	47.0	
Operating Income	5,042	7,086	10,365	12,780	14,521	119,909
Operating Income/Net Sales	8.5	10.9	13.4	15.2	15.7	
Ordinary Income	4,917	7,389	11,002	13,299	15,080	124,525
Ordinary Income/Net Sales	8.3	11.4	14.2	15.8	16.4	
Net Income	3,183	4,573	6,985	8,451	10,197	84,203
Total Assets	43,772	48,538	57,955	72,367	73,943	610,595
Net Assets	27,935	32,365	39,981	47,297	50,792	419,422
Free Cash Flows	2,341	5,807	4,135	7,001	10,147	83,790
ROA (%) (Note 2)	11.4	16.0	20.7	20.4	20.6	
ROE (%) (Note 2)	11.8	15.5	19.7	19.8	21.3	
EPS (yen) (Note 3)	26.51	38.09	58.17	70.55	85.15	0.7(US\$)
Cash Dividends per Share (yen) (Note 3)	14.67	19.17	29.33	35.00	42.00	0.3(US\$)
Payout Ratio (%)	55.3	50.3	50.4	49.6	49.3	
Employees (persons)	2,963	3,304	3,458	3,617	3,743	

Notes: 1. Figures in U.S. dollars are calculated, for convenience only, at the exchange rate of ¥121.10=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 split of common stock, effective August 1, 2013, and a 3-for-1 split of common stock, effective May 1, 2015. Figures in the above tables have been calculated assuming those stock splits were conducted at the beginning of the fiscal year ended January 2012.

Fiscal 2015 Topics

In the year under review, the Pigeon Group again achieved steady growth. In addition to expanding our business globally, we significantly improved corporate value while maintaining honest and sincere communication with all stakeholders.

“Premige” baby stroller launched

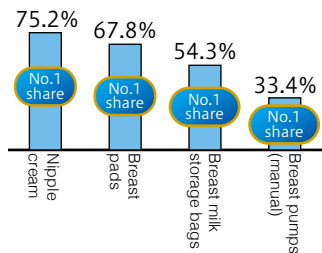
Having significantly increased its share of the baby stroller market since launching “Runfee” in January 2015, Pigeon unveiled its “Premige” premium baby stroller in December 2015. Numerous media personnel gathered for the product launch, where we introduced new functions and features, including “Mama Hugging Suspension.” Ms. Yoshino Kimura, a renowned actress and image character for Premige, spoke about her impressions on using the baby stroller. In February 2016, we launched “Runfee ef,” an upgraded version of Runfee.



Healthy sales in China, North America, and Europe

Recently, Lansinoh Laboratories, Inc., based in Virginia, United States, has been increasing sales of breastfeeding-related products in North America and Europe, complementing China’s position as a growth driver for the Pigeon Group’s overseas business. Lansinoh Laboratories, which became a wholly owned subsidiary in 2004, has long held the top market shares in the United States for nipple cream, breast pads, breast milk storage bags, and manual breast pumps. It is also progressively increasing sales in Europe by broadening its market territory, centering on United Kingdom, Germany, and Turkey. In January 2017, we are scheduled to complete a new factory in Turkey in order to upgrade Lansinoh Laboratories’ production system. Going forward, we will continue reinforcing our sales system to create a business growth pillar second to China.

Market Share by Product in North America (2015)



Corporate Value Improvement Award received by TSE

Pigeon Corporation received the prestigious Grand Prize at the fiscal 2015 “Corporate Value Improvement Awards” hosted by the Tokyo Stock Exchange (TSE). The awards, targeting all TSE-listed companies (around 3,500), recognize those that practice “corporate value improvement management” by incorporating in-depth measures, including those related to cost of capital, from the perspectives of investors. The award was given in recognition of Pigeon’s practice of “corporate value improvement management” at a particularly high level. This includes the Company’s positioning of Pigeon Value Added (PVA, equivalent to net operating profit after tax minus the cost of capital) as an independent performance indicator that expresses the financial amount of corporate value generated in excess of capital cost, as well as unified efforts to improve PVA and delivery of real outcomes.



Dear Stakeholders

Dear Stakeholders



PIGEON



山下 茂

Shigeru Yamashita

President and Chief Operating Officer

Guided by "Pigeon Way," we will focus on the keywords of "total optimization" and "speed" to become Global Number One.

Celebrating 60 years

In 2016, we celebrated 60 years since our founding in 1957. Throughout our history, we have evolved and grown under our Corporate Philosophy of "Love" and our Credo of "Only love can beget love." I would like to take this opportunity to thank all of our stakeholders, including customers, shareholders and other investors, business

partners, and employees.

Guided by "Pigeon Way," formulated in 2014, today we are working constantly to improve enterprise value, committed to becoming the "Global Number One" manufacturer of baby and child-care products. We look forward to your ongoing support.

Accolades for our "corporate value improvement management"

In January 2016, Pigeon Corporation received the most prestigious "Grand Prize" at the fiscal 2015 "Corporate Value Improvement Awards" hosted by the Tokyo Stock Exchange (TSE). The awards, targeting all TSE-listed companies (around 3,500), recognize those that practice "corporate value improvement management" by incorporating in-depth measures, including those related to cost of capital, from the perspectives of investors.

At Pigeon, we regard improvement in "corporate value" as improvements in both "social value" and "economic value."

"Social value" means our ability to deliver joy and happiness to society and our target customers by solving problems and providing new levels of value. In other words, our "social value" increases as we become an indispensable part of society. Key to generating such value is our workforce. Employees must have the ability to develop and make products and create new levels of value emphasizing brand power and diversity, as well as form good relationships with stakeholders and contribute to society by reducing environmental impacts and the like. Employees, the core and essence of our company, must also share our philosophies on a global level and work in a motivated fashion.

On the other hand, increasing free cash flow efficiently

and consistently into the future leads to increased "economic value", we believe. This requires increases in operating income (to be more precise, net operating profit after tax, or NOPAT), as we also actively utilize other performance indicators, notably return on equity (ROE), cash conversion cycle (CCC), and Pigeon Value Added (PVA, a cash flow indicator for NOPAT minus the cost of capital). In these ways, we are leveraging assets that are difficult to imitate—such as business model, marketing power, and knowledge unique to Pigeon—to create enterprise value.

The aforementioned award was given in recognition of Pigeon's practice of "corporate value improvement management" at a particularly high level, given the Company's positioning of PVA as an independent performance indicator that expresses the financial amount of corporate value generated in excess of capital cost, as well as unified efforts to improve PVA and delivery of real outcomes. While I personally am very happy to accept this award, I stress that is a reflection of the efforts we are making, and that there are many areas in which we can still improve corporate value. So rather than rest on our laurels, we will continue pushing forward in the pursuit of enhanced corporate value.

Leveraging “Pigeon Way” to entrench corporate philosophy management

In March 2014, we formulated the “Pigeon Way” as a document embodying fundamental values and behavioral principles that have been passed down to Pigeon over the generations. In addition to our Corporate Philosophy (“Love”) and our Credo (“Only love can beget love”), we have a Corporate Mission, which 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.’” We also have three Values, which are important attributes for all Pigeon employees, and five Action Principles, which are basic guidelines driving all of our actions. Then we have our Vision, which is “To be the baby product manufacturer most trusted by the world’s babies and families, i.e. ‘Global Number One.’”

In the past two years, I and my fellow officers have visited the Group’s various operations to explain and discuss the significance and inherent meaning of Pigeon Way, and we have made good progress in spreading understanding throughout the Group. To ensure that Pigeon Way is more than a slogan, we have also incorporated it into the personal goals of each employee in Japan, and we have built a system in which employees take actions reflecting their awareness of Pigeon Way in their day-to-day duties, and submit reports accordingly. I have often personally witnessed scenes in which employees refer to Pigeon Way when promoting an argument, and outcomes of Pigeon Way’s formulation and introduction are visible everywhere.

Personally, I judge the progress of Pigeon Way from three perspectives. The first pertains to Pigeon’s *raison d’être*: What is the purpose of our work? In other words, how can we fulfill our mission? The second perspective, an outcome of the first, asks: What type of economic value can we improve? And the third perspective inquires: Are

Pigeon’s employees feeling motivated?

Social value and economic value have a mutually complementary relationship, and if we can intertwine them effectively we can create a positive cycle that leads to sustained growth. If employees, the source for creating social value, work with purpose and inspiration, good things will happen, leading to growth in economic value and increased free cash flows.

Every year, we employ an outside research firm to conduct a fixed-point observation of employee motivation. When the research was first done three years ago, it was noted that employee satisfaction levels were already high, but these have improved with each ensuing year, which is very helpful feedback.

As we target the Global Number One position, our business continues to grow rapidly as we open bases in new nations and regions. On the organizational side, we are promoting reforms aimed at realizing our Global Head Office (GHO)—tasked with reinforcing our corporate center functions, such as business planning, accounting and finance, and personnel and general affairs—and our four Strategic Business Units (SBUs) separated by region: Japan, China, Europe/Americas, and Asia. Pigeon Way serves as the cornerstone enabling our various operations, spread throughout the world, to make judgments based on swift decision-making. Drawing on similar yardsticks and criteria, can we make decisions with “speed” from the perspective of “overall optimization”? These two keywords—“overall optimization” and “speed”—are important to achieving Global Number One status. For this reason, we will leverage Pigeon Way to further entrench corporate philosophy management.

Fifth Medium-Term Business Plan progressing well; continued year-on-year growth in sales and income in fiscal 2015

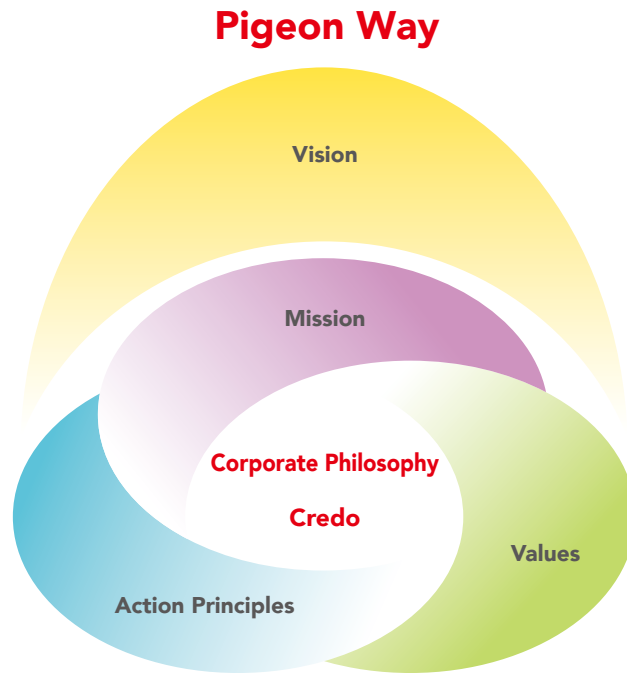
Fiscal 2015 was the second year of our Fifth Medium-Term Business Plan, covering the three years to January 2017. The slogan of the plan is “Pursuing world class business excellence, think globally, plan agilely, and implement

locally.” Under the plan, we have determined five key medium-term business objectives: (1) Become the Global Number One in child-care products; (2) Strengthen the management framework for continuous business

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**

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. With these in mind, we are focusing on expanding Group businesses and improving management quality.

In fiscal 2015, consolidated net sales increased 9.6% year on year, to ¥92,209 million, thanks to growth of our Overseas Business and the Domestic Baby & Mother Care Business segment. The cost of sales ratio improved around 1.5 points year on year, thanks to enhanced capacity utilization of production facilities in line with business expansion, as well as higher net sales. Accordingly, operating income grew 13.6%, to ¥14,521 million, ordinary income rose 13.4%, to ¥15,080 million, and net income climbed 20.7%, to ¥10,197 million, marking year-on-year

increases for all key income indicators. Return on equity (ROE) reached a record-high 21.3%.

Seeking to strengthen our business systems, which have strong regional ties, we shifted the businesses of various regions, previously controlled from Japan, to establish a sales and marketing system that better reflects our changing product flows. Specifically, our businesses in South Korea, Taiwan, Hong Kong, the Philippines, Russia, and elsewhere are now under the jurisdiction of the China Business Division, while our business in Latin America is now controlled by Lansinoh Laboratories. For this reason, our business results in some regions will change from the previous year due to segment reclassification.

