



For the Year Ended January 31, 2018

Integrated Report 2018





Highlight

1. **New record-high figures for net sales and operating income**

Consolidated net sales for the year amounted to ¥102.5 billion, up 8.4% from fiscal 2016 and surpassing the ¥100 billion mark for the first time. This was due largely to healthy performances mainly in Japan and China. Thanks to efforts to improve the cost of sales ratio, the gross margin increased to 49.3%. Operating income grew 21.2%, to ¥19.4 billion, and ordinary income climbed 22.3%, to ¥20.1 billion. Net income attributable to owners of parent jumped 30.5%, to ¥14.5 billion, marking year-on-year increases for all key income indicators.

2. **Market capitalization surpasses ¥500 billion**

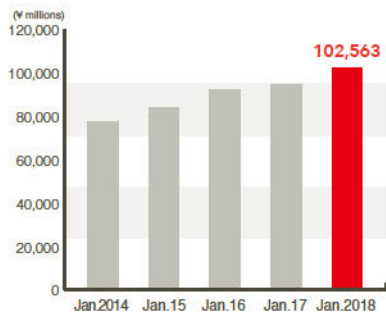
Ten years ago, on January 31, 2008, the Company's total market capitalization was ¥34.6 billion. This grew to ¥372.3 billion on January 31, 2017, then surpassed the ¥500 billion market in the first quarter of fiscal 2017 and ended the year at ¥518.2 billion on January 31, 2018. In addition to steadily expanding sales in Japan despite prolonged declines in childbirths, we have enjoyed strong overseas sales as our business growth driver, resulting in a 3.6-fold jump in consolidated net sales over the past 10 years. The operating margin has also improved, from 6.5% in fiscal 2007 to 18.9% in fiscal 2017. Going forward, we will continue aiming to be a company known for its high management quality.

3. **Female outside director appointed; Segments reclassified for a more robust overseas business structure**

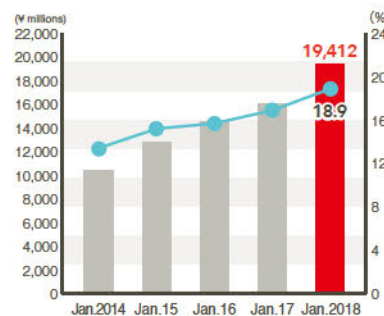
Following the most recent General Meeting of Shareholders held in April 2018, we appointed Ms. Erika Okada, who has long overseas business experience, as our third outside director, thus increasing the diversity of our Board of Directors.

Effective the current fiscal year, ending January 2019, we have divided the Overseas Business segment into two parts—the Singapore Business and the Lansinoh Business—to expedite decision-making and achieve a more robust overseas business structure.

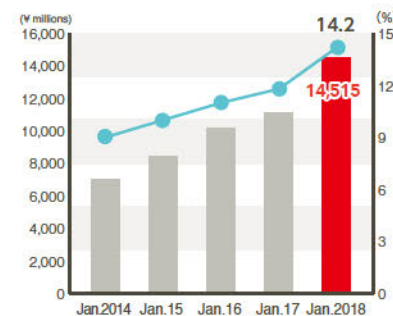
Net Sales



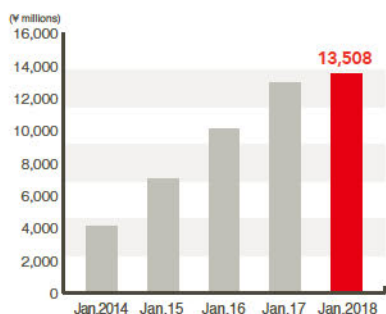
Operating Income / Operating Margin (%)



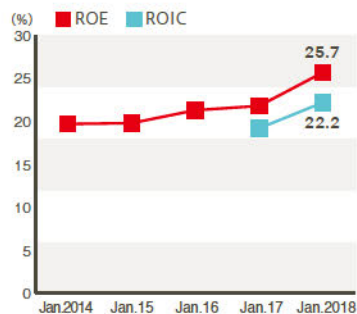
Net Income Attributable to Owners of Parent / Net Margin (%)



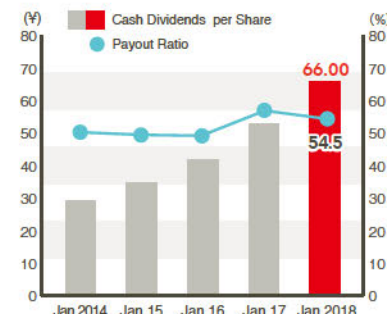
Free Cash Flows



ROE / ROIC



Dividend per Share / Dividend Payout Ratio (%)



Performance Highlights (¥ millions)

Item	Period	Jan. 2014	Jan. 2015	Jan. 2016	Jan. 2017	Jan. 2018
Net Sales		77,465	84,113	92,209	94,640	102,563
Gross Profit		34,464	38,296	43,345	44,688	50,572
Gross Margin (%)		44.5	45.5	47.0	47.2	49.3
Operating Income		10,365	12,780	14,521	16,015	19,412
Operating Margin (%)		13.4	15.2	15.7	16.9	18.9
Ordinary Income		11,002	13,299	15,080	16,462	20,129
Ordinary Margin (%)		14.2	15.8	16.4	17.4	19.6
Net Income Attributable to Owners of Parent		6,985	8,451	10,197	11,118	14,515
Total Assets		57,955	72,367	73,943	78,889	84,467
Net Assets		39,981	47,297	50,792	53,736	62,812
Free Cash Flows (Note 1)		4,135	7,001	10,147	12,956	13,508
ROE (%) (Note 2)		19.7	19.8	21.3	21.8	25.7
ROIC (%) (Note 3)		14.2	13.7	15.1	16.3	22.2
EPS (¥) (Note 4)		58.17	70.55	85.15	92.84	121.20
Dividend per Share (¥) (Note 4)		29.33	35.00	42.00	53.00	66.00
Dividend Payout Ratio (%)		50.4	49.6	49.3	57.1	54.5
Employees (Consolidated)		3,458	3,617	3,743	3,739	4,306

Notes 1. Free Cash Flows: Net cash flows from operating activities minus net cash flows from investing activities.

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

3. Return on Invested Capital (NOPAT/Invested Capital, calculated with a tax rate of 30.0% for the year ended January 31, 2018 and 2017 (the lower figure), and 40.7% for the years ended January 31, 2014 through 2017 (the upper figure). Invested Capital is averaged between beginning and year-end figures.)

4. 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 2014.

Corporate

- ▶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



Domestic Baby & Mother Care Business

- ▶1949 First nursing bottle in Japan with wide cap (A-type) launched
- ▶1956 Baby and child care-related products launched
- ▶1966 Baby powder, first in a new range of baby hygiene products, launched



- ▶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



- ▶1975 World's first diaper liner made using binderfree manufacturing method launched
- ▶1975 Liquid cleanser for nursing bottles launched
- ▶1976 World's first rubber toothbrush for milk teeth launched
- ▶1977 P-type nursing bottle for babies with poor sucking strength launched
- ▶1979 K-type nursing bottle launched

Health & Elder Care Business

- ▶1975 Habilis Business Department, targeting the senior market established

- ▶1974 First overseas office established, in Singapore
- ▶1978 Pigeon Singapore Pte. Ltd. established in Singapore

- ▶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)

- ▶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



- ▶1991 Joso Laboratory (now Central Laboratory) 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



- ▶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

1949~

1970~

1980~

1990~

Child Care Service Business

- ▶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

- ▶1990 Thai Pigeon Co., Ltd. established in Thailand
- ▶1996 Pigeon Industries (Thailand) Co., Ltd. established in Thailand

Overseas Business

- ▶1966 Exports to other countries started

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Corporate

- ▶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

Domestic Baby & Mother Care Business

- ▶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

- ▶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



- ▶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
- Pigeon Scholarship Foundation established (authorized as a public interest incorporated foundation in 2016)

- ▶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
- ▶2016 "Runfee ef" (successor to "Runfee") launched
- Renewal of "Chibion R" ear thermometer launched
- ▶2017 "Bingle" type B baby stroller launched



2000 ~

Child Care Service Business

- ▶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



Health & Elder Care Business

- ▶2000 Pigeon Manaka Corporation established

- ▶2004 Tahira Corporation (now Pigeon Tahira Corporation) joined the Pigeon Group
- ▶2007 Recoup brand of anti-aging products launched



- ▶2009 Pigeon India Pvt. Ltd., a sales subsidiary, established in India

- ▶2009 Pigeon Industries (Changzhou) Co., Ltd. established in Changzhou, China



Overseas Business

- ▶2004 Lansinoh Laboratories, Inc. in USA joined the Pigeon Group

China Business

- ▶2002 Pigeon (Shanghai) Co., Ltd. established in Shanghai, China
- ▶2006 Pigeon Manufacturing (Shanghai) Co., Ltd. established in Shanghai, China

- ▶2011 Daycare service launched by Pigeon Manaka Corporation
- ▶2015 Sano Day Service Center opened
- ▶2016 "Oral Cavity Care for Nursing of Senior Citizens" series launched



- ▶2010 Lansinoh Laboratories Medical Devices Design Industry and Commerce Ltd. Co. established in Turkey
- Lansinoh Laboratories, Inc. in the USA acquired mOmnia 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 Brasil 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

About This Integrated 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 ESG initiatives, is designed to deepen people's understanding of corporate value created by the Pigeon Group. We hope you find it informative.

Products/services

Baby and mother care products

Business conditions and Group strengths

In this segment, we sell breastfeeding-related products under the Lansinoh brand, mainly in the United States. Spearheaded by Lansinoh Laboratories, Inc., we are also expanding our business in the United Kingdom, Germany, and elsewhere in Europe, as well as in China, Brazil, and other countries. Going forward, we will upgrade our nursing bottles and other product categories.



Lansinoh Business

Mainly North America, Europe, Lansinoh Shanghai



Overseas Business
24.8%
(¥25,427 million)

Singapore Business

Mainly Southeast Asia, Middle East, and Oceania

Products/services

Baby and mother care products

Business conditions and Group strengths

In this segment, we sell baby and mother care products under the Pigeon brand. In Asia, following expansion of our production base in Thailand, we are building a distribution system in India and expanding our sales network there.



China Business

Products/services

Baby and mother care products

Business conditions and Group strengths

In this segment, we propose new 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.

Domestic Baby & Mother Care Business

Products/services

Baby and mother care products

Business conditions and Group strengths

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.



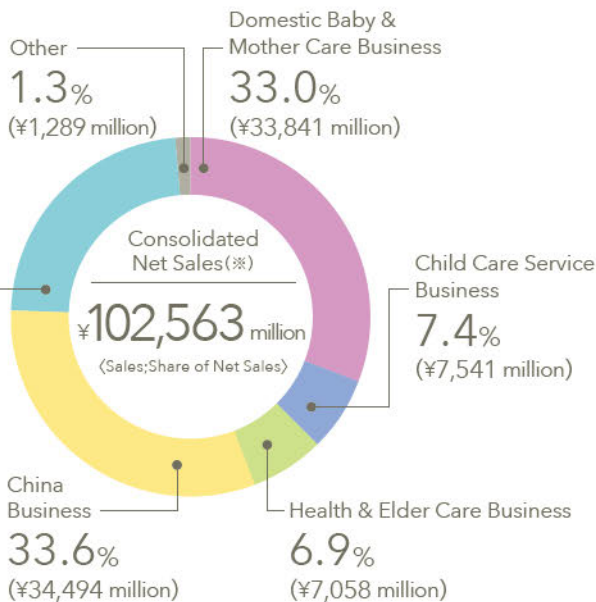
Child Care Service Business

Products/services

Child care services
Child-rearing support services, operation of in-company child-minding facilities and daycare centers, event child-care services, preschool education services

Business conditions and Group strengths

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.



※The consolidated net sales figure refers to the amount after elimination of intersegment transactions.

Health & Elder Care Business

Products/services

Elder care products, elder care support services

Business conditions and Group strengths

We will entrench various measures, including introduction of new, competitively superior products and raising the quality of nursing care services.





PIGEON



Guided by "Pigeon Way,"
we will achieve
"total optimization" and "agility"
to become Global Number One

山下 茂

Shigeru Yamashita
President and Chief Operating Officer

Corporate Philosophy Management Centered on “Pigeon Way”

Pigeon places importance on sharing its corporate philosophy globally. Our Corporate Philosophy is “Love” and our Credo is “Only love can beget love.” In order to understand our Corporate Philosophy and translate it into real action, we formulated our Corporate Mission, which asks how we can contribute to society and what we are working for, as well as our Vision, which asks what kind of company we wish to become and embodies the ideal image we seek to achieve. Our Corporate Mission is “To bring joy, happiness, and inspiration to babies and families around the world by providing them with products and services that embody love.” Our Vision is “To be the baby product manufacturer most trusted by the world’s babies and families (i.e. Global Number One).” In addition, we compiled “Pigeon Way,” which incorporates three basic Values (important attributes for all Pigeon employees) and five Action Principles (basic guideline driving all of our actions). Our Corporate Philosophy forms the foundation for our work, but for me as head of the Company, our most crucial task is to share our

Corporate Mission and our Vision with employees through two-way communication, and to continue energizing employees toward realization of the Corporate Mission and Vision.