Research and Development

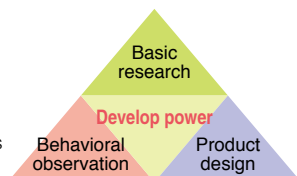
■ Pigeon Research and Development

Pigeon's R&D activities center on basic research, behavioral observation, and product design. In the field of breastfeeding research, in particular, have observed the behavior of infants continuously for more than 50 years in an effort to clarify how infants drink when breastfeeding. At the core of such R&D activities is our Central Research Center, which was opened in 1991 in Tsukuba Mirai City, Ibaraki Prefecture. The work of the Center, which is staffed by around 110 people, encompasses research, development, and quality control—for products sold both in Japan and overseas.

Today, Pigeon's product group has expanded greatly. Our behavior observation has also broadened to include such themes as maternity products and items for the elderly. Every day, we work our hardest to solve the problems of people leading a variety of different lifestyles.

Product development expertise: Pigeon's core competence

A company's "core competence" is its inherent ability to provide one-of-a-kind levels of value to customers in a way that other companies cannot imitate.



(Reference: The Core Competence of the Corporation, Gary Hamel and C.K. Prahalad)

■ Basic Research and Achievements

Our baby shoes are a good example of a best-selling product to emerge from basic research conducted at the Central Research Center. This product required eight years of research before its launch in 2003. Pigeon's core products—nursing bottles and nipples—are the result of suckling-related research extending back more than 50 years since its establishment. We have been expanding our body of knowledge on the suckling movements established by Pigeon well before, which consists of the three principles of "adsorption," "suckling," and "swallowing." One finding from this research has been applied to a new nursing bottle nipple called Bonyu Jikkan. Launched in spring 2010, this product has been highly acclaimed by customers.



Overseas Business

The aforementioned shift of our businesses in South Korea, Taiwan, Hong Kong, the Philippines, Russia, and elsewhere to the China Business Division had no impact on the results of the Overseas Business Division. However, thanks to significant sales growth in Europe and North America—regions controlled by Lansinoh Laboratories—sales in the Overseas Business Division segment increased 8.0%, to ¥25,234 million (up 16.8% under the previous segment classification).

In Europe and North America, we achieved sales increases across all product categories, but our breast pumps showed particularly strong growth, and our manual pumps attained the No. 1 share in North America for the first time. Going forward, we will target growth of this

category into a business pillar following our other No. 1 products in North America, namely, breast pumps, nipple cream, breast pads, and milk bags. In Europe, we achieved sales growth in our three main markets—United Kingdom, Germany, and Turkey. In the year to January 2017, we plan to build a new plant in a free trade zone within Turkey, so we can exploit the geographical advantage of being next-door to Europe, which we believe will give impetus to business expansion in the region.

In May 2015, we began shipping Pigeon's flagship products—nursing bottles and nipples—from our local production plant in India. More than 10,000 outlets, centering on pharmacies, currently handle our products in India. We are confident of turning a profit in the year to

Overseas Research and Development

Overseas Business and R&D

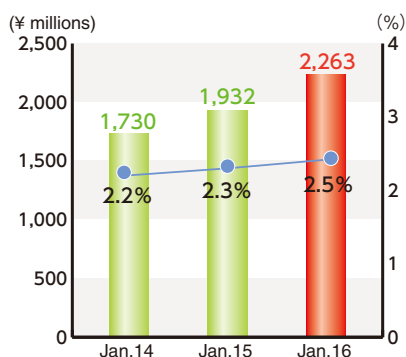
In 2016, we celebrate 60 years since our establishment. Over the years, we have created a diverse range of products based on research into breastfeeding and other aspects of child development. Overseas, we have successfully marketed the same products that were originally known in Japan for their high quality and advanced technological functions. This has enabled Pigeon to satisfy customers and earn their trust in overseas markets, such as China.

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.

New 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 permits consistent product quality assurance across the Pigeon Group.

R&D expenditure/ R&D expenditure ratio to net sales



January 2017, and we will expedite growth in that huge market, where childbirths number around 27 million annually. In Singapore, meanwhile, our high-end baby skincare line, "Newborn Pure," has been well received

since its launch. For these and other reasons, our overseas business posted generally healthy growth.

■ Domestic Baby & Mother Care Business

Growth in the baby stroller category, purchases by inbound foreign visitors, and other factors made significant contributions to growth of the Domestic Baby & Mother Care Business segment in the year under review. Calendar 2015 saw an upturn in childbirths for the first time in five years, giving a sense that the downward trend may be ending. Against this background, we enjoyed a sharp increase in our share of the baby stroller market thanks to the warm reception of our "Runfee" series, launched in January 2015. We developed "Runfee" with a focus on

ensuring a smooth ride, to address the stress felt by many mothers when going out due to the impact of uneven ground. We also enjoyed higher sales of baby food and maintained our overwhelming No. 1 share in mainstay products, such as nursing bottles and nipples and breast pads. As a result, segment sales grew 14.8% year on year, to ¥28,053 million. We are very pleased with the performance of our baby strollers. This is a priority category that we have fostered with the aim of making it a new sales pillar.

■ China Business

In the year under review, some regions previously controlled by the Overseas Business Division were transferred to the China Business Division. During the year, we also reported steady growth in sales of nursing bottles and nipples. Accordingly, the China Business Division posted sales of ¥31,688 million, up 20.5% year on year. While concern about economic slowdown seems to be affecting local stock markets, we feel that the purchasing power of Chinese consumers is definitely not declining. Pigeon is already known widely in China as a high-quality,

reliable brand, and sales of our highly profitable mainstay offerings, such as nursing bottles and nipples, are not losing momentum at all. Having said that, we recognize that the purchasing patterns of consumers have changed in recent years, with a trend away from traditional retail stores to online purchases via e-commerce sites. To address this trend, we will actively embrace e-commerce in an ongoing effort to broaden our business in China as an income pillar and growth driver for the Pigeon Group.

■ Child-rearing Support Services; Health Care & Nursing Care Business

In fiscal 2015, we enjoyed increased sales and income in our Overseas Business, Domestic Baby & Mother Care Business, and China Business segments. However, the Child-rearing Support Services segment reported higher sales and lower income, and the Health Care & Nursing Care Business posted declines in both sales and income. In the Child-rearing Support Services segment, we were newly entrusted to operate four in-company child-care

facilities, and we opened a new Kids World preschool education center, but higher personnel expenses and other factors led to a decline in segment income. A revision to Japan's nursing care insurance system in April 2015 led to a decline in nursing care insurance payments, prompting care facilities to suppress purchases and giving rise to price wars. Such headwinds made business development more difficult.

Year ending January 2017: Forecast for increased sales and income

Fiscal 2016, ending January 2017, is the final year of our Fifth Medium-Term Business Plan. For the year, our consolidated forecasts are net sales of ¥95.0 billion (up 3.0% year on year), operating income of ¥15.0 billion (up 3.3%), ordinary income of ¥15.3 billion (up 1.5%), and net income of ¥10.4 billion (up 2.0%). For the year, we assume that the yen will become progressively stronger, so compared with the year under review, when the weak yen had a positive effect, our growth may appear to be slow. If we exclude foreign exchange factors (using the same rate as fiscal 2015), however, our consolidated net sales forecast for fiscal 2016 would be close to the ¥100 billion target set under the Fifth Medium-Term Business Plan.

Over the past 10 years, the Pigeon Group has achieved a compound annual growth rate (CAGR) for consolidated net sales of 8.2%. In the past five years, CAGR has been 11.7%, representing a continuation of very strong growth. Moreover, the trend of our core business is not changing significantly. In addition to Japan, we are achieving steady growth in local-currency terms in China, Europe, and North America, and I believe we will continue posting healthy growth.

Broadly speaking, we will focus on three core areas in fiscal 2016: e-commerce in China, breast pumps in Europe and North America, and large-sized products in the Domestic Baby & Mother Care Business segment. Given that young people are the driving force for consumption growth in China, it is essential that we actively embrace e-commerce. In Europe and North America, our share of

the breast pump market is growing, and we will foster this category into a new business pillar. In Japan, we will continue focusing on baby strollers, for which we have set a high 20% target for market share. At the same time, we will foster child seats and other large-sized products.

In overseas markets, we are focusing on India and Russia as the next growth regions after China. We are confident of turning a profit in India in fiscal 2016, our seventh year of doing business there. We have already started making nursing bottles and nipples at our plant in India, and over the medium term we will expand our business so that the plant fulfills a role as a production base not just for India but surrounding nations as well. In Russia, we are working with powerful local maternity hospitals and doctors and have built a framework in which they can recommend our products. As a result, we achieved a 1.5-fold jump in sales in fiscal 2015. We will leverage our strengths in nursing bottles and nipples, which are future priorities, to expand our business in the Russian market.

In fiscal 2016, we forecast year-on-year increases in sales and income for both the Child-rearing Support Services segment and the Health Care & Nursing Care Business segment. For the latter, in particular, it will be a year of survival. For a start, we will strive to achieve our segment income target of ¥0.4 billion, up 186% year on year.

* CAGR (compound average growth rate) is geometric mean signifying average growth rates over multiple-year time periods.

China Business: Forecasting year-on-year increases in sales and income through full-scale response to e-commerce

Pigeon has achieved dramatic business growth in China since establishing a local subsidiary there in 2002. In the year ending January 2017, we forecast a 2.6% year-on-year increase in sales of the China Business, to ¥32,518 million (11.1% increase in local-currency terms), again accounting for more than 30% of consolidated net sales and making China a major business pillar for the Pigeon Group. Since practically all of its products are manufactured locally,

moreover, the China Business has a structure conducive to boosting high profitability thanks to local manufacturing benefits that deliver a high capacity utilization rate. Accordingly, our business in China makes a significant contribution to total Group earnings, and this situation will not change.

Growing concerns about slowdown in the overall Chinese economy are partially affecting stock markets. A close look

at our actual business in China, however, reveals that macroeconomic trends have virtually no impact on our business there. In fact, we feel that the purchasing power of consumers has remained unchanged.

Looking at business conditions for the baby care product sector in China, we note that the government's long-held "one child policy" was abolished in 2015. Moreover, 2016 is the "Year of the Monkey," a year in which giving birth is regarded as good luck. Accordingly, business conditions are definitely not looking bad.

Over the past year, meanwhile, one major change in the Chinese business environment has been the explosive growth of e-commerce. Driving the ongoing expansion of e-commerce are young people in their 20s and 30s—Pigeon's target market—so we are actively embracing e-commerce as a sales channel to augment traditional baby product specialty stores. We firmly believe that this will generate major business growth in China. We will also make a full-scale entry into the cross-border e-commerce sector, which has been difficult to grasp, to address expansion in inbound demand. By complementing current

retail store sales through proactive sales via the fast-growing e-commerce channel, we hope to generate an 11.1% year-on-year sales increase in China on a local-currency basis in the year to January 2017.

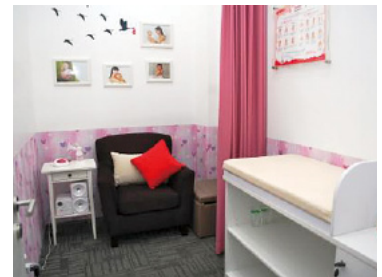
In China, as in Japan, when customers feel that our products are good, they will spread the information through word of mouth, leading to purchases by other customers. Another major purchasing motivation similar to Japan is recommendations from specialists, such as doctors and nurses in hospitals. Comments 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 a collaboration with China's Ministry of Health to promote breastfeeding, we are also opening breastfeeding advice offices in large hospitals and clinics in various regions. As of January 31, 2016, we had such 58 offices, up from 45 a year earlier. Combined with our meticulous direct communication approach, we now have a business model in China that is difficult to imitate.



E-commerce site (China)



Breastfeeding room (Mexico)



Breastfeeding room (Malaysia)



Breastfeeding room (China)



Breastfeeding room (Russia)

Proactive shareholder return

Cash generated through our business activities is returned to shareholders after retaining funds necessary for growth, which is a priority. We are targeting a consolidated return of 45–50% under our Fifth Medium-Term Business Plan, with year-on-year increases in cash dividends in each fiscal period. Based on this policy, we declared cash dividends of ¥42.00* per share for the year under review, for a dividend payout ratio of 49.3%. In the year ending January 2017, we plan to pay dividends of ¥44.00 per share, up ¥2.00 year on year. (Please refer to note at bottom of page 3.)

Over the three-year period of the Fifth Medium-Term Business Plan, we expected to generate ¥27.0 billion in net

cash from operating activities. Of this amount, we planned to make ¥15.0 billion in investments (¥11.5 billion overseas and ¥3.5 billion in Japan). Now, however, we forecast that net cash from operating activities will exceed our assumption. Also, we postponed our initial plan to invest in a second plant in China to make disposable diapers. Accordingly, we will have more cash in hand than expected. Regarding this surplus portion, as we formulate our Sixth Medium-Term Business Plan we will look at how we can return cash to shareholders after taking into consideration the availability and need for investments over the next few years.

Strengthening our corporate governance system; appointment of two outside directors

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 strengthened corporate governance via the Ordinary General Meeting of Shareholders by appointing Mr. Rehito Hatoyama, who has plentiful experience in overseas business expansion, as our second outside director. He joins our existing outside director, Mr. Takayuki Nitta, who has a wealth of experience in business consulting and investment management companies. Mr. Nitta has provided various pieces of advice and forged lively discussions based on the perspective of investors and his own rich knowledge, thus energizing the Board of Directors. With the addition of Mr. Hatoyama, who has abundant overseas business experience, we are very confident that our global business development efforts will be strengthened.

We also recently added a new internal member to the Board of Directors: Mr. Kevin Vyse-Peacock, CEO of Lansinoh Laboratories, a subsidiary of the Company. Under our Sixth Medium-Term Business Plan, scheduled to start in the next fiscal year, we wish to fully incorporate new knowledge in our quest to become a truly global entity.

With respect to promoting female executives, 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. From the perspective of optimal corporate governance, it should be a matter of strengthening our team of directors in a way that helps enhance corporate value. From the perspective of diversity, I personally and fully acknowledge the issue of having no female directors. At present, we have not found anyone qualified to be a director, but a look at our female promotion reveals that women account for around 20% of Pigeon's overall management positions, and around 30% of those women serve as general managers. We hope to resolve the issue of female directors in the next few years.

To make the workplace more accessible for women, 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." As a part of "workplace mindset reforms," we have a parental leave system called "One Month Together," in which fathers can take one month of leave to spend caring for newborn babies. This system, which is available to male staff, gives employees the opportunity to experience first hand the excellent aspects of Pigeon's products and areas that require



improvement. Also, first-hand experience of the challenges of raising children gives employees a better understanding of the perspectives and feelings of customers and matters that worry them.

Despite our thoughts and aims, the fact is that our parental leave system was not being adequately utilized, so I sent a message encouraging employees to take full advantage of it, and now the our parental leave take-up ratio is 100%. Compared with the 2% average in Japan and 13% in the United States, we are proud of our 100%

achievement, which reflects that we are making successful improvements in creating friendly workplace environments.

Going forward, we will continue seeking an optimal governance system for Pigeon while drawing on our own thinking, which we believe will lead to improved corporate value. 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 Group Activities

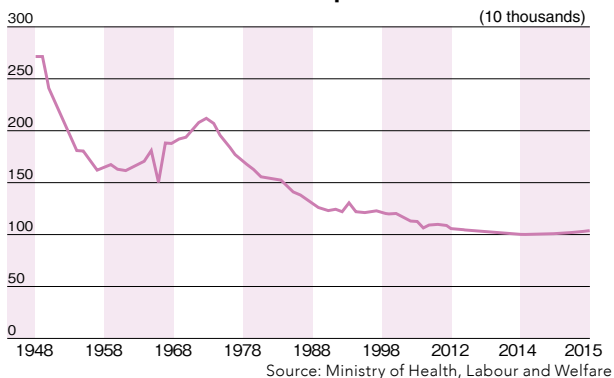
Pigeon Group Activities

Domestic Baby & Mother Care Business

Business Environment

In 2015, the total number of births in Japan was 1,008,000 (according to 2015 estimation of population dynamics by the Ministry of Health, Labour and Welfare), up around 4,000 from 2014 and signaling a pause in the downward trend. In 2015, the economy remained on a recovery path, buoyed by improvements in corporate earnings and employment conditions, as well as flourishing inbound demand from foreign tourists. From the consumer's perspective, however, uncertainty about the future remains amid oligopolization of retailers and rising costs of social security and daily necessities, so the business environment will continue to defy optimism.

Number of Childbirths in Japan



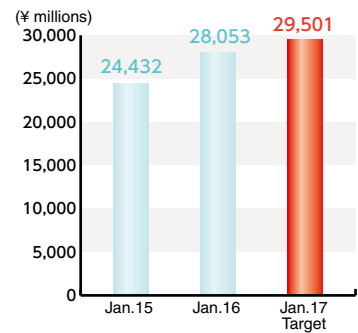
Our Competitive Edge

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



Wide variety of baby and mother care-related products

Sales of Domestic Baby & Mother Care Business



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.

Business Strategy

In the year under review, we introduced competitive new offerings into the market and focused on achieving steady growth in baby strollers and other large-sized products. We also stepped up our approach to the maternity market through our ongoing direct communication policy.

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 expanding our product lineup for the maternity market in order to meet the diversifying needs of customers. We are also striving to maintain and 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 are 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 have been fostering, back in 2012 we launched the "Contento" rear-facing baby stroller designed with the baby's feelings in mind, as well as the "Solacica" baby stroller featuring a high-positioned seat and A-shaped, face-to-face configuration. In February 2014, we launched the "Mahalo laule'a" reversible stroller, designed to ensure baby comfort. This was followed by the "Runfee" baby stroller, which runs smoothly over uneven ground thanks to its 16.5cm large-diameter tires. Market share for "Runfee" has been growing sharply since its launch in January 2015. In July 2015, we added a new color to the "Runfee" range, and in December 2015 we unveiled "Premige," a premium baby stroller that provides a smooth, pleasant ride.

Performance and Highlights

In fiscal 2015, sales in the Domestic Baby & Mother Care Business segment amounted to ¥28,053 million, up 14.8% from the previous year. Segment income rose 16.8%, to ¥4,383 million, despite an increase in cost of sales stemming

from rising costs of imported raw materials due to the yen's depreciation.

We introduced a host of new products during the year. In February 2015, for example, we launched "Breast Milk Power Plus" and "Breast Milk Power Plus Tablet" breastfeeding supplements for breastfeeding mothers and their babies. In July 2016, we added a new color to "Runfee," our baby stroller that easily overcomes ground-level differences, and in December we launched "Premige," a premium baby stroller that provides a smooth ride. Sales and market share are growing steadily as a result.

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 seminars for healthcare professionals about breastfeeding while parenting. In fiscal 2015, we held a total of 38 such events, with participation from around 2,800 people.

We will continue targeting progress in providing customers more accessible information, including updates of merchandise information via "Pigeon Info," a website that supports women during pregnancy, in childbirth, and while raising children.

Outlook

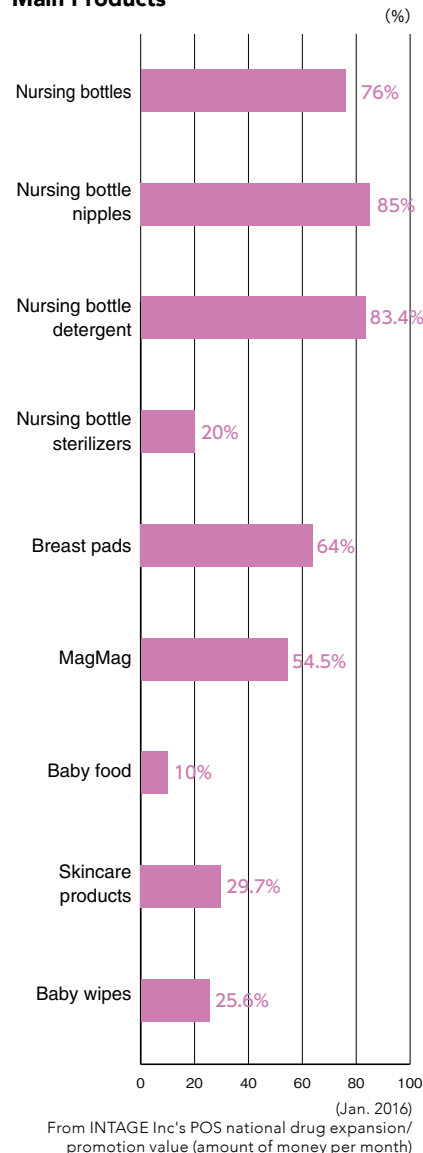
The birthrate in Japan is not expected to increase significantly in the future. To achieve growth amid such conditions, Pigeon will deploy its strengths in basic research to develop highly distinctive products while reinforcing existing businesses to raise profitability. With respect to baby strollers and other large-sized products, we will actively promote our products and implement marketing strategies to expand our business. Our objective is to raise Pigeon's share of Japan's baby stroller market to 20% in value terms. In existing categories, such as nursing bottles and nipples, we will expand sales of high-value added products and introduce new offerings. Through these measures, we forecast sales in the Domestic Baby & Mother Care Business segment of ¥29.5 billion for the year ending January 2017.

Average Monthly Expenditures per Infant

Segment	2011	2012	2013	2014	2015
Baby formula	1,203	994	828	1,020	855
Baby foods	755	645	572	587	652
Cow's milk	259	354	360	302	311
Snacks	494	578	576	597	570
Other (foods)	1,380	1,632	1,741	1,616	1,760
Subtotal (foods)	4,094	4,203	4,077	4,123	4,148
Clothes, underwear, shoes, etc.	2,558	2,483	2,679	2,530	2,497
Cloth diapers, diaper liners, etc.	149	160	120	154	169
Disposable diapers	3,117	3,002	3,176	3,169	3,128
Subtotal (clothes, diapers)	5,824	5,646	5,974	5,853	5,794
Medical treatment	755	705	912	1,715	1,031
Toys	1,313	1,240	1,137	1,291	1,205
Picture books	469	467	372	464	322
Subtotal (toys, picture books)	1,783	1,707	1,509	1,755	1,527
Breastfeeding, baby food crockery	324	292	343	442	330
Bathing/hygiene accessories	1,146	1,080	1,285	1,505	1,294
Subtotal (breastfeeding, baby food crockery, bathing, hygiene)	1,470	1,372	1,628	1,947	1,625
Outing products, furniture, beds, etc.	2,362	2,087	1,987	2,803	2,215
Total	16,291	15,719	16,087	18,196	16,340

Source: Figures compiled by Pigeon.

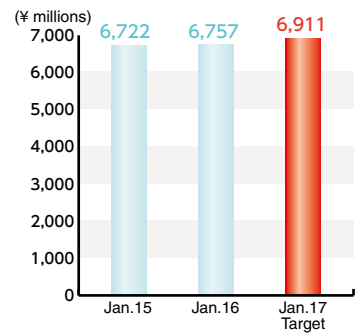
Domestic Market Share of Pigeon's Main Products



Pigeon Group Activities

Child-rearing Support Services

Sales of Child-rearing Support Services



Business Environment

There is 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. In response, the national government introduced three measures, including laws supporting children and child-rearing and certified daycare centers, in August 2012 and fully implemented the “Comprehensive Support System for Children and Child-Rearing” in April 2015.

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 kindergartens will be established and a variety of child-care 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. Pigeon has earned the trust of parents 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 staff with high levels of awareness and competence working within safe and secure systems. 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 ¥6,757 million, up 0.5% from the previous year. Segment income declined 21.7%, to ¥148 million, due mainly to increased personnel expenses.

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 189. We are currently operating those facilities while improving the quality of our services. In the preschool education field, we also opened a new Kids World center in Yoga, Tokyo.