“Pigeon Way” is posted on our corporate website. It is also translated into six languages and distributed as a “global passport” to employees all over the world. To ensure that “Pigeon Way” means much more than a slogan, we hold “Pigeon Way Meetings” around the world, and I personally have visited our bases worldwide, not just in Japan, to foster the process. “Pigeon Way” has now spread to individual employees of the Pigeon Group, both in Japan or overseas, and forms the basis for their day-to-day work. In addition, employees write about how they practice “Pigeon Way.” These “My Pigeon Way Stories” are shared between departments, and those that resonate strongly are described in detail in video form and posted on our website. Guided by “Pigeon Way,” I think it is extremely important for each and every employee to constantly forge ahead in an effort to realize our Vision.

Pigeon’s Corporate Value

Pigeon defines “corporate value” as consisting “social value” and “economic value,” and believes that these two values do not constitute a trade-off relationship.

“Social value” means value related to Pigeon’s *raison d’être*. For example, is Pigeon an indispensable presence for society and customers? Can we provide solutions for the concerns of customers and society? Can we offer new levels of value, convenience, and comfort, with designs that make people feel at ease? Enhancing social value depends on how we address these questions. For example, a nursing bottle nipple that we developed specifically for babies with weak sucking ability and tongue movement—due to being born small, for instance—was included in the “Good Design Best 100,” receiving particularly high evaluation among Good Design Award winners of 2016. Overseas, this product received the iF Design Award, one of the world’s three most prestigious design awards. In these ways, I believe that continuously providing indispensable products will lead to improvements in Pigeon’s social value. We also operate a certified public interest incorporated foundation called the Pigeon Scholarship Foundation, which offers scholarships to students aiming to become doctors in the neonatal, pediatric, and obstetrics departments of universities, with no need for repayment. In addition, we are working to expand the number of applicable universities and the number of students who can

potentially receive scholarships. These initiatives are based on our wish to foster the healthy development of mothers and babies and realize a society in which anybody can give birth and raise children with peace of mind. In order to provide such social value, employees and stakeholders need to share and embrace the “Pigeon Way” approach.

Since it is employees who create “social value,” we are concentrating on building and operating various support systems so that employees can work with peace of mind. These include a proactive initiative to help employees raise children, which reflects Pigeon’s position as a company committed to babies. For men, as well, we have a system called “One Month Together,” which enables men to take one month of paid parental leave. For three consecutive years since 2015, the uptake of “One Month Together” has been 100%, and 32 male employees have accessed the system. We also have a “Child Care Report” system that obliges all employees of children up to 1.5 years of age to provide reports on their children’s progress, whether or not they take parental leave. This is a mechanism for connecting employees’ child care experiences with their work. By forging ahead with our core business while helping employees work with a sense of worth and motivation, we make a contribution to society, which in itself leads to higher “economic value.”

“Economic value” can be expressed in simple terms, like a stock price, but the price itself will fluctuate due to foreign exchange markets and other macroeconomic factors. Over the medium and long terms, however, stock price movements are a reflection of the “present value of free cash flows to be generated in the future.” In order to increase free cash flow, we need to boost operating income (to be more precise, net operating profit after tax, or NOPAT). Besides tax, there are two ways to boost NOPAT: increase “willingness to pay (WTP),” which is the price a customer is prepared to pay for a purchase, and reduce costs. To date, Pigeon has focused on increasing WTP,

which requires a business model that is difficult to imitate, as well as a competitive advantage and marketing power. Recently, it has been difficult to succeed in emerging markets by simply increasing WTP, so we tend to adopt appealing pricing strategies in those markets. Nevertheless, we have encapsulated our various business strategies into several key performance indicators (KPIs), which we use to determine improvements over the medium and long terms. Those KPIs are return on equity (ROE), cash conversion cycle (CCC), and Pigeon Value Added (PVA, a cash flow indicator for NOPAT minus the cost of capital).

Medium-to-Long-Term Business Environment: Risks and Growth Opportunities

In the domestic market, we don't foresee any change in the big picture, which is the declining birthrate. A look at the global market environment, however, reveals tremendous opportunities for growth. In Japan, the annual number of births fell below one million for the first time in 2016. Worldwide, however, around 135 million babies are born each year, of whom 91.6 million are born in the top 20 high-birthrate nations led by India and China. Indeed, the top 20 nations account for around 70% of global childbirths.

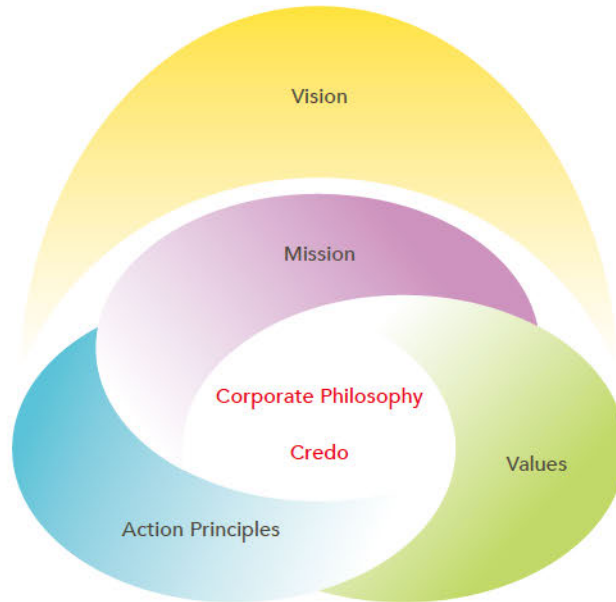
Overseas sales—the sum of sales of the Overseas Business and China Business segments—now account for more than half of the Group's net sales. Looking back on our growth trajectory, overseas sales surpassed 10% of total net sales for the first time in the year to January 2001.

In light of the declining-birthrate trend in Japan, we began to reinforce our overseas business from around 2000. We have since continued to grow significantly overseas, driven by the China Business, while accumulating wide-ranging know-how. We firmly believe we can continue growing by using our strengths to advance our business in high-potential overseas markets. Looking at individual countries, the Chinese government made a major policy change when it ended its many-year “one-child policy” in 2016. Fiscal 2017 was a year to determine the impact of this policy change. However, the end of the one-child policy does not necessarily seem to have boosted childbirths in China in the past year. Even in such a business environment, our China Business performed well in fiscal 2017, and we recognize there is still much room for growth in that nation.



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

Overview of Sixth Medium-Term Business Plan

Based on our awareness of this business environment, we are implementing our Sixth Medium-Term Business Plan, formulated in March 2017. The slogan of the plan is “Building our dreams into the future—By creating a bridge towards the Global Number One manufacturer of baby products.” As stated on the previous year’s annual report, with respect to Pigeon’s medium-to-long-term growth strategy, we have earmarked the three years of the plan as a period for “laying solid foundations” aimed at achieving continued double-digit topline (net sales) growth during the period of the Seventh Medium-Term Business Plan and beyond. The plan centers on three basic policies: (1) Based on Pigeon Way, create and implement various key measures to achieve our goal of becoming “an indispensable company” to society and realize our Vision, which is “to be the baby product manufacturer most trusted by the world’s babies and families (i.e. Global Number One)”; (2) Further increase corporate value by improving business profitability and efficiency and maximizing cash flows, while establishing and reinforcing our organizational structure, management system, and governance system to ensure sustainable medium-to-long-term growth; and

(3) Over the plan’s three-year period, allocate management resources with priority on key products and make strategic investments, laying solid foundations for double-digit growth of the Pigeon Group in the future.

To implement these basic strategies, the plan cites 12 specific tasks: “ESG (environment, social, and governance),” “Global sharing of corporate philosophy & values,” “World-class brand power,” “Development capabilities,” “Business model for success,” “Cash flow management (PVA),” “Global cash management,” “Global supply chain management (SCM),” “Diversity/women in management,” “Global human resource development,” “Salary increases,” and “Global information system.”

In fiscal 2019 (ending January 2020), the final year of the plan, our consolidated targets are: net sales of ¥110.0 billion, gross profit ¥55 billion, operating income of ¥20.0 billion, ordinary income of ¥20.0 billion, net income attributable to owners of parent of ¥13.8 billion, (ROE) of 22.0% or higher, and ROIC (NOPAT/capital invested, calculated with a tax rate of 30.0%) of 20.0% or higher.

Sixth Medium-Term Business Plan: Numerical Targets (As of March 2017)

Consolidated Performance Targets

(¥ millions)	FY2016	FY2017	FY2017 Result	FY2019	3-years CAGR
Net Sales	94,640	99,800	102,563	110,000	+5.1%
Gross Profit	44,688	47,600	50,572	55,000	+7.2%
Operating Income	16,015	17,000	19,412	20,000	+7.7%
Ordinary Income	16,462	17,000	20,129	20,000	+6.7%
Net Income Attributable to Owners of Parent	11,118	11,800	14,515	13,800	+7.5%
EPS (¥)	92.84	98.53	121.20	115.23	
Operating Margin (%)	16.9%	17.0%	18.9%	18.2%	
Ordinary Margin (%)	17.4%	17.0%	19.6%	18.2%	
Net Income Attributable to Owners of Parent Margin (%)	11.8%	11.8%	14.2%	12.5%	

	FY2017 Result	Sixth Medium-Term Business Plan Target
ROE	25.7%	22.0% or higher
ROIC	22.2%	20.0% or higher

* ROE: Return on equity. The denominator is the average of the figures at the beginning and end of the fiscal year.

* ROIC: Return on invested capital. Assumes a tax rate of 30.0%. Invested capital is calculated using the average of the figures at the beginning and end of the fiscal year.

Sixth Medium-Term Business Plan: Priorities by Segment (As of March 2017)

Domestic Baby & Mother Care Business

(Fiscal 2019 Sales Target: ¥36.5 billion)

In this segment, Pigeon will strive to expand market share in the six priority product categories it has identified. In addition to nursing bottles/nipples, where we are overwhelmingly strong, those categories are: mugs/cups; pacifiers and teething products; breastfeeding-related products (such as breast pumps and breast pads); skincare products, toiletries, and detergents; and electrical appliances (such as sterilization devices). We have also placed positioned large-sized products, such as baby strollers and baby car seats, as a growth category earmarked for further market share increases. In addition, we will strive to enhance direct communications with consumers and further expand seminars for healthcare practitioners, in terms of geographical coverage and frequency, while rebuilding and reinforcing hospital-based activities.

Child Care Support Services

(Fiscal 2019 Sales Target: ¥3.0 billion)

With top priority on improving the quality of our business, we will strive to provide highly specialized child-care services according to the individual attributes of children. We will also further entrench safe and secure control systems and foster child-care personnel in order to enhance the quality of our services.

Health & Elder Care Business

(Fiscal 2019 Sales Target: ¥8.0 billion)

Seeking to improve business growth and profitability, we will strengthen our in-house sales structure and distribution system. In collaboration with partners outside of the Company, meanwhile, we will focus on developing and selling new products that closely reflect the insights of consumers and carers.

Overseas Business (Separated into Singapore Business and Lansinoh Business in Fiscal 2018) (Fiscal 2019 Sales Target: ¥28.9 billion)

In this segment, we will target business growth by increasing market share in our six priority categories. For nursing bottles, we will aim to increase market share by 15 percentage points in each nation. We will also strengthen our brand power by engaging with neonatal intensive care units (NICUs) in each country to complement our hospital-based initiatives. In addition, we will advance our businesses in India and Indonesia, identified as markets to focus on. Anticipating future market growth, meanwhile, we will develop new markets in Africa, specifically Nigeria, Kenya, and nations on the west coast.

In addition to European markets, such as the United Kingdom, Germany, and France, we have positioned China, where Lansinoh Shanghai spearheads our business, as a key growth market. In the United States, we are working to boost sales via the durable medical equipment (DME) channel. We will target growth of the Lansinoh brand in each of these markets to broaden our business.

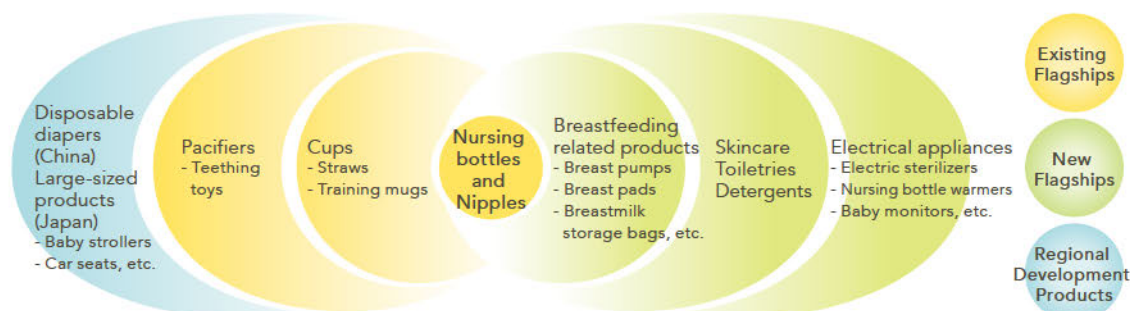
China Business (Fiscal 2019 Sales Target: ¥39.0 billion)

In this segment, we will target business growth by increasing market share in each of our six priority categories while broadening our business in disposable diapers. At the same time, we will rebuild our sales and distribution systems to address the growth of e-commerce sales, in order to solidify our business foundation. In addition, we will step up communication with consumers by continuing to aggressively promote existing hospital-based hospital activities, as well as direct communication.