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

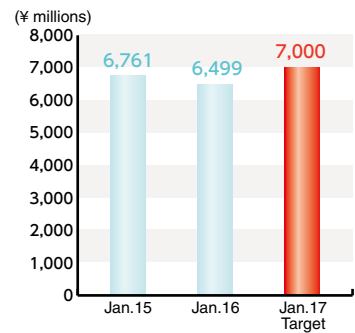
The Pigeon Group is considering a reassessment of its business structure according to a growth strategy targeting improved profitability. We will also continue working to maintain and improve business quality by fostering and educating child-minding personnel. At the same time, we will further upgrade our crisis management systems. Through these measures, we forecast sales in the Child-rearing Support Services segment of ¥6.9 billion for the year ending January 2017.



Child-minding facility

Health Care & Nursing Care Business

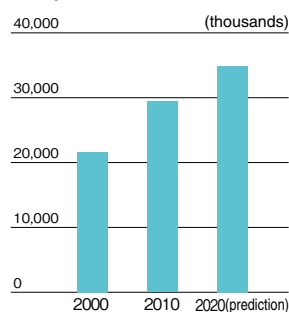
Sales of Health Care & Nursing Care Business



Business Environment

Japan's population is aging rapidly while the number of births declines. When baby boomers born between 1947 and 1949 began entering the 65-plus age bracket in 2015, it is estimated that this group's population had grown to 33,840,000, equivalent to 26.7% of the total population (according to September 2015 statistics). This means that one in every four Japanese is now at least 65 years old—the highest level among the world's advanced nations.

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



Moreover, there are more than 10 million people aged 80 and over, and to address continuously increasing elderly care costs, the national government amended the nursing care insurance system in April 2015, thus clarifying its policies for the system, covering everything from institutions to at-home care. These policies include raising the personal contribution to nursing 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. In response, we will continue working relentlessly to introduce competitive new products and enhance the quality of our nursing care services.

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 providing health and elder care services, centering on Tochigi Prefecture.

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.

In our nursing care business, which we launched in 1975, Habinurse is our brand for nursing care products. We sell these products through retail store and institution/hospital sales channels, and we are working comprehensively to meet the needs of people receiving care in facilities or in their homes.

Performance and Highlights

Due to declining sales to facilities stemming from a revision of the nursing care insurance system, as well as intensifying competition in the consumables market, sales in Health Care & Nursing Care Business segment declined 3.9% year on year, to ¥6,499 million. Segment income fell 46.1%, to ¥140 million.

In February 2015, Pigeon Tahira released "Assista Ease I and II" wheelchairs for seniors. Both products help users keep a straight posture and enable comfortable sitting for long periods of time. In April, we added a new citrus green scent to the "Kaori Kakumei" series of indoor air fresheners. This spray-type room air freshener for nursing care use changes fecal and urinary odors into pleasant scents. During the year, Pigeon Manaka opened the Sano Day Service Center. We will continue introducing competitive new products while taking measures to improve the quality of our nursing care services.

Outlook

The role of the Health Care & Nursing Care Business in the Pigeon Group is essentially to increase earnings. By stepping up initiatives with sales agents, we will target sales and business growth. At the same time, we will promote better efficiency of our business operational system, which will lead to improved profitability.

We forecast sales in this segment to ¥7.0 billion in the year ending January 2017.

Pigeon Group Activities

Overseas Business

Business Overview

In fiscal 2015, we sought to strengthen our sales/marketing system, which has close regional ties. Specifically, the Latin American market, previously under the jurisdiction of Japan, was taken over by Lansinoh Laboratories, while South Korea, Taiwan, Hong Kong, the Philippines, and Russia, previously handled by the Overseas Business Division, were moved to the jurisdiction of the China Business Division, including for disclosure purposes.

Despite the aforementioned changes in segment composition, the Overseas Business segment posted an 8.0% year-on-year increase in sales, to ¥25,234 million, while segment income rose 12.3%, to ¥5,579 million.

In May 2015, we began shipping Pigeon's flagship products—nursing bottles and nipples—from our local production plant in India. Going forward, we will continue strengthening our sales and distribution systems. In addition, we are steadily expanding sales of breastfeeding-related products, including such flagship products as breast pads, breast pumps, and milk bags, in North America and Europe. In Europe, meanwhile, we plan to establish a new plant in Turkey in January 2017, thus strengthening our production system. We will also broaden our business by reinforcing our sales organizations in the United Kingdom, Germany, and elsewhere.

Business Strategies

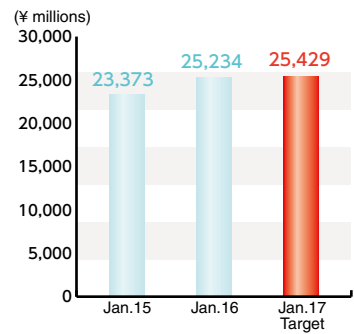
Our competitive advantage in overseas markets derives from two key strengths. One is the appeal of our products. We conduct basic research into "matters that concern our customers," and make products accordingly. At the same time, we hold seminars for healthcare professionals and mothers at retail stores to permit a first-hand understanding of our product appeal. Looking ahead, we will advance this business model, already established in Japan, across our overseas operations.

Another strength is teamwork with high-quality business partners. To develop our overseas business, it is extremely important that we build good relationships with local partners—including distributors and retailers—with excellent local knowledge. 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 action where necessary.

Outlook

In our Overseas Business, we will cultivate and entrench our

Sales of Overseas Business



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 target further improvements in profitability by promoting in-house product manufacturing and making capital investments accordingly.

With respect to advancing the Lansinoh brand, we will expand sales of the Pigeon Group's mainstay products—nursing bottles and nipples—in North America and Europe, and we are planning a full-scale entry into the Chinese market. With the opening of a new plant in Turkey, meanwhile, we will establish and reinforce our production system and target business growth in Europe.

Looking to Asia, we will continue and step up branding activities in India in order to achieve business growth. We will also consider production for export at our new Indian plant to raise productivity and further improve profitability through increased capacity utilization.

Through these initiatives, we forecast sales in the Overseas Business segment of ¥25.4 billion in the year ending January 2017. (This assumes an exchange rate of ¥115.00 per U.S. dollar, compared with a rate of ¥121.10 per U.S. dollar in the year under review.)

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 "lactation 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.

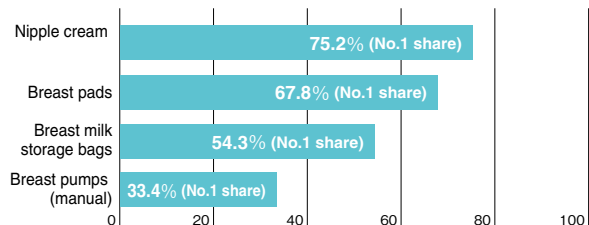
In April 2004, Pigeon acquired Lansinoh Laboratories, Inc., based in Virginia, and transformed it into a wholly owned subsidiary. Since then, Lansinoh has been building sales platforms in the United States and Europe based on medium- and long-term perspectives. Amid increasing demand for breastfeeding-related products stemming from worldwide promotion of breastfeeding, Lansinoh's offerings have garnered strong support thanks to their high quality.

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

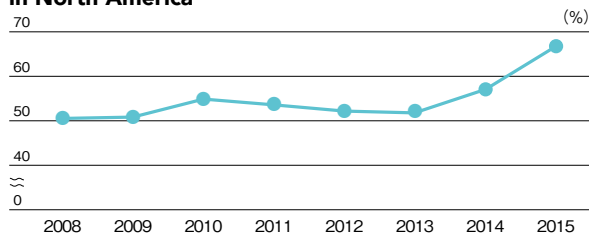
by more than 40,000 stores in the United States. In January 2009, Lansinoh acquired the Soothies brand of breastfeeding-related products from Puronyx, Inc., with the aim of enhancing its lineup and reinforcing its business by securing sales routes to hospitals. We will target further business growth by upgrading our product categories. In January 2014, Lansinoh made a full-scale launch of nursing bottles. Going forward, we will continue enhancing our brand power as a company that offers total support for breastfeeding.

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



Source: Figures compiled by Pigeon (2015)

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



Source: Figures compiled by Pigeon (2015)

Performance and Outlook

In the year under review, we successfully reinforced our marketing activities in North America, where sales totaled ¥7,671 million, up 9.0 % from the previous year (up 5.1% in local-currency terms). 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, the Pigeon Group will continue strengthening its brand. At the same time, we will launch new offerings to broaden our business.



Lansinoh products

Other Countries

Business Strategies

The Pigeon Group is actively entering new markets in order to expand its business. In addition to expanding our production bases in Thailand, we established a subsidiary in India and began local production of nursing bottles and nipples in January 2015. On the sales side, as well, we are building a distribution system and broadening the network of retail stores handling our products.

Initiatives Elsewhere in Asia

In India, the population has been growing at the rate of more than 10 million per year, and has reached 1.31 billion according to a 2015 world population white paper. More than half the population is under 25. Indeed, the number of childbirths is projected to reach 27 million per year, significantly higher than China.

We are working raise recognition of Pigeon in India as a top-quality brand with high added value, as we have done in Japan and China. In that nation, we have already expanded mainly in major cities such as Delhi and Mumbai, and we are developing outlets linked closely with local communities. In addition to establishing and reinforcing our distribution system, we are promoting our offerings in more than 10,000 outlets, centering on pharmacies. We have started local production of nursing bottles and nipples, and we will seek to turn a profit in the year ending January 2017.



India factory

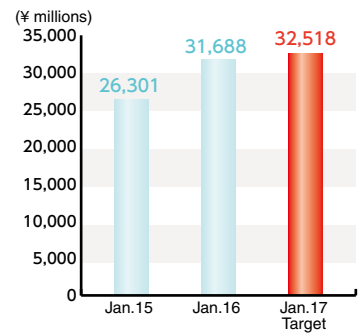
Initiatives in Other Regions

In the Middle East, we are actively advancing our business. For example, Lansinoh Laboratories opened a branch in Turkey in 2009, and established Lansinoh Laboratories Medical Devices Design Industry and Commerce Ltd. Co. (LMD) in 2010. LMD operates a plant that produces and assembles components for Lansinoh-brand breast pumps. In addition to its existing products, in January 2017 LMD will start making nursing bottles and nipples—mainstay products of the Pigeon Group—for the North American, European, and Turkish markets. To this end, LMD will close its current plant and establish a new facility in a free-trade zone within Turkey, and plans to install additional production equipment in the meantime. We will deploy the new plant to establish and strengthen our production system and thus target business expansion in Europe and the Middle East.

Pigeon Group Activities

China Business

Sales in China

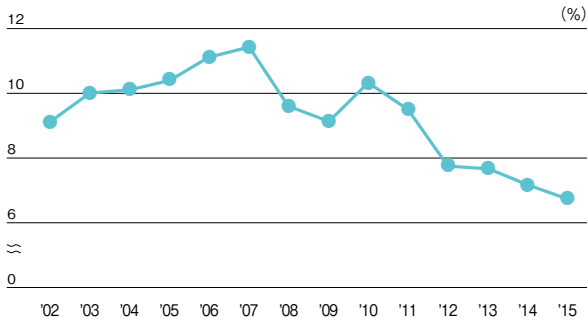


Business Overview

With a population of around 1.38 billion, China's annual childbirths have averaged about 17 million over the past several years, which is 17 times the number of births of Japan. Pigeon is targeting the wealthiest 15%–20% of the market, representing 2.55–3.40 million people. Given that we generate around ¥28 billion from our Domestic Baby & Mother Care Business in Japan, where only 1.008 million babies are born annually, we feel it is possible to achieve annual sales in China of around ¥40 billion in the near future.

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 initially by proposing innovative lifestyle scenarios, with an emphasis on toiletry-related products. With more than 500 types of products on the Chinese market, including our mainstay nursing bottles and nipples, we supply higher-priced items to meet high-end demand from the growing number of newly wealthy people in major coastal cities.

Given a sluggish economic growth rate, there are widespread concerns that the entire Chinese market will slow down, and this even affected local stock markets at the beginning of 2016. Nevertheless, we have steadily expanded our business, at a faster pace than Chinese economic growth, through various measures. These include 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 (58 hospitals as of January 2016). In these ways, we have stepped up our focus on brand appeal reinforcement. Including Pigeon Breastfeeding Advice Offices, in January 2016 we formed partnerships with around 250 hospitals throughout the country in order to offer educational activities related to breastfeeding.