Sixth Medium-Term Business Plan: Key Strategies

Expansion of Key Product Categories

Broaden overwhelming strength in nursing bottles and nipples to cover peripheral categories



* 3 Existing Flagships + 3 New Flagships = 6 Key Product Categories

Research and Development

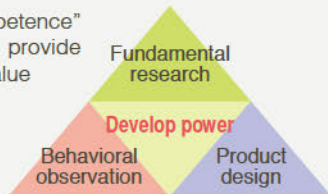
● Pigeon Research and Development

Pigeon's core competency is embodied in its R&D activities, which center on fundamental research, behavioral observation, and product design. In the field of breastfeeding research, in particular, we have observed the behavior of infants continuously for more than 60 years in an effort to clarify how infants drink when breastfeeding. At the core of such R&D activities is our Central Laboratory, which was established in 1991 in Tsukuba Mirai City, Ibaraki Prefecture. The work of the Central Laboratory, which is staffed by around 130 employees, encompasses research, development, and quality control—for products sold both in Japan and overseas.

Today, Pigeon's product group has expanded greatly. Our behavioral 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

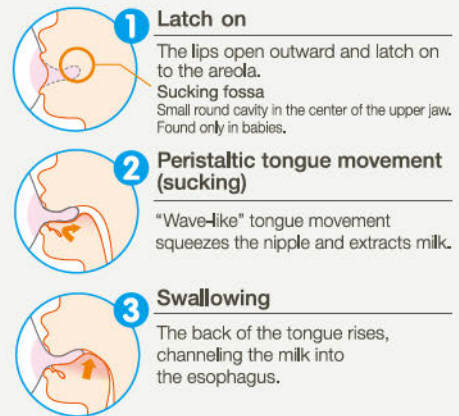
A company's "core competence" is its inherent ability to provide one-of-a-kind levels of value to customers in a way that other companies cannot imitate.



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

● Basic Research and Achievements

We have conducted basic research on nursing bottles and nipples since our foundation more than 60 years ago. Drawing on this research, we have identified three principles involved when babies are feeding: "latch on," "peristaltic tongue movement (sucking)," and "swallowing." These findings led to the commercialization of baby bottles and nipples, our mainstay products. Through our research, we have discovered the amount that babies drink based on their stage of growth, as well as the appropriate nipple hole and size for that stage. This led to the development of Bonyu Jikkan®, a mainstay nursing bottle nipple that has been highly acclaimed by customers since its launch in spring 2010.



Overseas R&D and Quality Control

● Overseas Expansion and R&D

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.

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 Laboratory before their release. Quality confirmation related to mass production is handled by the Central Laboratory quality control section. This permits consistent product assurance across the Pigeon Group.



● Behavioral Observations and Achievements

One recent result of our behavioral observations is our development of baby strollers. In a survey, consumers revealed the features they emphasize when purchasing a stroller. These included light weight, ease of folding, and ease of independent movement. In Japanese towns and villages, we often see strollers with tires that are made small to achieve weight reduction. Through our behavioral observations, however, we found that many people struggle when using strollers on Japanese roads and sidewalks, where small gradations of around 2cm in height are commonplace. In response, we sought to resolve such dissatisfaction, about which many users were not aware. Specifically, we developed the "Runfee" baby stroller with a 16.5cm large-diameter single tire, which allows it to run smoothly over uneven ground, improves cornering performance, and alleviates impact on babies. "Runfee" was launched in 2015. Although baby strollers represent a new entry category for our company, "Runfee" has been highly acclaimed as a product that addresses customers' concerns. In September 2017, Pigeon's share of the domestic baby stroller market exceeded 20%.

● Design

Pigeon's design team focuses on four key elements. Specifically, it aims for products that (1) continue to create new standards, (2) are designed based on reason, (3) embody the feeling of love, and (4) feature simple designs. Many of our designs convey a sense of softness thanks to the use of curves, resulting in numerous Pigeon products that have received Good Design awards.



Review of Fiscal 2017 (First Year of Sixth Medium-Term Business Plan)

In fiscal 2017, ended January 2018, consolidated net sales amounted to ¥102.5 billion, up 8.4% from fiscal 2016. This was due mainly to healthy performances by our Domestic Baby & Mother Care Business, China Business, and Overseas Business segments. Thanks to an improved cost of sales ratio, operating income grew 21.2%, to ¥19.4 billion, ordinary income rose 22.3%, to ¥20.1 billion, and net income attributable to owners of parent jumped 30.5%, to ¥14.5 billion. The record-high net sales figure represents the 16th consecutive period of year-on-year increases and the first time to surpass the ¥100 billion mark. The operating income figure was also a new record, representing the seventh consecutive period of year-on-year increases. In the first year of the Sixth Medium-Term Business Plan, we came close to achieving targets for the plan's final year—gross margin of 50% and operating income of ¥20.0 billion—and therefore we expect

to reach the plan's targets one year ahead of schedule. We will continue working to achieve the targets of the Sixth Medium-Term Business Plan and prepare for double-digit growth during the period of the Seventh Medium-Term Business Plan.



● Domestic Baby & Mother Care Business

In fiscal 2017, the Domestic Baby & Mother Care Business segment significantly improved its earnings power, achieving a 6.3% year-on-year increase in sales and a 23.0% jump in operating income. This segment is benefiting from ongoing growth in demand from inbound tourist visitors, and we are building a robust supply system to maximize revenue-generating opportunities. We are also expanding market share in our six priority product categories: (1) Nursing bottles/nipples; (2) Mugs/cups; (3) Pacifiers and teething products; (4) Breastfeeding-related products (such as breast pumps and breast pads); (5) Skincare products, toiletries, and detergents; and (6) Electrical appliances (such as sterilization devices). Despite challenges from competitors in the core nursing bottle category, we will establish a solid position by entrenching our image as a safe, reliable brand and introducing products that

make people happy onto the market.

In large-sized products, centered on baby strollers, we are putting up a fight against stiff competition. In the stroller category, we are conducting aggressive sales and marketing activities aimed at capturing a 25% market share by January 2020. Here, we will leverage our "Runfee" series, which has been popular since its launch. We will also continue information dissemination activities targeting collaboration with medical practitioners while emphasizing direct communication through our website.



● Child Care Service Business

Sales in the Child Care Service Business segment grew steadily, up 2.0% year on year, while segment income rose 3.6%. In fiscal 2018 (ending January 2019), however, we forecast a decline in segment sales. This is due to the termination on March 31, 2018 of our contracted operation of 113 child-care facilities in hospitals of the National Hospital Organization (independent administrative agency). Going forward, we will continue emphasizing exceptional Pigeon-quality child care centered on in-company child-minding facilities and preschool education facilities.

● Health & Elder Care Business

In the Health & Elder Care Business segment, sales increased 2.3% year on year, and income climbed 5.0%. In addition to strengthening our in-house sales structure and distribution system, we will aim to improve profitability and achieve renewed business growth through the introduction of new products. We also actively develop new fields of business while considering collaboration with outside companies.

● China Business

The China Business segment, which has achieved dramatic growth, contributes greatly to our earnings and is a major pillar of our operations on a par with the Domestic Baby & Mother Care Business segment. In the year under review, segment sales increased 13.0% year on year, buoyed by healthy demand for nursing bottles and nipples, while segment income rose 16.3%,



● Overseas Business

Under the Sixth Medium-Term Business Plan, we will work to bolster growth by increasing market share in our six priority product categories. At the same time, we will step up activities in cooperation with hospitals and neonatal intensive care units (NICUs). We are working to broaden our presence in markets earmarked for growth, specifically India and Indonesia, where we promote the Pigeon brand, as well as Europe (United Kingdom, Germany, and France) and China, where we promote the Lansinoh brand.

For Lansinoh products, we maintained the top market share in North America for nipple care cream and breast pads. In North America alone, the market for breast pumps is valued at around ¥60 billion. In the key U.S. market, the Trump administration has retained the so-called “Obama Care” healthcare scheme, under which electric breast pumps are covered by insurance. In addition to traditional retail channels, we are targeting a new sales route: the durable medical equipment (DME) channel. We are also enjoying steady sales growth in Germany and elsewhere in Europe, as well as in China.

In Indonesia, where we promote the Pigeon brand, in November 2017 we raised our equity stake in PT Pigeon Indonesia, an equity-method affiliate, to 65%, thus converting it into a consolidated subsidiary. We are focusing on Indonesia as a growth market, where around 4.2 million babies are born annually. With the help of our consolidated subsidiary, we will further expand our business in that nation.

In India, the world leader in terms of childbirths, at around 24 million babies annually, we started exporting nursing bottles and nipples, and in fiscal 2017 we turned a profit in that

reflecting a continuation of very strong business growth. Under the Sixth Medium-Term Business Plan, we will introduce new products each year with aim of leveraging our core nursing bottles and nipples to expand market share in our six priority categories. We will also expedite business growth for disposable diapers to further underpin our growth in China. E-commerce sales are increasing dramatically in China, especially among people born in the 1980s and 1990s. In addition to our traditional sales route via baby product specialty stores, we will step up digital marketing in collaboration with major Chinese online distributors, such as Alibaba Group and Jingdong Group, with the aim of expediting business growth.

To enhance communications with consumers, we will further strengthen direct communication through social media, such as WeChat and Weibo, in addition to existing activities targeting hospitals.

nation for the first time. In India, pharmacies are our most important sales channel, unlike in China where we mainly sell through baby product specialty stores. By building a new agency network for the pharmacy channel, we have increased the number of stores selling our products to around 30,000, and under the Sixth Medium-Term Business Plan, we will further broaden our pharmacy channels, with a target of 50,000 outlets.

Regarding Africa, earmarked as a newly developing market under the Sixth Medium-Term Business Plan, we are cultivating sales agencies, especially in Kenya. By the end of the period of the plan, we hope to have agents in place and selling our products.

Effective the current fiscal year, ending January 2019, we have divided the Overseas Business segment into two parts: the Singapore Business, which advances the Pigeon brand mainly in Asia; and the Lansinoh Business, which advances the Lansinoh brand. One reason is that both businesses have become large in scale, but the main aim of the strategy is to accelerate decision-making by making each business independent. We also aim to expedite product development based on consumer insights (purchasing motivation and consumption activities) of each market. The Singapore Business covers Asia (except China, Russia, Philippines, Taiwan, South Korea, Mongolia, Hong Kong, and others covered by the China Business), as well as the Middle East and Oceania.





Future Issues

Our current medium-term plan is positioned as a period to lay the foundations for sustained double-digit net sales growth during the period of the Seventh Medium-Term Business Plan and beyond. Under the current plan, we are focusing on improving the gross margin while assuming a compound annual growth rate (CAGR) of 5.1%. Our gross margin is improving at a swift pace, and the priority category of nursing bottles/nipples is performing steadily. However, we need to strengthen our presence in the other five priority categories: mugs/cups; pacifiers and teething products; breastfeeding-related products; skincare products, toiletries, and detergents; and electrical appliances. We also look forward to further growth in large-sized domestic products that will lead to future business expansion, as well as regional products, such as disposable diapers in China.

We also believe that further improvements are required with respect to the cash conversion cycle (CCC). In fiscal 2017, we achieved a CCC of 67.6 days, compared with our target of 71.1 days under the medium-term plan. Nevertheless, we will continue stepping up efforts to improve capital efficiency and strengthen our financial position, with the aims of further raising management quality and corporate value.

Investments and Shareholder Return

Cash generated through our business activities is returned to shareholders after retaining funds necessary for growth, which is a priority. Over the three years of our Sixth Medium-Term Business Plan, we expect to generate around ¥46.0 billion in operating cash flows. We will also make proactive investments (including possibilities in M&As) of around ¥14.5 billion overseas and ¥5.5 billion in Japan, for a total of ¥20.0 billion. With respect to shareholder return, we plan to make year-on-year dividend increases over the medium and long terms, with a target consolidated dividend payout ratio of 55%. Our policy is to enhance shareholder returns in a flexible manner, including through share buybacks.

In the year under review, we paid an interim cash dividend of ¥31.00 per share, up ¥6.00 year on year, and a year-end dividend of ¥35.00 per share, up ¥7.00. This brought total annual dividends to ¥66.00 per share, up ¥13.00 year on year. The consolidated dividend payout ratio was 54.5%. In the year ending January 2019, our plan is to pay annual dividends of ¥68.00 per share, up ¥2.00 year on year.



Corporate Governance

We have included ESG (environmental, social, governance) as one of the 12 tasks set under our Sixth Medium-Term Business Plan. However, Pigeon regards corporate governance, one element of ESG, to be much more than meeting the formal requirements of Japan's Corporate Governance Code. Rather, we have worked to enhance corporate governance from the perspective of its essence, which is to build "frameworks for transparent, fair, swift, and resolute decision-making," and we are constantly searching for outside officer candidates based on this approach. Following approval at the General Meeting Shareholders in April 2018, we appointed Ms. Erika Okada as the Company's third outside director. We anticipate that Ms. Okada will use her global knowledge, backed up by long overseas experience, to benefit our management, not to mention her unique perspectives as a woman. In terms of governance, although we have greatly enhanced diversity of officers, we recognize the need to review our executive remuneration system as a priority task for the future.