Mother receiving counseling in a Breastfeeding Advice Office

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 and baby wipes. Sales in China have been growing steadily, and Pigeon is gaining widespread recognition as a brand that earns people's full confidence.

In fiscal 2015, our businesses in South Korea, Taiwan, Hong Kong, the Philippines, Russia, and elsewhere—previously under the jurisdiction of the Overseas Business Division—were shifted to the China Business Division. Accordingly, our businesses in those regions are now included in the results of the China Business segment, which posted sales of ¥31,688 million in the year under review, up 20.5% from the previous year.

In China, which abolished its long-standing "one child policy" in 2015, we expect the high 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 China business.

Recent years have seen explosive growth in e-commerce, driven by the Internet, among young Chinese people in their 20s and 30s. Also, 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 will need to address these and other changes in consumer behavior and demand trends. For example, we launched disposable diapers, which we do not sell in Japan, in July 2013, followed by baby food in November 2013. In response to sharp growth in e-commerce,

we are augmenting our existing retail sales channels by actively embracing online sales as we focus on changing market conditions and new demand.

Sales Development

We are expanding ties with local distributors in order to develop our sales network across the entire nation. For the retail channel, we will rebuild our distribution network by selecting and mobilizing both primary and secondary distributors as we seek to further boost sales in China. At the same time, we will actively target the rapidly growing e-commerce market while forming alliances with large Chinese e-commerce service providers.

Expanding Our Sales Network

Through our focus on establishing dedicated Pigeon sections within baby specialty stores, department stores, and the like, we are making steady sales progress in China. As of January 31, 2016, a total of 3,324 such dedicated sections were in operation, up 289 from a year earlier.

For the e-commerce sales channel, we notice rapid growth in sales via major Chinese e-commerce websites. In response, we will broaden online sales by having our primary distributors form agreements with large e-commerce providers.

China's Surrounding Markets (Now Handled by China Business Division)

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, we are working to further raise brand recognition and broaden our range of offerings.

In Russia, we are advancing our business, centering on our new distribution agency, appointed in 2010. Through breastfeeding- and maternity-related seminars for healthcare professionals, we are striving to increase recognition of Pigeon-brand nursing bottles and nipples and build a system in which we can promote our offerings to hospitals. Going forward, we will leverage our strength in nursing bottles and nipples to target further business growth.

Business Performance

In the year under review, sales of the China Business segment totaled ¥31,688 million, up 20.5% from the previous fiscal year. Despite an increase in SG&A expenses stemming from marketing activities accompanying proactive business development, segment income grew 14.1%, to ¥8,586 million.

In the year under review, our businesses in such regions as South Korea, Taiwan, Hong Kong, the Philippines, and Russia—previously included in the Overseas Business segment—were shifted to the jurisdiction of the China Business Division. Thanks also to growth in sales of nursing bottles and nipples, reflecting ongoing marketing and sales proliferation activities,

this segment enjoyed year-on-year increases in both revenue and earnings.

In China, we are focusing on categories outside of mainstay nursing bottles and nipples. In May 2015, for example, we launched a new baby skincare line. We will also swiftly rebuild our distribution system to address the rapid spread of the Internet in China. In addition, we will implement sales promotion measures in collaboration with sales agencies as we target further business growth.

Outlook

Looking at demand for products aimed at children from birth to 24 months, there is no major difference between China and Japan. While we recognize the existence of income differences between people living in coastal and regional areas of China, our total sales in that country 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 2017, we will focus on stepping up strategies and sales promotion measures to address the rapid expansion of the Internet, including by launching online sales of our Japanese products. We are already seeing positive outcomes from our "retail round (roller strategy)," implemented in the second half of fiscal 2015, and we will continue and broaden this initiative to further boost sales.

In the year ending January 2017, we forecast sales in the China Business segment of ¥32,518 million. On a local-currency basis, we forecast an 11.1% year-on-year sales increase, and by continuing our business growth trend we will target further improvements in profitability.



Pigeon Industries (Changzhou) Co., Ltd. (plant in Changzhou, Jiangsu Province)

Pigeon ESG 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.

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 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 also been jointly conducting observation and research with medical doctors on breastfeeding of babies with low birth weights.

Using our products with peace of mind

To ensure that customers can use our products with peace of mind, we are meticulous about providing explanations on appropriate usage and warnings. Since practically all of our end-users are babies, who cannot communicate in the spoken word, we have formulated Pigeon Quality Standards (PQS), a highly stringent set of criteria covering safety and health, and we apply PQS universally for quality control both in Japan and overseas. In collaboration with the Research and Development Division, Quality Control Division, Customer Service Center, and other sections of the Group, meanwhile, we take care to provide important information about user safety by preparing instructions and packaging in an easy-to-understand manner, including through figures and symbols.

After-sales service and inquiries are handled by the Customer Service Center, and we work hard to protect the privacy of customers. Discontinued products are stored in warehouses for a certain period of time, so that the Customer Service Center can address inquiries from customers about such products.

■ For all babies

Pigeon produces nursing bottles and nipples in order to "allow all babies enjoy better suckling." Moreover, the Group has been developing exclusive products so that 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 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.



Nipples for infants with low birth weight

Nursing bottle specially designed for babies with cleft lips and/or palates

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 its 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.

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 30 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 130,000 people have taken part in tree-planting activities, within a total plantation area greater than 33 hectares. 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

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.

In Japan, the Tsukuba Office and PHP Hyogo Corporation earned certification in 2001 and 2006, respectively. Overseas, Pigeon Industries (Thailand) Co., Ltd. received ISO-14001 certification in 2000, followed by Thai Pigeon Co., Ltd. in

2002. In China, meanwhile, Pigeon Industries (Changzhou) Co., Ltd. is committed to operating an environmentally friendly production facility. In addition to using photocatalytic paint, for example, it deploys solar and wind power generation to the maximum extent.

■ Pollution prevention

Since practically all of our end-users are babies, we are very stringent and cautious when selecting raw materials and ingredients to ensure that any food additive has no impact on the human body. Our products also include body soap and other liquids and detergents, and we strive to prevent pollution by identifying sources of pollution and waste related to our production activities.

■ Sustainable use of resources

Pigeon is committed to the sustainable use of resources. Among chemically derived materials that we handle, we use rubber as the raw material for our nursing bottle nipples. Here, we do not use any natural rubber, but rather silicon and silica gel. For glass and plastic (polyphenylsulfone, or PPSU) used in nursing bottles and other items, we procure from sources that can ensure traceability.

■ Climate change mitigation, biodiversity

The Pigeon Group gives full consideration to climate change mitigation and biodiversity. To this end, we have specified the volume of our greenhouse gas emissions, both direct and indirect, and we are currently preparing to determine the scope of our own responsibility. For significant greenhouse gas emissions, we are planning to create a mechanism enabling measurement, recording, and reporting according to internationally agreed standards as much as possible.

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.

To encourage local community participation and development, we foster protection and promotion of community culture, as well as education related to it. At our plants in China, India, Thailand, and elsewhere, we recruit many people from local areas to promote local employment, job advancement, and skills development. We also actively engage in exchanges of opinion and joint research projects with local communities. In Japan and China, we contribute to the development of local communities in cooperation with maternity hospitals in each region.

Through our business, we also generate wealth and income for communities. In Changzhou City, China, as well as Thailand, we have received consecutive annual awards related to our payment of local taxes.

[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 2016 saw its 30th 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 1986 and has managed to plant so far more than 130,000 trees through 30 years of activity within a total plantation area greater than 33 hectares.

To address increasing concerns about environmental issues in recent years, people are rethinking their views of the value of forests, which help prevent global warming by absorbing carbon dioxide and also preserve biodiversity. In addition, they play a role in preventing floods and erosion while preserving high water quality, to the extent that they referred to as "green dams."



Commemorative photo of tree-planting campaign

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.



"Future Science Dream Picture Exhibition" entry

[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." With this in mind, we make social investments from educational and cultural perspectives aimed at improving people's lives in local communities.

In China, we have been building and donating to schools in areas with inadequate educational infrastructure, and these initiatives have been praised and rewarded by the Chinese national government. 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. This resulted in the opening of the Pigeon Hope Elementary School in Meishan District of Sichuan Province in 2009. (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 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 2014, meanwhile, we held the groundbreaking ceremony for our seventh Pigeon Hope Elementary School, in Wenshan City, Yunnan Province. 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.



Pigeon Hope Elementary School in Wenshan, Yunnan Province

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, pharmacies, and other stores. We receive acclaim as an exceptional company for the diversity of our offerings.

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. Moreover, we hold briefings with our suppliers two or three times a year to convey our policies in this area.

Pigeon Partners Line

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 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.

Responsible political involvement and fair competition

Pigeon completely rejects excessive political involvement, intimidation, and extortion. We make sure that our activities conform to competition laws, and we actively participate in surveys and the like conducted by relevant authorities as necessary. With respect to the importance of competition law compliance and fair competition, we conduct compliance training and other forms of employee education, and we work hard to prevent involvement in anticompetitive behavior in order to avoid exposure to bid-rigging and the like.

Respect for property rights

Seeking to prevent patent infringement and the like from the product development perspective, Pigeon established an intellectual property-related department within its Central Research Center. That department is in charge of matters pertaining to intellectual property globally. Meanwhile, in China, which faces numerous problems with counterfeited products, we established a Legal Affairs Department at Group company Pigeon (Shanghai) Co., Ltd., which is working to increase respect for property rights, including intellectual property in collaboration with the intellectual-property-related department of the Central Research Center.

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 global business growth, the Pigeon Group is rapidly increasing the number of non-Japanese employees. By welcoming and utilizing the fundamental differences in employee backgrounds—in such areas as gender, nationality, age, employment status, and income—we aim to strengthen our entire organization. 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 child-care frameworks aimed at promoting advancement of women and encouraging men to participate in child-care, and more and more employees are making use of these systems.

With respect to promoting women’s advancement, we have stepped up various activities centered on three core initiatives: “expansion of compatibility support system,” “workplace mindset reforms,” and “backup for women’s feelings and skills.” We have also set five key objectives for the period from April 2016 and July 2017: (1) Increase number of men using the compatibility support system to 10 or more; (2) Increase awareness about parental leave among male employees; (3) Grasp and improve status and outcomes of work-at-home system; (4) Establish framework enabling women to give birth, raise children, and return to work with

peace of mind; and (5) Open a breastfeeding room in the Central Research Center (following one already opened in the head office) that breastfeeding employees can use. We conduct training sessions for working mothers, and male employees with small children will be able to join those sessions. We have also started looking at ways to improve our work-at-home system by receiving feedback from its users. In addition, we conduct interviews with employees, attended by their superior officers, before taking parental leave and after returning to work.

Discrimination and the socially vulnerable; civil and political rights; economic, social and cultural rights

The Pigeon Group respects the rights of minorities and the socially vulnerable and works actively to recruit disabled people. We also have conversations with employees about civil and political rights, and we respect those rights.

Basic workplace principles and rights

The Pigeon Group respects the human rights and other rights of workers in Japan and overseas. Here, our Compliance Committee spearheads efforts to manage labor-related compliance in an appropriate manner.

For Employees

Building motivating work environments and corporate culture

Pigeon recognizes that corporate value represents the summation of social value and economic 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.

We give opportunities for all workers to participate in technical development, training, and practice, and for overseas employees we provide selective training on a global basis. Moreover, the speed of our career advancement is high, and employee turnover is low.

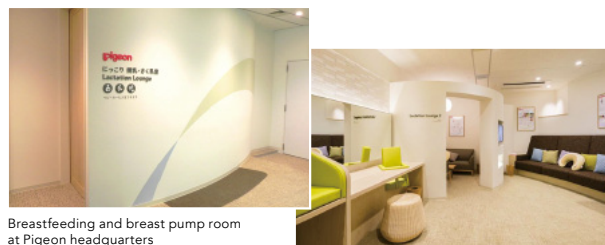
In Japan, previous to the enactment of the Law for the Equal Employment Opportunity of Men and Women, we established a corporate culture where there is no gender difference in the occupational course, and employees, including the president, are on last name followed by "-san" (Mr./Mrs.) terms with each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

As a matter of course, we comply with domestic regulations on worker protection, and well as working hours specified by laws, labor agreements, and the like. Although total working hours are declining with the instigation of a rule to leave the office by 7:00pm and "no overtime days" (once a week), productivity is increasing alongside steady improvements in business performance.