For many years, we have been aware of the need to appoint female officers. Since we are a company that serves babies and their mothers, many people, including shareholders, have questioned us about the lack of female directors. At present, women account for around 15% of Pigeon's overall management

positions, and we will step up recruitment and fostering of female employees in the future. In the meantime, we are forging powerfully ahead with workstyle reforms covering both female and male employees. For the third consecutive year, the parental leave take-up ratio for male employees was 100%. For overtime, as well, we established a rule to discourage employees from working after 7:00pm, and we have established "no overtime days." In these and other ways, we are promoting health-oriented management.

Looking ahead, Pigeon will meticulously implement various measures embodied in its Sixth Medium-Term Business Plan. At the same time, we will focus on providing products and services with new levels of innovative value that benefit people's lives, in our quest to deliver sustained increases in corporate value in terms of both social value and economic value. We look forward to the ongoing understanding and support of shareholders and other investors.

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Shigeru Yamashita
President and Chief Operating Officer



Domestic Baby & Mother Care Business

● Business Environment

In 2017, the total number of births in Japan was 941,000, down 35,000 from 976,000 in 2016 (according to statistics released by the Ministry of Health, Labor and Welfare in 2017). The Japanese economy in 2017 continued maintaining an overall moderate recovery tone on the back of improvements in corporate earnings and employment conditions. From the consumer's perspective, however, uncertainty about the future remains amid rising costs of social security and daily necessities, so the business environment will continue to defy optimism.

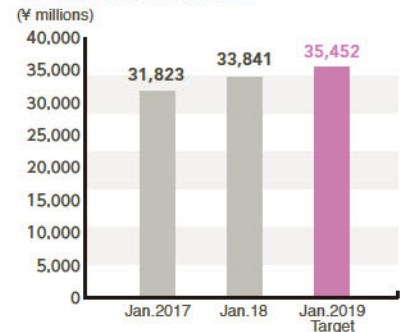
● Our Competitive Edge

Based on more than 60 years of research into breastfeeding and infant and child development, the predominance of the Pigeon brand is the result of creating and developing a wide range of high-quality products. Here, we use the discoveries we have made via in-depth research into the growth processes of babies, and we have uncovered various problems that parents encounter when raising children. Our competitive edge lies in our high public profile as leader in the industry and creator of the very strong Pigeon brand.

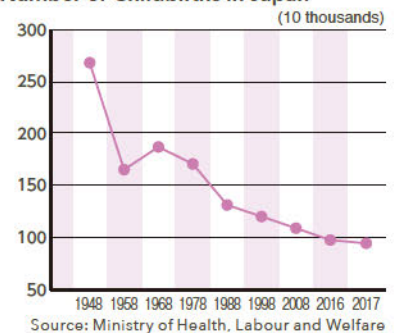
● Business Strategy

In the year under review, we worked to strengthen our position in the six priority categories and rigorously implement countermeasures against competing companies aimed at maintaining high market shares in nursing bottles and nipples. We also sought to expand our business and increase market share through proactive sales and marketing of baby strollers and other large-sized products. In addition, we stepped up our approach to the maternity market through our ongoing direct communication policy, and we promoted information dissemination activities targeting collaboration with medical practitioners.

Sales of Domestic Baby & Mother Care Business



Number of Childbirths in Japan



Existing Category Initiatives

We are conducting more in-depth research into the physical development of babies while 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 existing categories by stepping up educational activities. Pigeon has the ability to offer a full range of baby products. Deploying this capability, we are working in collaboration with large retailers to establish unique in-store Pigeon product sections and develop sales promotion strategies.

New Category Initiatives

In large-sized products, a new category that we have been fostering, we launched the baby stroller "Runfee", developed based on in-depth behavioral observation, in January 2015. These strollers run smoothly over uneven ground thanks to their 16.5cm large-diameter tires, thus resolving potential concerns of customers. The market share for Runfee has grown sharply since its launch. We will continue introducing large-sized products, centered on the Runfee series, as we foster this category into a new pillar of our business.

● Performance and Highlights

In fiscal 2017, sales in the Domestic Baby & Mother Care Business segment increased 6.3% year on year, to ¥33,841 million, benefiting from solid ongoing inbound demand from overseas tourists and the like. Segment income grew 23.0%, to ¥5,928 million.

In February 2017, the Group launched its first hand-made ice cream product, "Baby Petit Ice." In June, we launched a new single-tire version of baby stroller "Runfee" strollers that has earned high satisfaction from many customers. In August, we unveiled "Bonyu Pad Fit Up® Saratto Chokyushu," a breast pad with improved absorbency and leak resistance. This was followed in December by "Bonyu Jikkan®" nursing bottle "my Precious," which won the Good Design Award for fiscal 2017 and has enjoyed steadily rising sales and market share ever since. In baby strollers, Pigeon's market share surpassed 20% for the first time in September 2017. We also maintained top market shares in nursing bottles/nipples, breast pumps, breast pads, baby skincare products (washing-related), and baby wipes—all included in the six priority categories.

During the year, we held a total of 32 of events as a part of our direct communications program. These included "Premama Classes" for women expecting to give birth in the near future and seminars about breastfeeding while parenting for healthcare professionals. Around 3,000 people attended these events in total. With respect to "Pigeon Info," a website that supports women during pregnancy, in childbirth, and while raising children, we continued improving the content to make it more convenient for users.

Priorities for Fiscal 2018

- ▶ Conduct in-depth marketing activities in our six flagship categories: nursing bottles/nipples; mugs/cups; pacifiers and teething products; breastfeeding-related products (such as breast pumps and breast pads); skincare products, toiletries, and detergents; and electrical appliances (such as sterilization devices)
- ▶ Actively promote sales, marketing, and investment activities in the large-sized product category to further expand market share in value terms

Segment sales forecast for FY 2018: ¥35,452 million (up 4.8% year on year)



Baby stroller "Runfee"



Pigeon Medicated Lotion (Leaves of Peach)



Bonyu Jikkan® nursing bottle "my Precious"

Domestic Market Share of Pigeon's Main Products



(Jan. 2018)
From INTAGE Inc.'s POS national drug expansion/
promotion value (amount of money per month)



Child Care Service Business

● Business Environment

There are an increasing number of women who want children but who wish to keep working, and more and more women want to return to work while raising children. With high expectations for our company to fulfill a major role, we believe these factors are positive for the development of our Child Care Service Business.

● Our Competitive Edge

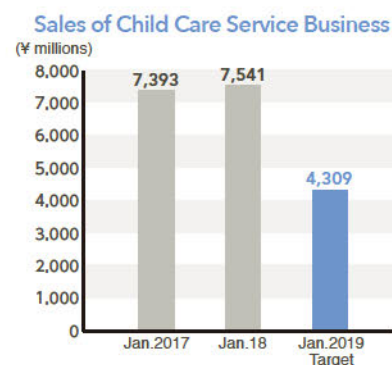
Through its provision of baby and child care offerings, Pigeon has built a reputation for safe and reliable products. Deploying this brand strength, we are building our Child Care Service Business under the principle that “children’s growth is first priority.” Today, the Pigeon Group provides a host 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 people for the high quality of its services while operating one of Japan’s top-class child care service businesses.

● Business Strategy

The solid reputation and trust earned by our Child Care Service 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 while also striving to improve business profitability.

● Performance and Highlights

In the year under review, sales in Child Care Service Business segment increased 2.0% year on year, to ¥7,541 million, and segment income rose 3.6%, to ¥218 million. During the year, we were newly entrusted to operate four in-company child-care facilities, and we enhanced the quality of our services. We now have 54 facilities under our management (excluding in the National Hospital Organization, with which we ceased operations on March 31, 2018).



Priorities for Fiscal 2018

- ▶ Clarify the positioning of our businesses and enhance operational efficiency, which will lead to improved profitability
- ▶ Enhance the quality of child-care services by improving employee treatment and securing and nurturing competent child-care workers
- ▶ Strengthen crisis management and further develop safety measures

Segment sales forecast for FY 2018: ¥4,309 million (down 42.9% year on year)

Health & Elder Care Business



● Business Environment

Japan's population is aging rapidly while the number of births declines. In 2016, the population of baby boomers (born between 1947 and 1949) aged 65 and over reached 35.14 million (September 15, 2017 statistics, Ministry of Internal Affairs and Communications). This is equivalent to 27.7% of the total population, and the share continues to grow steadily. To address continuously increasing elder care costs, the national government amended the nursing care insurance system in 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 elder care homes.

● Our Competitive Edge

In the Health & Elder Care Business, we 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 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 elder care services, centering on Tochigi Prefecture.

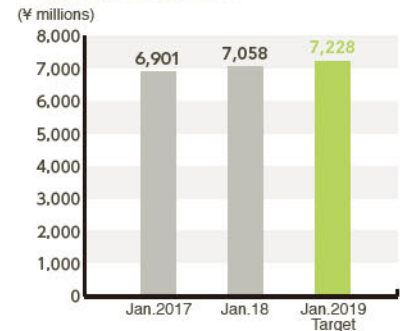
● Business Strategy

We are working to improve product competitiveness in the key categories of bottom wipes, body wipes, skincare products, food, and oral care products. We also sell Habinurse-brand products through retail stores and institutions/hospitals, and we are working comprehensively to meet the needs of people receiving care in facilities or in their homes.

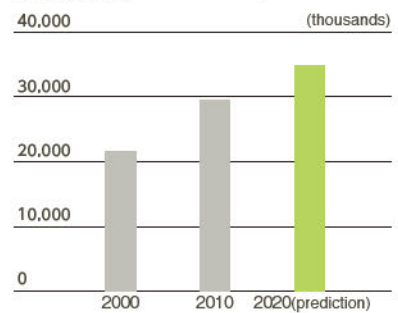
● Performance and Highlights

Sales in this segment grew 2.3% year on year, to ¥7,058 million, driven mainly by the core categories of bottom wipes and oral care products for the elderly, especially via retail channels. Segment income climbed 5.0%, to ¥468 million.

Sales of Health & Elder Care Business



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



Source: "Population Projection for Japan," National Institute of Population and Social Security Research

Priorities for Fiscal 2018

- ▶ Establish and reinforce our sales and distribution systems to deliver business growth
- ▶ Collaborate with elder care professionals in an effort to build product concepts and ideas to support at-home care
- ▶ Enhance profitability by improving the efficiency of our business systems

Segment sales forecast for FY 2018: ¥7,228 million (up 2.4% year on year)



Line-up of health and elder care items

China Business



● Business Overview

China's annual childbirths have averaged about 15-17 million over the past several years, which is 15-17 times the number of births of Japan. Even if Pigeon targets half of this market, it is still a huge potential market. Given that we generate ¥33.8 billion per year from our Domestic Baby & Mother Care Business in Japan, where only 941,000 million babies are born annually, we regard our growth potential in China to be extremely large. Looking ahead, we estimate that the number of childbirths will remain high in China. These factors, coupled with increasing disposable incomes nationwide and growing concern among consumers about product safety, will underpin the growth of our Chinese business.

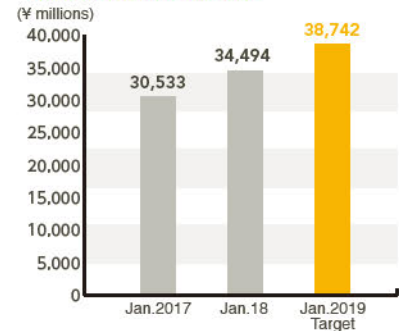
● Our Position

Since our full-scale entry into the Chinese market in 2002, we have broadened our sales coverage across the entire nation, from coastal regions to interior regions. The main target for Pigeon's products is the "new rich" market, and we are developing that market with more than 500 types of products, including our mainstay nursing bottles and nipples. By maintaining stable pricing backed by high product quality, we have increased the number of stores handling our offerings and dedicated Pigeon sections within retail outlets. As a result, our business has grown at a faster rate than the Chinese market. In recent years, the main generation creating new families in China has shifted from the "80s generation" to the "90s generation." With this in mind, we will provide wide-ranging responses to consumer needs while embracing e-commerce, which is growing rapidly, especially among the "90s generation." In the meantime, recognition of Pigeon among consumers as a safe, reliable, high-quality brand is spreading.

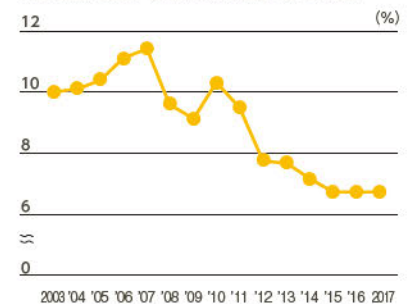
● Business Strategies

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. In 2009, we opened Pigeon Breastfeeding Advice Offices in 34 major hospitals as a joint project with China's Ministry of Health (58 hospitals as of January 2018). As of January 2018, we had partnerships with around 280 hospitals (including Pigeon Breastfeeding Advice Offices) throughout the country providing educational activities related to breastfeeding. With respect to manufacturing, Pigeon Manufacturing (Shanghai) Co., Ltd., established in 2008, has been manufacturing and assembling various products. These include silicon nursing bottle nipples, detergents, and toiletries, as well as nursing bottles. To address the rapidly growing market for consumables, Pigeon Industries (Changzhou) Co., Ltd. started operations at its plant in Changzhou, Jiangsu Province in 2011, producing breast pads and baby wipes. Since 2013, it has also been producing disposable diapers, which Pigeon does not sell in Japan.

Sales in China Business



Annual GDP Growth Rate 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-).



● Sales Development and Network

We are expanding ties with local distributors in order to develop our sales network across the entire nation. For the retail channel, we will reinforce our distribution network by mobilizing both primary and secondary distributors as we seek to further boost sales in China. Meanwhile, we will strengthen our network of dedicated "Pigeon Corner" sections within baby specialty shops.

Recent years have seen rapid growth of sales via major Chinese e-commerce websites. In response, we are striving to increase online sales by strengthening initiatives in partnership with distributors and e-commerce service providers. At the same time, we are strengthening direct communication with consumers using social network services.

● Business Performance

In the China Business segment, sales increased 13.0%, to ¥34,494 million, buoyed by healthy sales of mainstay nursing bottles and nipples and skincare products. Segment income grew 16.3%, to ¥9,716 million. During the year, we launched new products featuring Disney character designs in May 2017. These products, which include nursing bottles, mugs, and pacifiers, attracted a steady increase in sales. With respect to e-commerce, we stepped up efforts centered on flagship stores, while stimulating direct communication with consumers using social network services. By also continuing to strengthen offline initiatives, such as in-store promotions and hospital-based activities, we increased points of contact with customers and strove to expand our business.



E-commerce site in China



Dedicated Pigeon retail section in China "Pigeon Corner"



Maternity-related seminar

Priorities for Fiscal 2018

- ▶ Target business growth by improving market share in our six flagship categories and expanding our business in disposable diapers
- ▶ Further strengthen our business foundation by rebuilding our sales and distribution systems in response to growing e-commerce channels and the like
- ▶ Emphasize hospital-based activities, as we have in the past
- ▶ Further strengthen interaction with consumers through ongoing proactive direct communications

Segment sales forecast for FY 2018: ¥38,742 million (up 12.3% year on year)



Nursing bottle production line



CBME exhibition (one of China's largest)



Exhibition in China

Overseas Business

(Singapore Business and Lansinoh Business)



Business Overview

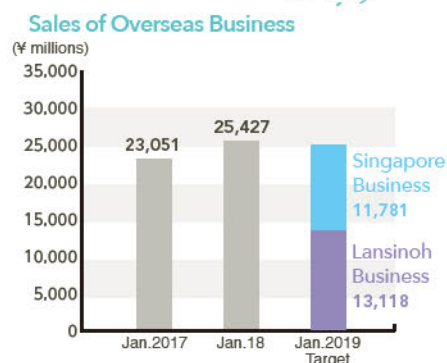
The Overseas Business segment covers North America (United States, Canada, etc.), Europe (United Kingdom, Germany, etc.), the Middle East (United Arab Emirates, Turkey, etc.), Asia (Singapore, India, China (Lansinoh Laboratories Shanghai), etc.), and others (South Africa, South America, etc.).

In fiscal 2017, segment sales increased 10.3% year on year, to ¥25,427 million. Segment income rose 20.1%, to ¥5,841 million, benefiting from an improved gross margin and the effective deployment of SG&A expenses.

Our Competitive Edge

Approximately 135 million babies are born each year in around the world, with India leading the way, and around 91.6 million of them are born in the top 20 nations in terms of childbirth numbers. Among those 20 nations, Pigeon estimates its potential target market to be 17.82 million people annually. Given Japan's birthrate of only 941,000 per year, the potential market for our overseas business is extremely large, and we have significant room for growth.

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. 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. From time to time, we review our distributors according to performance, but thanks to the support of good partners in the field, our overseas business development is accelerating.



Skincare products

Singapore Business (Mainly Southeast Asia, Middle East, and Oceania)

Business Strategy

Targeting further business expansion, Pigeon is actively entering new markets. In Thailand, we are expanding our production base, and in India we began production of nursing bottles and nipples at our local factory in 2015. In addition to manufacturing products for other nations, our Thai and Indian facilities have started exports to Japan.

In Indonesia, we converted our local operation into a consolidated subsidiary in November 2017. We will continue advancing into new markets, including in Africa, to achieve further growth.

Priority Market: India

In India, the population has been growing at the rate of more than 10 million per year, and has reached 1.32 billion according to a 2016 world population white paper. More than half the population is under 25. Furthermore, the number of childbirths continues to grow, and is projected to reach 24 million per year, significantly higher than China. We are working raise recognition of Pigeon in India as a mother and baby care brand. In India, we are expanding mainly in major cities such as Delhi and Mumbai, and we are developing outlets linked closely with local communities while establishing and reinforcing our distribution system. We sell our products in around 30,000 outlets, centering on pharmacies, and going forward we plan to further broaden our pharmacy channels, with a target of 50,000 outlets.

Priority Market: Indonesia

In Indonesia, we raised our equity stake in PT Pigeon Indonesia, an equity-method affiliate, to 65%, thus converting it into a consolidated subsidiary. We are focusing on Indonesia as a growth market, where around 4.2 million babies are born annually. With the help of our consolidated subsidiary, we will further expand our business in that nation.

Priorities for Fiscal 2018

- ▶ Step up product manufacturing for the middle classes while expanding market share in the nursing bottle and nipple category
- ▶ India: Improve profitability through business expansion and improvement of our factory capacity utilization rate
- ▶ Indonesia: Enhance production efficiency and prepare for the production of new offerings

Segment sales forecast for
FY 2018: ¥11,781 million (up 14.5% year on year)

● Performance and Highlights

In North America and Europe, where we promote the Lansinoh brand, sales of breastfeeding-related products grew steadily. These products include flagship products, such as nipple care cream, breast pads, breast pumps, and breastmilk storage bags. We also posted increased sales in North America via a new channel (durable medical equipment, or DME), while Lansinoh Laboratories Shanghai, established in April 2016, again reported healthy sales in China. In India, where we promote the Pigeon brand, we enjoyed growth in both sales and income, thanks to aggressive efforts to expand distribution outlets. As a result, sales in the Overseas Business segment increased 10.3% year on year, to ¥25,427 million.

Effective the current fiscal year, ending January 2019, we have divided the Overseas Business segment into two parts: the Singapore Business, which advances the Pigeon brand mainly in Asia; and the Lansinoh Business, which advances the Lansinoh brand. The aim is strategy is to accelerate decision-making and product development. The Singapore Business covers Asia (except China, Russia, Philippines, Taiwan, South Korea, Mongolia, Hong Kong, and others covered by the China Business), as well as the Middle East and Oceania.



Lansinoh Laboratories Medical Devices Design Industry and Commerce (LMD) in Turkey



Breast pumps (electrical) "Smartpump™"

Lansinoh Business (Mainly North America, Europe, Lansinoh Shanghai)



Business Overview and Responses

In the United States, the total fertility rate is 1.80 (in 2016), and the average number of births is 3.94 million (in 2016), which is relatively stable among economically 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 sucking and breastfeeding. Accordingly, demand for breast pumps and other breastfeeding-related products is rising.

In April 2004, Pigeon transformed Lansinoh Laboratories, Inc., based in Virginia, 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.

Business Development in the Middle East

In the Middle East, Lansinoh Laboratories opened a branch in Turkey in 2009. In the following year, it established Lansinoh Medical Division (LMD) to coordinate research and development, produce Lansinoh-brand breast pumps, and operate an assembly plant. Since January 2017, LMD's new plant has been making breast pumps and nursing bottles and nipples for the North American, European, and Turkish markets. LMD is also strengthening its production system for Europe and North America.

Our Position

Lansinoh mainly handles breastfeeding-related products, including nipple care creams, breast pads, breast milk storage bags, and breast pumps. It is recognized for its unmatched brand strength and product quality, and its offerings are handled by more than 40,000 stores in the United States. In January 2014, Lansinoh made a full-scale launch of nursing bottles. Going forward, we will continue enhancing our brand power as a company that offers total support for breastfeeding. In April 2016, Lansinoh established a local subsidiary in China and actively sought to penetrate that market, resulting in sales growth that exceeded our initial projections.

Priorities for Fiscal 2018

- ▶ Target increased market share for such items as nipple care cream, breast pads, and breastmilk storage bags, while taking measures to expand the breast pump category
- ▶ Actively broaden our business in Europe and improve profitability
- ▶ Step up efforts in the new durable medical equipment (DME) sales channel in North America

Segment sales forecast for

FY 2018: ¥13,118 million (up 4.7% year on year)

This assumes an exchange rate of ¥107.00 per U.S. dollar, compared with a rate of ¥112.16 per U.S. dollar in fiscal 2017.



ESG Issues



Domestic Baby & Mother Care Business

Child Care Service Business

Health & Elder Care Business

Overseas Business

China Business



Resolving Consumer Issues

Feedback from customers is a valuable asset for our company. Since the 1970s, Pigeon has operated a Customer Service Center to obtain customer feedback for reflection in its business. We also announced our establishment of a complaints response management system that conforms to ISO 10002 international standards (guidelines for quality management, customer satisfaction, handling complaints in an organization). We strive to continually improve products, services, and complaints-handling processes through the PDCA cycle, in our quest to improve customer satisfaction levels.

Complaint Response Management System





Reflecting its Corporate Philosophy, "Love," Pigeon is committed to supporting the lives of people—including women in all phases of pregnancy, parents raising children, and the elderly—through the provision of specific products and services. Through our business activities, we will become a company that is indispensable to society, which we believe will lead to improvements in Pigeon's corporate value based on environmental (E), social (S), and governance (G) criteria. To achieve sustained improvements in corporate value, we recognize

the necessity of actively and assertively responding to ESG issues. Accordingly, we have included ESG as one of the 12 tasks to be addressed under our Sixth Medium-Term Business Plan. Our aim is to establish ESG-related policies and build frameworks for their implementation. We have set numeric targets for some of the tasks, and we will review and disclose details of our progress in order to make further improvements. ESG-related issues that are highly likely to affect Pigeon's sustainable growth are specified below, and we are taking various actions to address them.



ESG	Increasing corporate value	Reducing risk
Environment	<ul style="list-style-type: none"> ● Develop environmentally friendly products 	<ul style="list-style-type: none"> ● Address climate change/biodiversity challenges ● Promote CSR-oriented procurement ● Prevent pollution ● Protect the global environment (environmental opportunities) ● Introduce environmental management system
	<ul style="list-style-type: none"> ● Improve human capital ● Boost diversity ● Foster global human resources and managerial human resources ● Establish goal management system ● Increase support of women's advancement ● Enhance child-rearing support ● Promote work-life balance ● Engage in regional activities ● Resolve social issues ● Resolve consumer issues 	<ul style="list-style-type: none"> ● Promote occupational health and safety ● Develop human resources ● Entrench fair business practices
Social	<ul style="list-style-type: none"> ● Executive remuneration ● Commissioned operating officer system ● Responsible dialogue with shareholders and other investors 	<ul style="list-style-type: none"> ● Strengthen corporate governance ● Strengthen internal audits ● Strengthen compliance
	<ul style="list-style-type: none"> ● Executive remuneration ● Commissioned operating officer system ● Responsible dialogue with shareholders and other investors 	<ul style="list-style-type: none"> ● Strengthen corporate governance ● Strengthen internal audits ● Strengthen compliance
Governance	<ul style="list-style-type: none"> ● Executive remuneration ● Commissioned operating officer system ● Responsible dialogue with shareholders and other investors 	<ul style="list-style-type: none"> ● Strengthen corporate governance ● Strengthen internal audits ● Strengthen compliance

For more information in ESG initiatives please visit our corporate website (<https://www.pigeon.com/csr/>).



Resolving Social Issues

— For all babies —

The development of Pigeon's products is based on more than 60 years of research into infants and feedback from customers raising children. For example, the Company's nursing bottles and nipples are being created based on an ongoing research into the breastfeeding exercise, from various perspectives including observation of baby's oral cavity through monitoring and measurement conducted at the Central Laboratory, home visit observation, and ultrasonic tomography (echo).

Pigeon is committed to "enabling all babies to enjoy better sucking." To this end, we are conducting joint research with the hospital and clinic neonatal intensive care units (NICUs) and working in other ways to develop exclusive products so that infants with low birth weight or disabilities also drink mother's milk and packaged milk with minimal effort. These include nipples for infants with low birth weight, nipples for babies with weak sucking function, and a nursing bottle specially designed for babies with cleft lips and/or palates. Our accumulated knowhow, gained through our constant support for breastfeeding babies in hospitals, is reflected in our regular product development activities and directly linked to the powerful strength of Pigeon-brand products.



Helping babies who were born small

● Basic Approach to Environmental Protection; Environmentally Friendly Products

The Pigeon Group is committed to preventing global 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, we undertake Groupwide environmental initiatives, such as establishing energy-efficient systems. 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 manufacturing—including selection of raw materials and ingredients—and have created a lineup of numerous environmentally friendly products.



We modified the materials of our cooking cup, which are now mainly composed of cornstarch.

● Climate Change and 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 working to save electricity. We have also established a consistent method for calculating reductions in greenhouse gas emission volumes at all of our production facilities, and strengthened our management systems. At our Chinese production facilities, though on a small scale, we are working to maximize solar and wind power generation under the theme of “environmentally friendly factories,” and we are promoting all-LED lighting to save electricity.