Child-rearing support activities

As a company involved in child rearing, Pigeon has sought to expand and upgrade its support systems for child-rearing employees. In 1999, we received a work-life balance award from the Tokyo Metropolitan Government acknowledging this initiative. In August 2015, we set up a breastfeeding/pumping room in our head office to create a comfortable working environment for employees with small babies. In addition to employees, the room is available for use by mothers working in the vicinity of head office, as well as mothers and babies living nearby, reflecting our local and social contribution efforts.

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, called "One Month Together," 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 2016, the ratio of men who took advantage of "One Month Together" was 100%.) In addition to this, we focus on assisting female 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.



Breastfeeding and breast pump room at Pigeon headquarters

Worker health and safety

Pigeon is extremely meticulous with respect to managing the health and safety of workers. In addition to Japan, we have factories overseas, including in China, Thailand, and India, and we conform to Pigeon Quality Standards (PQS) uniformly at all those facilities. Under our current Medium-Term Business Plan, our Quality Control Division has created a new platform called Pigeon Product Management (PPM), which we are now introducing at our plants in Thailand and elsewhere overseas.

Corporate Governance

Governance System

Pigeon is a company with an Audit & Supervisory Board. As of April 2016, Pigeon's Board of Directors had 10 members, including two outside directors, and its Audit & Supervisory Board had four members, including two outside corporate auditors.

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. We believe we have built a framework with a good balance between decision-making authority, responsibility, and capability. Moreover, the Board of Directors confirms and evaluates the governance process on a regular basis. We have steadily improved our business results under this system, which we therefore deem to be functioning effectively.

In addition to the Board of Directors and Audit & Supervisory Board, the Company is enhancing corporate governance through its Management Committee, headed by the chairman, 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.

Board of Director and Outside 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.

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, and one more outside director at its next meeting on April 27, 2016. The first appointee, Mr. Takayuki Nitta, has valuable knowledge about business management based on a wealth of experience in business consulting and investment management companies. He continues providing considerable advice on the Company's business strategies to promote shareholder-oriented management with an understanding of capital efficiency. He is also effectively performing his duties as an outside director with respect to ensuring impartial decision-making by the Board of Directors and improving corporate governance. The second appointee, Mr. Rehito Hatoyama, has a wealth of high-level knowledge about overseas business strategies and managing the execution of those strategies. By welcoming him into the Board of Directors, we hope to further improve corporate governance. In addition, the CEO of Lansinoh Laboratories became an internal member of the Board of Directors in 2016. In these and other ways, we are increasing the diversity of our executive system.

Audit & Supervisory Board and Outside Corporate Auditors

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. 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.

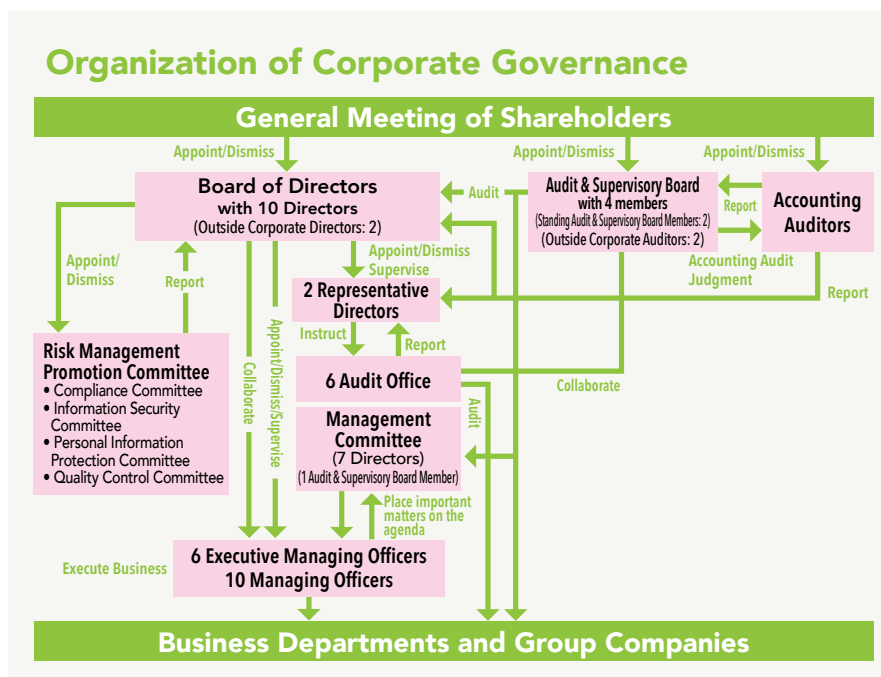
In addition to Board of Directors' meetings, the outside corporate auditors ask questions and provide opinions at face-to-face meetings with representative directors and other directors. Based on their independent viewpoints and impartial perspectives, they not only exercise their legally accepted authority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

Compliance System

Guided by the Pigeon Way, which embodies our "hearts" and "actions" and is the cornerstone of all our activities, we operate our compliance system through the efforts of the Compliance Committee.

To ensure compliance-oriented management, we have defined universal corporate ethical guidelines. Based on the guidelines, we have a code of conduct, in which individual employees comply with all laws and regulations, as well as social standards and the spirit thereof, and act with sincerity and a high ethical sense, in order to win the deep trust of our stakeholders. We believe it is important to constantly communicate our Corporate Philosophy and Values to all employees of Pigeon Group companies. To this end, our representative directors and all other executives lead by example in rigorously promoting our spirit of ethics and compliance. With respect to consolidated subsidiaries, our Corporate Administration Division implements cross-lateral Groupwide responses by developing a system capable of verifying current conditions from the perspective of ensuring appropriate monitoring and reporting systems.





Executive Advisor and Member of the Board
Yoichi Nakata



Chairman of the Board and CEO
Akio Okoshi



President and COO
Shigeru Yamashita



Vice President and Director
Norimasa Kitazawa
Overseas Business Division Manager/
China Business Division Manager



Director, Senior Managing Executive Officer
Eiji Akamatsu
In charge of:
Supervision of Corporate Administration Div./
Supervision of Accounting & Finance Div./
Supervision of Human Resources & General Affairs Div./
Supervision of Internal Audit Office



Director, Junior Managing Executive Officer
Yasunori Kurachi

Health Care & Nursing Care Business Division Manager
President of Pigeon Tahira Co., Ltd.
In charge of:
Supervision of Domestic Baby & Mother Care Business Div./
Supervision of Child-rearing Support Services Div.



Director, Junior Managing Executive Officer
Tadashi Itakura

Quality Control Division Manager
In charge of:
Supervision of Research & Development Div./
Supervision of Logistics Div./
Supervision of Customer Service Center



Director, Junior Managing Executive Officer
Kevin Vyse-Peacock

President of Lansinoh Laboratories, Inc.



Outside Director
Takayuki Nitta



Outside Director
Rehito Hatoyama



Audit & Supervisory Board Member
Kazuhisa Amari



Audit & Supervisory Board Member
Shinobu Iwamoto



Outside Audit & Supervisory Board Member
Shigeru Nishiyama



Outside Audit & Supervisory Board Member
Shuji Idesawa

Managing Officers

Tsutomu Matsunaga	Corporate Administration Division Manager
Hiroyasu Maki	Accounting & Finance Division Manager
Takatoshi Urakari	Human Resources & General Affairs Division Manager
Kaoru Kasahara	Research & Development Division Manager
Nobuyuki Hashimoto	Domestic Baby & Mother Care Business Division Manager
Takanori Tsuru	Child-rearing Support Services Division Manager/ President of Pigeon Hearts Co., Ltd.
Hiroshi Nishimoto	Logistics Division Manager
Koji Ishigami	Senior Managing Director of Pigeon Tahira Co., Ltd.
Yusuke Nakata	President of Pigeon Singapore Pte. Ltd.
Ken Kaku	President of Pigeon Manufacturing (Shanghai) Co., Ltd.

Management's Discussion and Analysis

Financial Data

Management's Discussion and Analysis

Business Environment and Performance

Business Conditions in Fiscal 2015

In fiscal 2015, ended January 31, 2016, the Japanese economy benefited from signs of improvement in corporate earnings thanks to the yen's depreciation since the beginning of the year, as well as low crude oil prices. However, the outlook remained uncertain due to several factors. These included a feeling of caution about economic slowdown in China and other emerging nations, rising geopolitical risks in Europe and the Middle East, and changes to financial measures in the United States and elsewhere. Also of particular note was exchange rate and stock market instability, which has become prominent since the beginning of calendar 2016.

Fiscal 2015 was the second year of our Fifth Medium-Term Business Plan, covering the three-year period to January 2017. The slogan of the plan is "Pursuing excellence, think globally, plan agilely, and implement locally." During the year, we pursued initiatives targeting renewed growth. 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 child-care 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 2015, 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 ¥92,209 million, up 9.6% from fiscal 2014. Factors boosting our performance included growth in the Overseas Business and the Domestic Baby & Mother Care Business baby stroller category, as well as growth in stemming from consumption from inbound foreign visitors.

Income Statement Analysis

The cost of sales ratio improved around 1.5 points 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 6.7% year on year, to ¥48,864 million. As a result, gross profit climbed 13.2%, to ¥43,345 million, growing at a higher rate than net sales.

Selling, general, and administrative (SG&A) expenses rose 13.0%, to ¥28,823 million. Operating income grew 13.6%, to ¥14,521 million, and the operating margin edged up 0.5 point, to 15.7%. Ordinary income rose 13.4%, to ¥15,080 million. Net income for the year climbed 20.7%, to ¥10,197 million, marking year-on-year increases for all key income indicators.

Sales by Segment (Consolidated)

(¥ millions)

	Jan. 2015					Jan. 2016					
	Amount	Percentage (%)	Gross Margin(%)	Segment Income	Segment Income Ratio(%)	Amount	Percentage (%)	YoY Change (%)	Gross Margin(%)	Segment Income	Segment Income Ratio(%)
Registered amount	84,113	100.0%	45.5%	12,780	15.2%	92,209	100.0%	109.6%	47.0%	14,521	15.7%
Domestic Baby & Mother Care Business	24,432	29.0%	46.0%	3,752	15.4%	28,053	30.4%	114.8%	44.4%	4,383	15.6%
Child-rearing Support Services	6,722	8.0%	11.2%	189	2.8%	6,757	7.3%	100.5%	10.7%	148	2.2%
Health Care & Nursing Care Business	6,761	8.0%	28.7%	260	3.9%	6,499	7.0%	96.1%	28.3%	140	2.2%
Overseas Business	23,373	27.8%	53.7%	4,969	21.3%	25,234	27.4%	108.0%	55.4%	5,579	22.1%
China Business	26,301	31.3%	43.7%	7,525	28.6%	31,688	34.4%	120.5%	44.6%	8,586	27.1%
Eliminations	-4,754	-5.7%	-	-	-	-7,306	-7.9%	-	-	-	-
Other	1,276	1.5%	16.6%	173	13.6%	1,283	1.4%	100.6%	15.4%	152	11.8%

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 2015, sales in this segment totaled ¥28,053 million, up 14.8% from fiscal 2014. Segment income rose 16.8%, to ¥4,383 million. This was despite an increase in cost of sales due to higher costs of imported materials stemming from the yen's depreciation.

We introduced a host of new products during the year. In February 2015, for example, we launched "Breast Milk Power Plus" and "Breast Milk Power Plus Tablet" breastfeeding supplements for breastfeeding mothers and their babies. In July 2016, we added a new color to "Runfee," our baby stroller that easily overcomes ground-level differences, and in December we launched "Premige," a premium baby stroller that provides a smooth ride. Sales and market share are growing steadily as a result.

We also held various events as a part of our direct communications program. These included "Breastfeeding Seminars" for women expecting to give birth in the near future and seminars for healthcare professionals about breastfeeding while parenting. In fiscal 2015, we held a total of 38 such events, with participation from around 2,800 people.