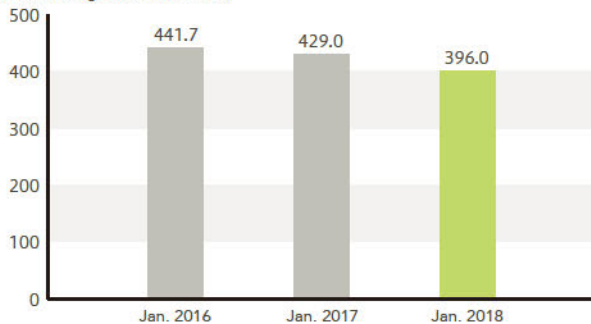
Paper container that is easy to dismantle and recycle after use; big enough for two refills.

CO₂ Emissions by Pigeon Group Domestic and Chinese Production Companies

3 domestic production companies

(Pigeon Home Products Corporation, PHP Hyogo Corporation, PHP Ibaraki Corporation)

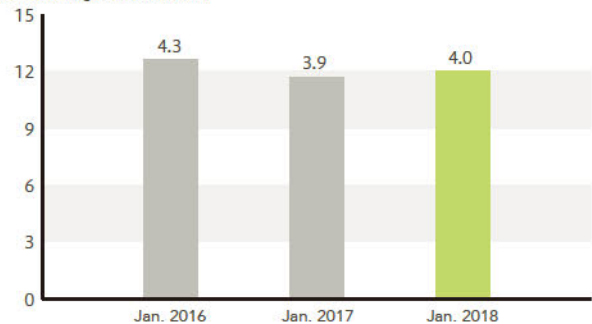
CO₂ emissions (kg)/Net sales (¥ millions)



2 Chinese production companies

(Pigeon Manufacturing (Shanghai) Co., Ltd., Pigeon Industries (Changzhou) Co., Ltd.)

CO₂ emissions (kg)/Net sales (K RMB)



● Promote CSR-Oriented Procurement

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.



Polyphenylsulfone (PPSU), a plastic used as raw material in nursing bottles

Raw Materials Procurement Volume

FY2017	PIGEON MANUFACTURING (SHANGHAI) CO., LTD.	THAI PIGEON CO., LTD.	PIGEON INDIA PVT. LTD.	PT PIGEON INDONESIA
Silicon (tons)	516	420	32	368
PPSU (tons)	189	208	52	289



● 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 they are based upon food additives that have no impact on the human body. For our body soaps and other liquids and detergents, we strive to prevent pollution by identifying sources of pollution and waste related to our production activities while working to reduce the volume of waste and minimize the operation time of our waste incinerators.

● Environmental Opportunities

For the past 32 years, we have continuously held our annual Newborn Baby Commemorative Tree-Planting Campaign, which began in 1986. This campaign is held at the "Pigeon Miwa no Mori" site, a combination of national forest and Pigeon-owned land near Hitachi-Omiya City, Ibaraki Prefecture. In addition to providing parents with memories of their babies' birth, the campaign contributes in a small way to educational awareness about environmental protection. Forests help prevent global warming by absorbing carbon dioxide and also help preserve biodiversity. In addition, they play a role in preventing floods and erosion while preserving high water quality, to the extent that they are referred to as "green dams." Over the past 32 years, we have planted more than 140,000 seedlings on 44.15 hectares of land (both national forest and private land). In the national forest portion, covering 25.37 hectares, the "green dam" benefits equate to storage and purification of 5.71 million two-liter PET bottles.



"Pigeon Miwa no Mori" site

140,000 seedlings in 32 years



Newborn Baby Commemorative Tree-Planting Campaign

● Environmental Management Systems

As a company that advances its business globally, 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 cycle as well, we work hard to maintain an upward spiral for our environmental management systems.

Pigeon Group Companies with ISO 14001 Certification

Company/facility	Location	Year certified
Pigeon Industries (Thailand) Co., Ltd.	Thailand	2000
Tsukuba Office, Pigeon Corporation	Ibaraki Prefecture, Japan	2001
Thai Pigeon Co., Ltd.	Thailand	2002
PHP Hyogo Corporation	Hyogo Prefecture, Japan	2006
Pigeon Manufacturing (Shanghai) Co., Ltd.	China	2016
Lansinoh Laboratories Medical Devices Design Industry and Commerce .Ltd. Co.	Turkey	2018

* Pigeon Home Products Corporation (based in Shizuoka Prefecture) is scheduled to obtain certification in 2019.

● Improving Human Capital: Motivating Work Environments and Corporate Culture

Pigeon defines corporate value as 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.

● 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." 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, and for this reason we undertake a variety of activities to promote diversity. For example, women accounted for 35% of full-time employees at Pigeon's head office as of January 31, 2018.

Pigeon also respects the rights of social minorities and vulnerable people and actively promotes employment of people with disabilities. In addition, we respect the rights of employees, with whom we engage in dialogue about civic and political rights. With respect to labor, our Compliance Committee spearheads rigorous compliance-oriented activities to ensure respect for workers' and human rights both in Japan and overseas. We also have meticulous policies related to occupational health and safety and workplace environments, and we implement and maintain these policies for both permanent and non-permanent employees, both in Japan and overseas.

● Fostering Global and Managerial Human Resources

Pigeon gives all employees opportunities to participate in technology development, education, and practical training, and has introduced a training system that is free from gender differences. To foster global human resources, every year we hold English-language training in Japan with separate courses for each level, while overseas we conduct our Global Leadership Program, a multinational training course for selected employees. In the year ended January 2018, 20 multinational employees participated in this program. We are also rolling out a global goal-management system, incorporating behavior evaluation based on "Pigeon Way," at our operations in Japan and Singapore, as well as Pigeon Industries (Thailand), Lansinoh Laboratories, and elsewhere.

Every six years, we run a two-year training course for selected next-generation managerial human resources. To ensure the enduring advancement of the Company, work to foster next-generation managerial personnel earmarked to become business department and divisional managers as "human resources who can refine human power and continue increasing corporate value under the values of Pigeon Way." Meanwhile, we are rolling out a global goal management system, incorporating a behavior evaluation axis based on "Pigeon Way," in Singapore, Thailand (Pigeon Industries (Thailand) Co., Ltd.), India, Malaysia, and elsewhere.

"Pigeon Miwa no Mori Mosaic Art Project" is an all-employee participation project aimed at increasing the sense of solidarity in the Company.



This mosaic artwork, made with building blocks using timber gathered when preparing the "Pigeon Miwa no Mori" site for tree-planting, was listed in the Guinness World Records in 2017 as "the world's largest painted wooden block mosaic."



Global Leadership Program

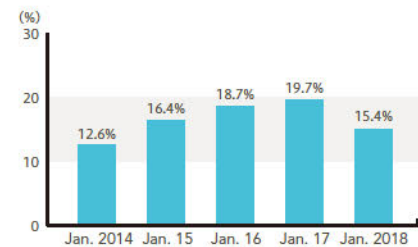


● Strengthening Support for Advancement of Women; Child Care Service Initiatives

Now, more than ever, creating an environment enabling women to excel is a particularly important priority for the Pigeon Group in its constant pursuit of “world-class business excellence.” For this reason, we focus on fostering women in management positions. In the year ended January 2018, women accounted for 15.4% of the Company’s management. With respect to promoting women’s advancement, we have cited three core initiatives—“expansion of compatibility support system,” “workplace mindset reforms,” and “backup for women’s feelings and skills”—thus providing support from the perspectives of both system enhancement and employee mindsets.

Back in 2007, Pigeon received “Kurumin” accreditation as a “Child-rearing Support Company.” In May 2018, we received “Platinum Kurumin” accreditation, which is given to Kurumin-certified companies deemed to be introducing and utilizing excellent compatibility support systems and high-level initiatives. As a company engaged in child care service, we have been enhancing our systems to help employees giving birth and raising children from an early stage. From the perspective of promoting the advancement of women and encouraging men’s participation in child care, we have established a variety of child-rearing systems, including a work-at-home system and a parental leave scheme called “One Month Together.” In addition to providing workplace environments where both men and women can take parental leave as a matter of course, these systems have the added benefit of enabling employees’ child-rearing experiences to be reflected in actual product development.

Female Manager Ratio



Three-Year Action Plan for Promoting Advancement of Women (February 2018 to January 2020)

- 1 Increase number of men using the compatibility support system to 10 or more
- 2 Increase awareness about compatibility support system regardless of gender
- 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

● Work-Life Balance

As a matter of course, we comply with domestic regulations on worker protection and work hours established by legislation and labor agreements. We are also implementing various measures to increase labor productivity by discouraging excessively long working hours and fostering a good work-life balance. These include establishing a rule to leave the workplace by 7:00pm and setting one day per week as a “no overtime day.”

We are also focusing on helping employees return to the workplace after childbirth, including introduction of a “Life Design Leave” system, a women’s early-return support system, and a system to help subsidize future child care costs.



Records of male participation on “One Month Together” parental leave system

Use of Systems Related to Child Care Services and Work-Life Balance

System	Details	Usage status
One Month Together	1-month parental leave system for male employees	Take-up rate: 100% (3 consecutive years since fiscal 2015) Users: 32 persons (3 consecutive years since fiscal 2015; cumulative)
Leave the workplace (go home) by 7:00pm rule	Rule to leave the workplace by 7:00pm in principle, even when doing overtime	Average monthly overtime: 4.5 hours; Paid leave take-up rate: 53.4% (fiscal 2017)
No overtime day (1 day per week)	Every Wednesday designated as “no overtime day” to promote consistent departures	
Life Design Leave	System enabling up to 2 years of leave for infertility treatment and adoption processes	Positive outcomes in fiscal 2015, fiscal 2016, and fiscal 2017
Work-at-home system	System enabling employees to work at home for the purpose of child care, elder care, etc.	Take-up: 12 persons (fiscal 2017)

● Community Activities

Breastfeeding Period Research Group

In March 2015, we launched the “Pigeon Smile Breastfeeding Period Research Group” in collaboration with various experts on mothers and babies during breastfeeding, with the aim identifying issues faced while breastfeeding and providing solutions. The philosophy of this initiative is to “realize a society in which more babies are raised in good health and more mothers feel happy when raising children.” Its activities include distribution of the “Shiawase (Happy) Breastfeeding Support Book,” a free-of-charge publication that summarizes the five most important points about breastfeeding.

▶ Breastfeeding Support Book (around 130,000 copies distributed)



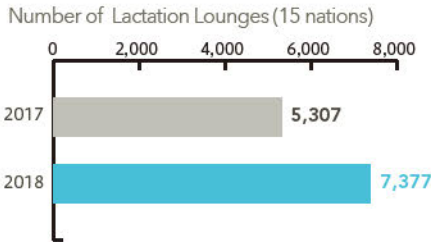
▶ Meeting with experts



Lactation Lounges

We have also set up a breastfeeding/pumping rooms called Lactation Lounges with the aims of creating comfortable working environments for employees with small babies and contributing to local communities. In addition to employees, the rooms are available for use by mothers working in the vicinity, as well as mothers and babies living nearby. In other nations, as well, we provide support to establish

breastfeeding/pumping rooms in various locations, including within general corporations, with the aim of helping female employees return to work after giving birth. As of January 2018, we had more than 7,000 Lactation Lounges in 15 countries around the world.



Pigeon has Lactation Lounges in various countries

● 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 the Pigeon Group’s workplace health and safety standards uniformly at all those facilities. We have also obtained certification under the OHSAS 18001 standard for occupational safety and health, widely adopted around the world.

Group Companies with OHSAS 18001 Certification

Company Name	Location	Year Certified
Pigeon Industries (Thailand) Co., Ltd.	Thailand	2000
Thai Pigeon Co., Ltd.	Thailand	2002
PHP Hyogo Corporation	Hyogo Prefecture, Japan	2006
Pigeon Manufacturing (Shanghai) Co., Ltd.	China	2016
Pigeon India Pvt. Ltd.	India	2018
Lansinoh Laboratories Medical Devices Design Industry and Commerce .Ltd. Co.	Turkey	2018

* Pigeon Industries (Changzhou) Co., Ltd. (based in China) plans to obtain certification in 2019



● Human Resource Development

Providing Scholarships to Students

The aim of the Pigeon Scholarship Foundation, a public interest incorporated foundation, is to realize a society in which everyone can give birth and raise children with peace of mind, while fostering the healthy lives and growth of mothers and babies. The Foundation provides scholarship support, with no repayment required, to students aiming to become doctors in the neonatal, pediatric, or obstetrics departments of hospitals in the future in the neonatal, pediatric, and obstetrics departments of universities (students majoring in medicine at domestic general universities or medical universities). In the year ended January 2018, it provided financial support to 55 students in 11 universities (total of fifth-year and sixth-year students).



Supporting Children's Creativity

For the past 38 years, Pigeon has been 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 year by the Institute to kindergartens attended by children who win the JIII Chairman's Award or the Excellence Award.



● Fair Trading

Seeking to prevent patent infringement and the like from the product development perspective, Pigeon established an intellectual property-related department within its Central Laboratory. 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 Pigeon (Shanghai) Co., Ltd., which is working to increase respect for property rights, including intellectual property, in collaboration with intellectual property-related department of the Central Laboratory.

Pigeon rejects excessive political involvement. We try to build "win-win" relationships with our business partners on the basis of equality at all times. With respect to relationships with authorities and other entities, as well, we do not behave in ways that are not grounded in social common sense, including provision of entertainment and gifts that could be regarded as

Social Investments in Overseas Communities

In China, we have been building and donating to schools in areas with inadequate educational infrastructure. Following the Sichuan Earthquake of 2008, our local Chinese subsidiary Pigeon (Shanghai) Co., Ltd. opened the Pigeon Hope Elementary School in Meishan District of Sichuan Province. In 2010, we donated a school building to Huzhu Tu Autonomous County in Qinghai Province in 2010, to Xinjiang Uygur Autonomous Region in 2011, and to Yuping Dong Autonomous County in Guizhou Province in 2012. We have been donating school buildings at the pace of one building per year, and the total has now reached 10 schools (including those under construction). We also conduct ongoing exchanges with teachers and students Pigeon Hope Elementary Schools, and these efforts have been commended by the Chinese national government.



Waseda University Corporate Course

In fiscal 2017, the Company conducted partnered courses (donation courses) at Waseda University (continuing from the previous year). Running for three months, this "Entrepreneur Training Course" was attended by around 200 students of Waseda's Department of Commerce. We will continue fostering the development and production of human resources with an entrepreneurial spirit and a drive to create innovation.

payoffs or facilitations. Our rules in this area are clearly stated in our Compliance Guidebook. Regarding fair trading and free competition, 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. We also conduct extensive compliance training and other forms of employee education, in an effort to prevent collusion with authorities and involvement in anticompetitive behavior.



● Corporate Governance

The Company has introduced a commissioned operating officer system with the aim of ensuring reciprocal collaboration between the governance (management decision-making and oversight) function and the business execution function, as well as to clarify the business execution responsibility of directors.

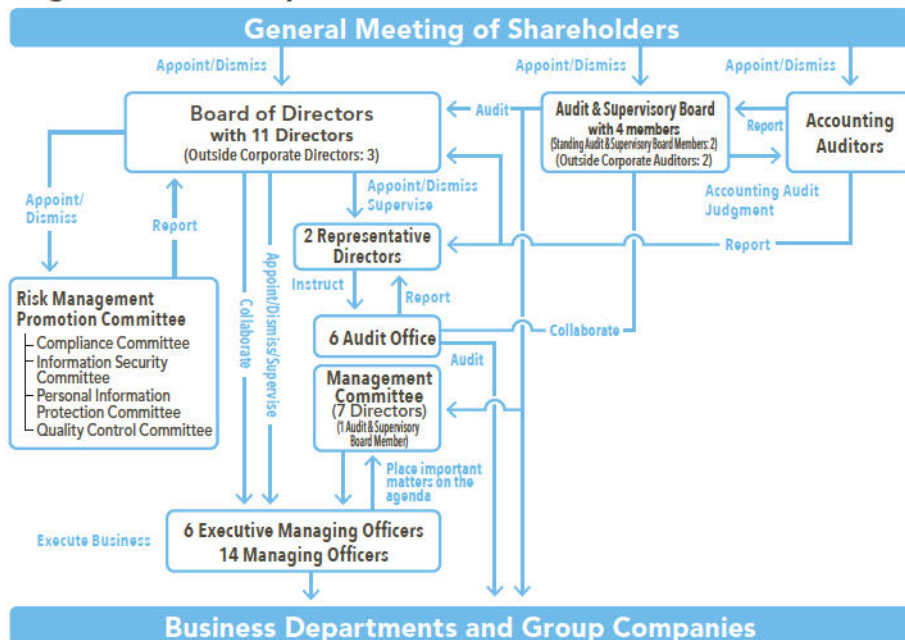
The Board of Directors has the authority to oversee the execution of duties by directors and executive officers. Chaired by the Chairman, Director of the Board, the Board meets to make decisions concerning laws and regulations, the Articles of Incorporation, and matters stipulated in the rules of the Board of Directors (important business execution strategies, such as management targets and strategies). The Board of Directors is strengthening the control/oversight function of business execution by obtaining robust opinions from its outside directors and corporate auditors. We now have three outside directors (including one woman): Mr. Takayuki Nitta (appointed in April 2015), Mr. Rehito Hatoyama (April 2016), and Ms. Eriko Okada (April 2018). The role of outside directors is to provide advice on the Company's business strategies and increase the impartiality of decision-making and corporate governance. In addition to properly performing their duties as outside directors, Mr. Nitta and Mr. Hatoyama offer lots of advice based on their abundant experiences and high levels of knowledge. Ms. Okada gained investment banking and financial experience at banks and corporations, as well as advanced marketing-related expertise obtained through research activities at university and graduate school, and we expect the Company's management to benefit from such experience and expertise. We are also working to increase the diversity of top management. At present, we have 11 directors (including three outside directors, one of whom is female, and one foreign national), and four corporate auditors (including two outside corporate auditors).

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. 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. Based on their independent viewpoints and impartial perspectives, the outside corporate auditors attend Board of Directors' meetings and ask questions and provide opinions at face-to-face meetings with representative directors and other directors. Through these activities, 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.

According to audit policy and allotment of duties, Pigeon's corporate 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. The corporate auditors also meet regularly with the president to receive reports on important issues. With respect to information heard from within the Company, the president receives feedback from corporate auditors and exchanges opinions with them. In addition, we are conducting management-level development of future candidate executives. This includes selection of candidates once every six years and training them for a two-year period.

Organization of Corporate Governance



● Executive Remuneration

The maximum combined amount of remuneration that can be paid to directors is ¥500 million per year (excluding salaries for employees), and the maximum amount for corporate auditors is ¥100 million. Within those limits, we determine executive remuneration according to the following policies. Remuneration for directors consists of a basic performance-linked amount and a retirement allowance. The basic remuneration component is determined by the Company's consolidated business results (net sales and operating income), as well as the degree to which targets have been achieved, in each fiscal year. The retirement allowance for directors is calculated based on the Company's "Retirement Allowance Rules for Executives," which explicitly indicates individual payment amounts for submission to the General Meeting of Shareholders. The retirement allowance system does not pertain to outside directors, whose remuneration is fixed for each individual. Remuneration for corporate auditors and outside corporate auditors is also fixed, in order to further strengthen their independence from management. The retirement allowance system for corporate auditors has been abolished, and there is no retirement allowance system for outside corporate auditors.

● Internal Audits

To perform internal audits, the Company has established the Audit Office, staffed by six people. Based on annual plans, the Audit Office conducts regular internal audits of every department across the Pigeon Group, including domestic and overseas subsidiaries. The results of those audits are reported to the president, directors, and corporate auditors, and evaluations and continuous improvement proposals are carried out under the PDCA cycle. The Audit Office also conducts internal control audits related to financial reporting under Japan's Financial Instruments and Exchange Act.

● Compliance System

The Pigeon Group operates its compliance system cross-laterally through the efforts of the Compliance Committee, chaired by the Director in charge of supervising Resource & General Affairs Division. 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 emphasize the importance of constantly communicating our Corporate Philosophy and Values to all employees. 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.

We are also enhancing the effectiveness of compliance-related education through e-learning courses, as well as corporate ethics training at overseas Group companies. We distribute "Pigeon Compliance Communication" each month to all employees to help

● Commissioned Operating Officer System

In order to respond promptly and appropriately to changes in the business environment, achieve sustainable growth, and establish a solid management foundation, we strive to ensure that management decisions are made rationally and efficiently. In 2012, we introduced a commissioned operating officer system with the aim of ensuring 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.

● Responsible Dialogue with Shareholders and Other Investors

Pigeon engages in responsible dialogue with shareholders and other investors. Financial results briefing attended by Shigeru Yamashita (president), Kevin Vyse-Peacock (director), and Rehitō Hatoyama (outside director) In addition to distributing the Notice of Convocation for the General Meeting of Shareholders early (three weeks before the meeting), we enable shareholders to exercise their voting rights electronically.



IR meeting

Responsible Dialogue with Shareholders and Other Investors

62nd General Meeting of Shareholders (April 26, 2018)	Number of attendees: 362 Voting rights exercised: 82.1%
IR meetings with institutional investors	Total number of correspondences: 373 (fiscal 2017)

them understand and address compliance-related matters that could arise in the course of their daily work. In conjunction with this, we conduct "Compliance Self-Checks," in which employees fill out questionnaires, in order to raise their awareness and knowledge about compliance and swiftly eliminate compliance risks as soon as they arise. Based on the results of Compliance Self-Checks, managers conduct compliance checks in their own departments. We also hold compliance meetings and otherwise strive to educate and enlighten employees in the workplace. In addition, we established Speak Up as a reporting/consulting system for employees and Pigeon Partners Line for business partners. The systems help ensure the swift resolution of problems that are detected inside and outside the Company by addressing the problems at Compliance Committee meetings and investigating the facts while protecting the identities of whistle-blowers and consultants. We also pay due attention to the legality of issues by obtaining advice from lawyers as necessary.

Reports on the content of compliance education and the internal reporting/consulting systems are submitted at meetings of the Board of Directors and Audit & Supervisory Board each year.

Board of Directors, Auditors and Officers (As of April 26, 2018)



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

Supervision of China Business Div/
Supervision of Singapore Business Div/
Supervision of Lansinoh Business Div.
Representative Director of Pigeon (Shanghai) Co., Ltd.



Director, Senior Managing Executive Officer
Eiji Akamatsu

Supervision of Corporate Administration Div/
Supervision of Accounting & Finance Div/
Supervision of Human Resources & General Affairs Div/
Supervision of Internal Audit Section



Director, Managing Executive Officer
Tadashi Itakura

Supervision of Customer Communication Div/
Supervision of Research & Development Div/
Supervision of Quality Control Div/
Supervision of Logistics Div.



Director, Managing Executive Officer
Yasunori Kurachi

Health & Elder Care Business Division Manager
Supervision of Domestic Baby & Mother Care Business Div/
Supervision of Child Care Service Business Div.



Director, Junior Managing Executive Officer
Kevin Vyse-Peacock

Lansinoh Business Division Manager/
President of Lansinoh Laboratories, Inc.



Outside Director
Takayuki Nitta



Outside Director
Rehito Hatoyama



Outside Director
Erika Okada



Audit & Supervisory Board Member
Kazuhisa Amari



Audit & Supervisory Board Member
Nobuyuki Hashimoto



Outside Audit & Supervisory Board Member
Shigeru Nishiyama



Outside Audit & Supervisory Board Member
Shuji Idesawa

Managing Officers

Yusuke Nakata

Senior Managing Officer
Singapore Business Division Manager/President of Pigeon Singapore Pte. Ltd.

Yuko Ohara

Customer Communication Division Manager

Tsutomu Matsunaga

Corporate Administration Division Manager

Hiroyasu Maki

Accounting & Finance Division Manager

Koji Ishigami

Human Resources & General Affairs Division Manager

Kaoru Kasahara

Research & Development Division Manager

Katsushi Tsutsui

Deputy Division Manager of Research & Development Div.

Kazuyuki Tajima

Quality Control Division Manager

Takatoshi Urakari

Domestic Baby & Mother Care Business Division Manager

Ryo Yano

China Business Division Manager/President of Pigeon (Shanghai) Co., Ltd.

Ken Kaku

Representative Director of Pigeon Manufacturing (Shanghai) Co., Ltd.

Koji Matsutori

Deputy Division Manager of Lansinoh Business Div./Director of Lansinoh Laboratories, Inc

Takanori Tsuru

Child Care Service Business Division Manager/President of Pigeon Hearts Co., Ltd.

Hiroshi Nishimoto

Logistics Division Manager

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

*Mr. Takayuki Nitta and Mr. Rehito Hatoyama and Ms. Erika Okada are Outside Director stipulated in Item 15 of Article 2 of the Corporate Law.



Takayuki Nitta, Outside Director

Q: What are Pigeon's expectations of you as an outside director with respect to your roles and responsibilities?

In addition to the general role of helping enhance the transparency and objectivity of general management, I think the roles expected of outside directors differ according to each company's makeup, organization, history, and the like. For Pigeon, the era of being an owner-driven company, in which ownership and management were united, is now over. We are at the stage where the Company's founder has drawn a line between himself and management, and is gradually reducing his shareholding ratio while retaining his diligence as a major shareholder. In other words, we are in a transitional period in which ownership and management are completely separated. The question is: How do we continue maintaining the current management's best attributes, namely, its sense of tension, passion for growth, and competitiveness? Since Pigeon's governance system and mechanisms are under development, I believe my role and responsibility are to build a sound governance system that helps improve corporate value over the medium and long terms. This includes training human resources who will be responsible for future management.

Q: What kind of approach will you take to fulfill your expected roles and responsibilities?

Introduction of outside directors generally means bringing in external viewpoints. This is effective because it gives management access to opinions from diversified perspectives and leads to vibrant debate. In that respect, I am quite conscious of myself, and I endeavor to speak positively as a kind of external voice.

Q: What is your impression of Pigeon's Board of Directors?

My impression is that Pigeon's managers have extremely good interpersonal relationships. They are well organized as a

management team and function soundly as an organization. Many people in management are open and honest, so we can have frank exchanges of opinions. While discussions at Board of Directors meetings are also vibrant, I want to devote more time to discussions about essential topics connected with decision-making.