We will continue targeting progress in providing customers more accessible information, including updates of merchandise information via "Pigeon Info," a website that supports women during pregnancy, in childbirth, and while raising children.

Child-rearing Support Services

Sales in this segment edged up 0.5% year on year, to ¥6,757 million. Segment income fell 21.7%, to ¥148 million, due mainly to increases in labor costs.

During the year, we were newly entrusted to operate four in-company child-care facilities. We are currently operating those facilities while improving the quality of our services.

Health Care & Nursing Care Business

Due to declining sales of facilities stemming from a revision of the nursing care insurance system, as well as intensifying competition in the consumables market, sales in this segment declined 3.9% year on year, to ¥6,499 million. Segment income fell 46.1%, to ¥140 million.

In February 2015, we released "Assista Ease I and II" wheelchairs for seniors. Both products help users keep a straight posture and enable comfortable sitting for long periods of time. In April, we added a new citrus green scent to the "Kaori Kakumei" series of indoor air fresheners. This spray-type room air freshener for nursing care use changes fecal and urinary odors into pleasant scents. We will continue introducing competitive new products while taking measures to improve the quality of our nursing care services.

Overseas Business

Effective in fiscal 2015, our businesses in such regions as South Korea, Taiwan, Hong Kong, the Philippines, and Russia—previously included in this segment—were shifted to the jurisdiction of the China Business Division. Nevertheless, sales in the Overseas Business segment increased 8.0%, to ¥25,234 million, and segment income rose 12.3%, to ¥5,579 million.

In May 2015, we began shipping Pigeon's flagship products—nursing bottles and nipples—from our local production plant in India. Going forward, we will continue strengthening our sales and distribution systems. In addition, we are steadily expanding sales of breastfeeding-related products, including such flagship products as breast pads, breast pumps, and milk bags, in North America and Europe. In Europe, meanwhile, we plan to establish a new plant in Turkey in January 2017, thus strengthening our production system. We will also broaden our business by reinforcing our sales organizations in the United Kingdom, Germany, and elsewhere.

China Business

In this segment, sales rose 20.5% year on year, to ¥31,688 million. Segment income climbed 14.1%, to ¥8,586 million, despite an increase in SG&A expenses stemming from marketing activities associated with proactive business expansion.

In fiscal 2015, our operations in South Korea, Taiwan, Hong Kong, the Philippines, Russia, and elsewhere were transferred from the Overseas Business Division to the China Business Division. During the year, we also achieved sales growth for nursing bottles and nipples due to ongoing marketing and sales promotion activities, with segment revenue and income increasing as a result.

In this segment, we have been focusing on product categories other than our flagship nursing bottles and nipples. For example, we launched a new skincare line in May 2015. In China, we will swiftly rebuild our distribution system in response to rapid expansion of Internet sales. At the same time, we will target further business growth, including through sales promotion measures in cooperation with distributors.

Other

Sales in this segment edged up 0.6%, to ¥1,283 million, and segment income declined 12.3%, to ¥152 million.

Financial Position

Assets

As of January 31, 2016, Pigeon had consolidated total assets of ¥73,943 million, up ¥1,576 million (2.2%) from a year earlier. Within this amount, current assets increased ¥1,886

million (4.0%), and fixed assets declined ¥310 million (1.2%). Main factors boosting current assets were a ¥2,706 million (12.5%) increase in cash and time deposits, which contrasted with a ¥1,407 million (9.2%) decrease in notes and accounts receivable. The main factors holding down fixed assets were a ¥397 million (67.2%) drop in construction in progress and a ¥378 million (21.9%) fall in intangible fixed assets. This was despite a ¥569 million (8.4%) rise in buildings and structures.

Liabilities

Total liabilities at fiscal year-end stood at ¥23,150 million, down ¥1,919 million (7.7%) from a year earlier. Within this total, current liabilities decreased ¥1,049 million (6.9%), and long-term liabilities declined ¥870 million (8.9%). The main factors holding down current liabilities were a ¥1,631 million (43.2%) fall in accrued account payable and a ¥510 million (57.3%) drop in short-term borrowings, which contrasted with a ¥1,623 million jump in electronically recorded obligations. The main factor holding down long-term liabilities was a ¥928 million (15.7%) decrease in long-term borrowings.

Net Assets

Consolidated net assets at fiscal year-end amounted to ¥50,792 million, up ¥3,495 million (7.4%) from a year earlier. This was due mainly to a ¥5,406 million (17.2%) rise in retained earnings, which contrasted with a ¥1,994 million (37.6%) fall in adjustment on foreign currency statement translation.

Sound Financial Position

At fiscal year-end, the Group had cash and cash equivalents of ¥24,297 million, and interest-bearing debt of ¥6,308 million, down ¥1,709 million (21.3%). The equity ratio remained high, at 67.0%.

Cash Flows

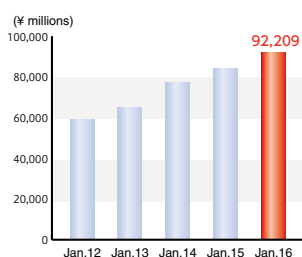
Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥13,479 million, from ¥10,135 million in the previous year. Factors boosted operating cash flows included ¥14,887 million in income before income taxes and ¥2,345 million in depreciation. Contrasting factors included a ¥1,275 million decrease in accounts payable and ¥4,570 million in income taxes paid.

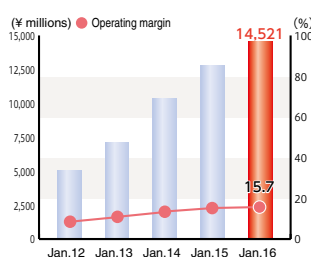
Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥3,332 million, from ¥3,134 million in the previous year. Main factors included ¥3,018 million in acquisition of property, plant, and equipment.

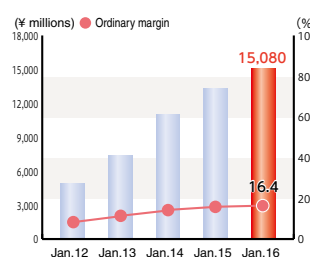
Net sales



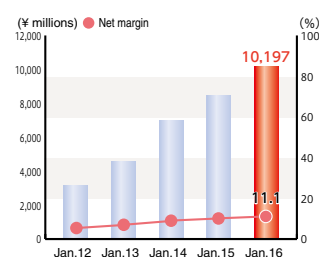
Operating income/Operating margin



Ordinary income/Ordinary margin



Net income/Net margin



Cash Flows from Financing Activities

Net cash used in financing activities was ¥6,567 million, from ¥150 million in the previous year. Main factors holding down cash flows included ¥1,200 million in repayment of long-term borrowings and ¥4,789 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 fiscal year-end, ROE was up 1.5 percentage points from a year earlier, from 19.8% to 21.3%. Return on assets (ROA) at fiscal year-end was 20.6%, up 0.2 percentage point from 20.4% 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 2015, invested capital totaled ¥57,102 million, compared with the fiscal 2014 amount of ¥55,315 million and our target of ¥53,153 million, resulting in a PVA spread of 10.1%, compared with the fiscal 2014 figure of 8.7% and our target of 10.5%. The PVA for fiscal 2015 was ¥5,756 million, compared with the fiscal 2014 figure of ¥4,812 million and our target of ¥5,584 million.

In addition, the cash conversion cycle (CCC) in fiscal 2015 was 81.0 days, which was 7.8 days better than 88.8 days in fiscal 2014 and short of our target of 72.0 days.

Profit Appropriation Policy

The Pigeon Group regards the return of profits to shareholders as an important management priority. Our basic 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 Business Plan we have set an ROE target of 21% or higher and 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.

During the year, we paid an interim cash dividend of ¥20.00 per share. Thanks to a solid earnings performance that surpassed our projections, however, we declared a year-end dividend of ¥22.00 per share, up ¥2.00 from our forecast announced on September 7, 2015. This brought total annual dividends to ¥42.00 per share, representing a ¥7.00 year-on-year increase after accounting for a three-for-one stock split effective May 1, 2015. The consolidated dividend payout ratio was 49.3%.

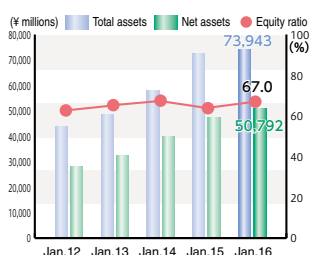
Outlook

Under its Fifth Medium-Term Business Plan announced in March 2014, the Pigeon Group will work to improve management quality by implementing newly formulated business strategies and pursuing various measures based on functional strategies that form the foundation of those business strategies. At the same time, we will step up efforts to establish and reinforce our business operational framework. In our overseas business, positioned as a domain for continuous growth, we are targeting business expansion and entrenchment in existing markets, centered on China and North America, while actively entering new markets in order to further boost our business results.

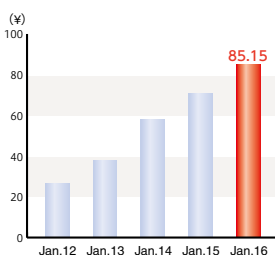
We have set the following consolidated performance targets for fiscal 2016, the final year of the plan: Net sales of ¥95.0 billion (up 3.0% year on year), operating income of ¥15.0 billion (up 3.3%), ordinary income of ¥15.3 billion (up 1.5%), and net income of ¥10.4 billion (up 2.0%).

(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

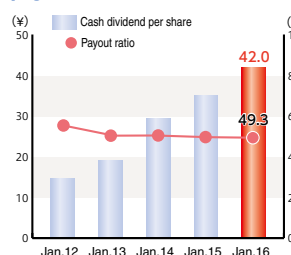


Net income per share

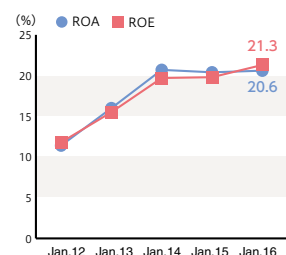


Note: The Group carried out a 2-for-1 split of common stock, effective August 1, 2013, and a 3-for-1 split of common stock, effective May 1, 2015. Figures in the above tables have been calculated assuming those stock splits were conducted at the beginning of the fiscal year ended January 2012.

Dividend per share/Dividend payout ratio



ROA/ROE



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. 2012	Jan. 2013	Jan. 2014	Jan. 2015	Jan. 2016	Jan. 2016
Assets							
Cash and Deposits		7,293	10,574	13,102	21,590	24,297	200,636
Notes and Accounts Receivable - Trade		9,993	10,540	12,569	15,278	13,870	114,533
Merchandise and Finished Goods		5,332	4,816	5,350	5,899	6,146	50,751
Other Current Assets		2,823	3,171	4,340	4,258	4,600	37,985
Total Current Assets		25,443	29,103	35,363	47,027	48,913	403,906
Tangible Fixed Assets		15,058	16,208	19,023	21,383	21,471	177,300
Intangible Fixed Assets		1,285	1,176	1,441	1,724	1,346	11,115
Investment Securities		1,344	1,420	1,448	1,531	1,477	12,197
Total Investments and Other Assets		641	631	679	701	734	6,061
Total Fixed Assets		18,329	19,435	22,591	25,339	25,029	206,680
Total Assets		43,772	48,538	57,955	72,367	73,943	610,595
Liabilities							
Notes and Accounts Payable - Trade		3,758	3,864	4,518	4,462	3,743	30,908
Accounts Payable		2,755	3,179	3,401	3,778	2,147	17,729
Income Taxes Payable		704	1,134	1,155	1,535	1,505	12,428
Accrued Bonuses to Employees		587	606	782	783	894	7,382
Other Current Liabilities		4,577	2,832	2,962	4,714	5,934	49,001
Total Current Liabilities		12,382	11,615	12,818	15,272	14,223	117,448
Long-Term Borrowings		1,642	2,204	2,011	5,928	5,000	41,288
Other Fixed Liabilities		1,812	2,353	3,143	3,869	3,926	32,419
Total Fixed Liabilities		3,454	4,557	5,154	9,797	8,926	73,708
Total Liabilities		15,836	16,173	17,973	25,069	23,150	191,164
Net Assets							
Capital Stock		5,199	5,199	5,199	5,199	5,199	42,931
Capital Surplus		5,180	5,180	5,180	5,180	5,180	42,775
Retained Earnings		19,873	22,686	26,929	31,383	36,790	303,799
Valuation Difference on Available-for-Sale Securities		10	26	30	36	32	264
Foreign Currency Translation Adjustment		(2,386)	(970)	2,240	5,306	3,311	27,341
Treasury Stock		(448)	(450)	(455)	(942)	(947)	(7,820)
Minority Interests		507	693	856	1,132	1,225	10,116
Total Net Assets		27,935	32,365	39,981	47,297	50,792	419,422
Total liabilities and Net Assets		43,772	48,538	57,955	72,367	73,943	610,595

Note: Figures in U.S. dollars are calculated, for convenience only, at the exchange rate of ¥121.10=US\$1.00.

Equity Ratio, ROA / ROE

(%)

	Jan. 2012	Jan. 2013	Jan. 2014	Jan. 2015	Jan. 2016
Equity Ratio	62.7	65.3	67.5	63.8	67.0
ROA	11.4	16.0	20.7	20.4	20.6
ROE	11.8	15.5	19.7	19.8	21.3

ROA is the ratio of ordinary income to total assets.

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

Consolidated Statements of Income

(¥ millions) (US\$ thousands)

Item	Period	Jan. 2012	Jan. 2013	Jan. 2014	Jan. 2015	Jan. 2016	Jan. 2016
Net Sales		59,145	65,075	77,465	84,113	92,209	761,429
Cost of Sales		34,826	37,314	43,000	45,817	48,864	403,485
Gross Profit		24,319	27,760	34,464	38,296	43,345	357,944
Gross Profit/Net Sales (%)		41.1	42.7	44.5	45.5	47.0	
Selling, General and Administrative Expenses		19,276	20,674	24,098	25,515	28,823	238,010
Operating Income		5,042	7,086	10,365	12,780	14,521	119,909
Operating Income/Net Sales (%)		8.5	10.9	13.4	15.2	15.7	
Non-operating Income		373	656	974	923	1,112	9,182
Non-operating Expenses		499	352	337	404	553	4,566
Ordinary Income		4,917	7,389	11,002	13,299	15,080	124,525
Ordinary Income/Net Sales (%)		8.3	11.4	14.2	15.8	16.4	
Extraordinary Income		19	7	8	8	10	83
Extraordinary Loss		213	26	24	167	204	1,685
Income before Income Taxes		4,723	7,369	10,986	13,140	14,887	122,931
Income Taxes - Current		1,463	2,128	3,077	3,768	4,548	37,556
Income Taxes - Deferred		(10)	526	705	734	(124)	(1,024)
Minority interests in Income		87	140	217	185	265	2,188
Net Income		3,183	4,573	6,985	8,451	10,197	84,203

Note: Figures in U.S. dollars are calculated, for convenience only, at the exchange rate of ¥121.10=US\$1.00.

Consolidated Statement of Cash Flows

(¥ millions) (US\$ thousands)

Item	Period	Jan. 2012	Jan. 2013	Jan. 2014	Jan. 2015	Jan. 2016	Jan. 2016
Cash Flows from Operating Activities		4,212	7,656	7,930	10,135	13,479	111,305
Cash Flows from Investing Activities		(1,871)	(1,848)	(3,794)	(3,134)	(3,332)	(27,514)
Cash Flows from Financing Activities		(1,776)	(3,149)	(3,163)	(150)	(6,567)	(54,228)
Effect of Exchange Rate Changes on Cash and Cash Equivalents		(98)	622	1,556	1,637	(873)	(7,209)
Net Increase (Decrease) in Cash and Cash Equivalents		465	3,280	2,528	8,488	2,706	22,345
Cash and Cash Equivalents at Beginning of Period		6,827	7,293	10,574	13,102	21,590	178,282
Cash and Cash Equivalents at End of Period		7,293	10,574	13,102	21,590	24,297	200,636

Note: Figures in U.S. dollars are calculated, for convenience only, at the exchange rate of ¥121.10=US\$1.00.

Per Share Data

(¥) (US\$)

	Jan. 2012	Jan. 2013	Jan. 2014	Jan. 2015	Jan. 2016	Jan. 2016
Net Income (yen)	26.51	38.09	58.17	70.55	85.15	703
Cash Dividends (yen)	14.67	19.17	29.33	35.00	42.00	347
Payout Ratio (%)	55.3	50.3	50.4	49.6	49.3	
Net Assets (yen)	228.41	263.75	332.5	385.46	413.88	3,418

The Group carried out a 2-for-1 split of common stock, effective August 1, 2013, and a 3-for-1 split of common stock, effective May 1, 2015. Figures in the above tables have been calculated assuming those stock splits were conducted at the beginning of the fiscal year ended January 2012.

Employees

(persons)

	Jan. 2012	Jan. 2013	Jan. 2014	Jan. 2015	Jan. 2016
Employees	2,963	3,304	3,458	3,617	3,743

Corporate Information

Corporate Information

■ Corporate Data (as of January 31, 2016)

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.com
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) 3,743 persons, (regular and contract employees in the main unit of the Group) 989 persons

■ Consolidated Subsidiaries (20 companies) (as of May 31, 2016)

- Pigeon Home Products Corporation
- Pigeon Hearts Corporation
- PHP Hyogo Corporation
- PHP Ibaraki Corporation
- Pigeon Tahira Corporation
- Pigeon Manaka Corporation
- Pigeon Singapore Pte. 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 Brasil Ltda.
- Lansinoh Laboratories Benelux
- Lansinoh Laboratories Shanghai
- Doubleheart Co. Ltd.
- Pigeon India Pvt. Ltd.
- Pigeon Industries (Thailand) Co., Ltd.
- Thai Pigeon Co., Ltd.

■ Equity Method Affiliate (1 company)

- P.T. Pigeon Indonesia

PIGEON GROUP

Overseas Consolidated Subsidiaries

● Production plant (as of May 31, 2016)

Overseas Business Div.	North America, Latin America, Europe	Overseas Business Div.	South East Asia, West Asia
● LANSINOH LABORATORIES, INC. USA April 2004 Sale of maternity and baby products	● LANSINOH LABORATORIES MEDICAL DEVICES DESIGN INDUSTRY AND COMMERCE LTD. CO. Turkey September 2010 Manufacture of maternity and baby products	● THAI PIGEON CO., LTD. Thailand September 1990 Manufacture of maternity and baby products	● PIGEON INDUSTRIES (THAILAND) CO., LTD. Thailand April 1996 Manufacture of maternity and baby products
● LANSINOH LABORATORIES BENELUX Belgium May 2015 Sale of maternity and baby products	● LANSINOH LABORATÓRIOS DO BRAZIL LTDA. Brazil April 2014 Sale of maternity and baby products	● PIGEON INDIA PVT. LTD. India November 2009 Manufacture and sales of maternity and baby products	● PIGEON SINGAPORE PTE. LTD. Singapore February 1978 Sale of maternity and baby products
● Overseas Business Div.	● East Asia (China)	● PIGEON MALAYSIA (TRADING) SDN. BHD. Malaysia January 2011 Sale of maternity and baby products	● P. T. PIGEON INDONESIA (equity-method affiliate) Indonesia Manufacture of maternity and baby products
● LANSINOH LABORATORIES SHANGHAI China March 2016 Sale of maternity and baby products			

China Business Div.	East Asia (China, South Korea)
● PIGEON (SHANGHAI) CO., LTD. China April 2002 Manufacture and sales of maternity and baby products	● PIGEON INDUSTRIES (CHANGZHOU) CO., LTD. China July 2009 Manufacture of maternity and baby products
● PIGEON MANUFACTURING (SHANGHAI) CO., LTD. China April 2006 Manufacture of maternity and baby products	● DOUBLEHEART CO. LTD. South Korea August 2012 Sale of maternity and baby products

Domestic Consolidated Subsidiaries

PIGEON CORPORATION

Japan August 1957
Japan domestic business, Child-rearing Support Services, Health Care & Nursing Care Business

Child-rearing Support Services	Health Care & Nursing Care Business
● PIGEON HEARTS CO., LTD. Child-minding and daycare services, babysitter dispatch services, preschool education services February 1999	● PIGEON TAHIRA CO., LTD. Sale of nursing care products February 2004
● PIGEON HOME PRODUCTS CO., LTD. Manufacture and sale of toiletries October 1985	● PIGEON MANAKA CO., LTD. At-home nursing care services, sale of nursing care products October 2000
● PHP IBARAKI CO., LTD. Manufacture and sale of nonwoven products January 1996	● PHP HYOGO CO., LTD. Manufacture and sale of nonwoven products April 2002

Domestic Production Plants

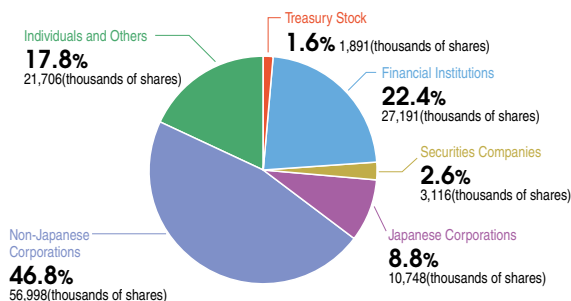
Stock Data (as of January 31, 2016)

- Shares Authorized 360 million
- Shares Issued..... 121,653,486
- Number of Shareholders..... 24,506
- Treasury Stock 1,891,577

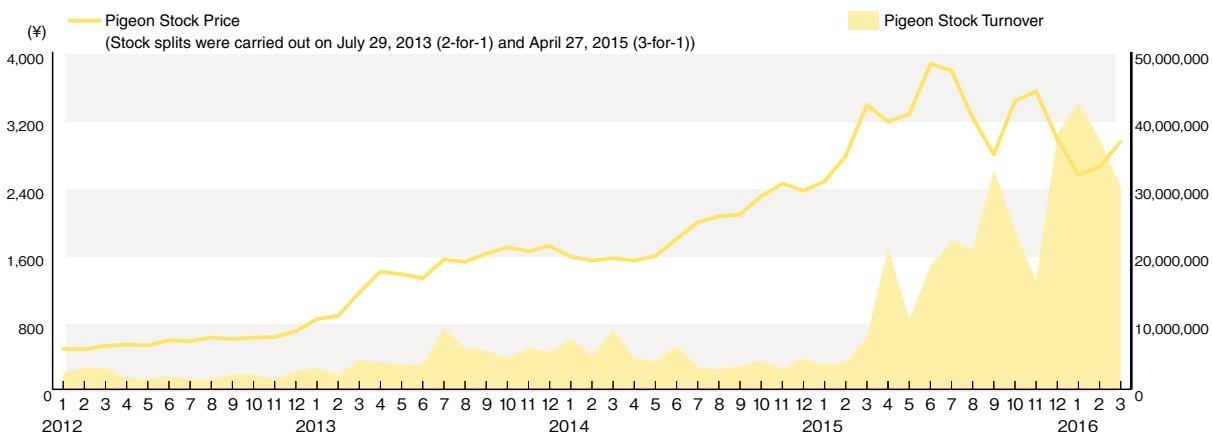
Ten Largest Shareholders (as of January 31, 2016)

Shareholder's Name	Shares Held (thousands)	Ownership* (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	7,208	6.0
Yoichi Nakata	4,838	4.0
The Bank of New York, Non-Treaty Jasdec Account	4,477	3.7
The Master Trust Bank of Japan, Ltd. (Trust Account)	4,444	3.7
BBH for Matthews Asia Dividend Fund	3,806	3.2
Y.N Corporation	3,000	2.5
Ueda Yagi Tanshi Co., Ltd.	2,960	2.5
BBH for Matthews Japan Fund	2,521	2.1
State Street Bank and Trust Company	2,012	1.7
Pigeon Corporation	1,891	1.6

*Percentage of Ownership figures are based on 119,761,909 shares (121,653,486 shares issued and outstanding, minus 1,891,577 shares of treasury stock).



Stock Price Range/Turnover of Common Stock





Pigeon Website
<http://www.pigeon.com>

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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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