Q: What do you think are the challenges facing Pigeon's Board of Directors and governance?

In order to further strengthen governance, I feel we need to consider establishing a Nomination Committee and a Compensation Committee. The question is: How should we build effective nomination and compensation mechanisms without compromising the current soundness of our management team? To ensure we don't lose sight of our desired path, I would like governance to evolve over time rather than insisting on perfection from the start.

Q: From your perspective, what do you think of Mr. Hatoyama's contribution to Pigeon as an outside director?

When Pigeon faces new challenges, such as governance of foreign subsidiaries, risk management, and launching new businesses, Mr. Hatoyama makes full use of his extensive experience and human network to provide wide-ranging advice. This includes introducing key persons and raising issues identified from internal audits of overseas subsidiaries. I am impressed by his realism and accuracy.

Q: Do you have a concluding message for stakeholders?

From the viewpoint of investors, I think Pigeon is a company whose value will surely increase for shareholders over the long term, rather than short term. As an outside director and representative of shareholders, I will continue striving to improve corporate value, and I look forward to your continued support.

Rehito Hatoyama, Outside Director

Q: What are Pigeon's expectations of you as an outside director with respect to your roles and responsibilities?

I believe the most important role and responsibility of outside directors is to confirm the status of the Company's strategy and progress from different viewpoints—especially in areas where internal directors alone may easily adopt biased opinions and perspectives.

Q: What kind of approach will you take to fulfill your expected roles and responsibilities?

Pigeon's overseas business is growing rapidly, and the number of subsidiaries is also increasing. As a person aged one generation younger than average directors—and with international perspectives, having lived in Silicon Valley—I have various opportunities, not just at Board of Directors meetings, to convey different opinions from different angles. I can also make use of synergies with my previous work experiences and my human network. Moreover, I am actively committed to using innovations emanating from Silicon Valley for the benefit of Pigeon's business. How much added value can I provide as an outside director between Board of Directors meetings, which are held regularly? I will spare no effort to time to addressing this question.

Q: What is your impression of Pigeon's Board of Directors?

I feel Pigeon is a transparent company that is open to various opinions. Moreover, discussions held at Board of Directors meetings are vibrant and multifaceted, not based on "outside versus inside" perspectives, which is common. To be frank, I would like to see further improvements in diversity. Given the increase in our overseas business, we are short on international perspectives offered by foreigners and personnel based overseas.

Q: From your perspective, what do you think of Mr. Nitta's contribution to Pigeon as an outside director?

Mr. Nitta has the ability to grasp situations and is willing to take resolute actions in response. When faced with an issue, he takes various comments and discussion points back to the drawing board, then systematically formulates strategies. In addition, he monitors the progress of matters and questions discussed at past Board meetings for several months thereafter, without forgetting them. I am very impressed with his perspectives and approach.

Q: How do you intend to contribute to Pigeon's governance in the future?

I think an important role of the Board of Directors is to spearhead companywide innovation, so I would like to see innovation identified as a priority. Globalization is one form of innovation. Even as Japan's birthrate declines, we see an ever-increasing population if we look at the outside world. There is also inbound tourism demand. This is not a temporary boom, but rather a major wave of transformation experienced by other tourist cities in decades past. As technological evolution advances, meanwhile, the progress of "visualization" of heart-rate, sleep, and the like will enable us to "visualize" the thoughts of babies—whom we can't understand because they can't talk. This will change how mothers and babies interact with each other. By combining diverse perspectives in these ways, I believe I can help drive innovation at Pigeon.

Q: Do you have a concluding message for stakeholders?

Pigeon is one of the few consumer brands in which Japan takes pride. I hope to raise the global profile of the Pigeon brand to earn the trust of consumers around the world. To this end, I will fulfill my duties as an outside director and pledge my continued support.





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Erika Okada, Outside Director (new appointed)

Q: What are Pigeon's expectations of you as an outside director with respect to your roles and responsibilities?

In addition to the general roles and responsibilities of external directors, I believe my important obligation is to point out and advise on the Company's strategies and direction from perspectives that in-house directors do not have.

Q: What kind of approach will you take to fulfill your expected roles and responsibilities?

For a long time Pigeon did not have any female directors, but this does not mean the Company hasn't listened to women's opinions in the past. In other words, my appointment does not mean Pigeon will start listening for the first time. When enjoying music, for example, surround sound provides a deeper experience compared with a single earpiece. Similarly, I will become one of the so-called surround sound speakers. In this way, I hope to fulfill the role of making women's voices easier to reflect in Company policy.

In my career, I've spent more time in academia than in the corporate world. Also, I've lived longer in the United States than I have in Japan. In addition to being female, therefore, my approach based on my career is different, as is my living experience. I think these are all part of enhancing diversity, and I hope to make a contribution, even a small one.

Q: Based on your experiences to date, what kind of outside director do you think should be?

There is a term used in astronomy called the "Goldilocks Zone," which refers to areas potentially habitable for humans. Like the earth's place in the universe, where it's not too hot and not too cold, the environment is suited to the existence, maintenance, and evolution of life. I think it is important that the approach of outside directors to the Company, as well as their knowledge and experiences, are in the Goldilocks Zone. At the same time, they should also maintain an appropriate distance from the Company.

Q: Do you have a concluding message for stakeholders?

I first came into contact with the Pigeon Group eight years ago through my personal experience in childbirth and child-rearing as a consumer of mugs, skincare items, and other products of Lansinoh Laboratories. Since then, I've been a huge fan of Pigeon. Pigeon is a brand that many women encounter during the happiest periods of their lives, around the time of childbirth, as was the case with me.

As an outside director, I would like to foster the renewed growth of Pigeon, and I ask for your continued support.

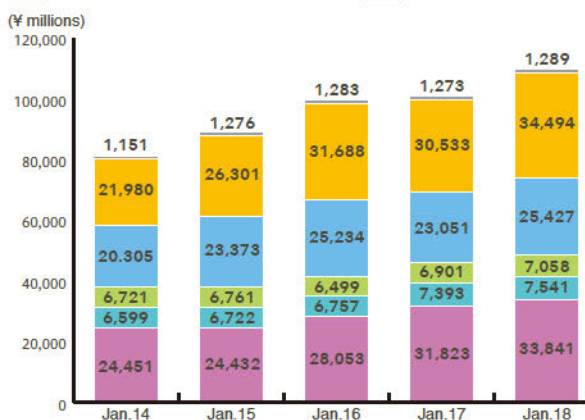
Net Sales and Gross Margin by Segment

	Jan.18		
	Amount	Percentage (%)	Gross Margin(%)
Consolidated Amount	102,563	100.0%	49.3%
Domestic Baby & Mother Care Business	33,841	33.0%	48.9%
Child Care Service Business	7,541	7.4%	10.4%
Health & Elder Care Business	7,058	6.9%	31.3%
Overseas Business	25,427	24.8%	57.1%
China Business	34,494	33.6%	47.2%
Eliminations	△7,090	△6.9%	—
Other	1,289	1.3%	12.8%

Note: The consolidated net sales figure refers to the amount after elimination of intersegment transactions.

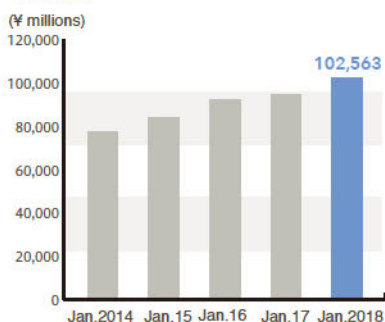
Net Sales by Segment

Domestic Baby & Mother Care Business Overseas Business
 Child Care Service Business China Business
 Health & Elder Care Business Other

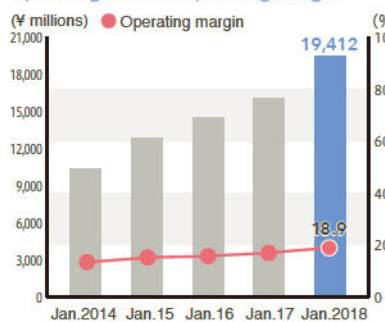


In the year ended January 31, 2015, the Company separated its China Business from the "Overseas Business."
 The figures in the year ended January 31, 2014, are presented based on the new reporting segments.

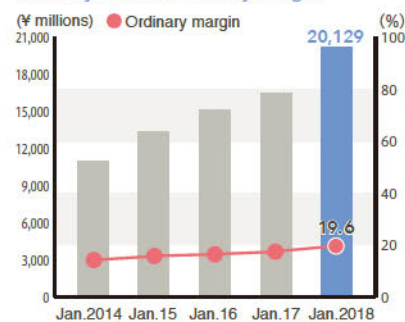
Net Sales



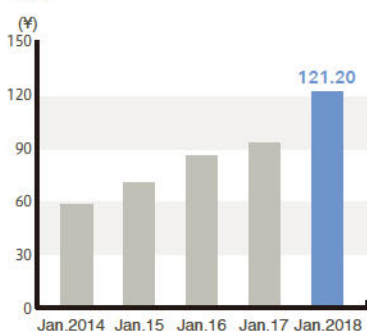
Operating Income/Operating Margin



Ordinary Income/Ordinary Margin

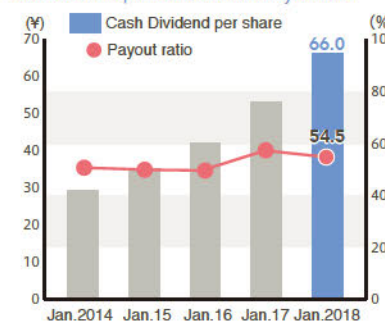


EPS

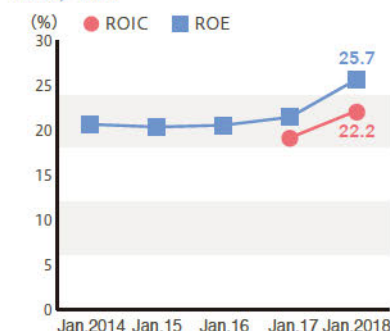


The Company carried out a 3-for-1 split of common stock, effective May 1, 2015.

Cash Dividends per Share/Dividend Payout Ratio

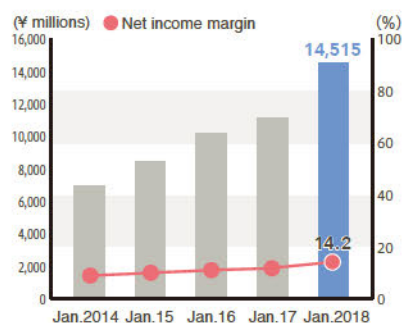


ROIC/ROE

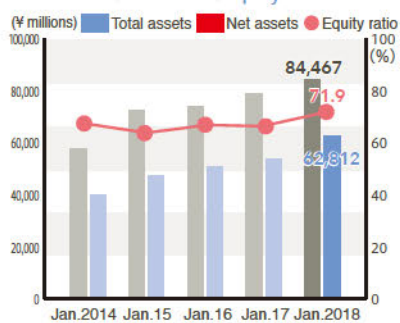


ROE is the ratio of net income attributable to owners of parent to shareholders' equity. The denominator is the average of the figures at the beginning and end of the fiscal year.

Net Income Attributable to Owners of Parent



Total Assets/Net assets/Equity Ratio



Business Environment and Performance

▶ Business Conditions in Fiscal 2017

In fiscal 2017, ended January 31, 2018, the Japanese economy continued maintaining an overall moderate recovery tone on the back of improvements in corporate earnings and employment conditions. The world economy, as well, benefited from moderate recoveries in Europe and North America, as well as a healthy economy in China. By contrast, geopolitical risks and other uncertainties remained a source of concern.

Fiscal 2017 was the first year of the Group's Sixth Medium-Term Business Plan. During the year, we promoted initiatives aimed at renewed growth, reflecting the slogan of the plan: "Building our dreams into the future—By creating a bridge towards the Global Number One manufacturer of baby products." We also set out the following three basic strategies, with the aims of expanding the Group's operations and improving management quality.

(1) Based on Pigeon Way, we formulated and implemented various measures to achieve our goal of becoming "an indispensable company" for society and realizing our Vision, which is "to be the baby product manufacturer most trusted by the world's babies and families (i.e. Global Number One)."

(2) We sought to further increase corporate value by improving business profitability and efficiency and maximizing cash flows. We also solidified our organizational structure, management system, and governance system with the aim of achieving sustained growth in the medium and long terms.

(3) Over the three years of the plan, we will allocate management resources with priority on core products while making strategic investments, in order to lay solid foundations for double-digit growth of the Pigeon Group in the future.

In fiscal 2017, 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 ¥102,563 million, up 8.4% from fiscal 2016. This was due mainly to healthy performances mainly in Japan and China.

Main exchange rates used in the financial statements (income and expenses) of overseas consolidated subsidiaries are as follows: US\$1.00

equals ¥112.16 (¥108.77 in fiscal 2016) and 1 CNY equals ¥16.62 (¥16.35 in fiscal 2016).

▶ Income Statement Analysis

Cost of sales rose 4.1% year on year, to ¥51,990 million. As a result, gross profit climbed 13.2%, to ¥50,572 million, growing at a higher rate than net sales, and the gross margin improved by 2.1 points, to 49.3%.

Selling, general, and administrative (SG&A) expenses rose 8.7%, to ¥31,159 million, due to increases in personnel expenses and sales promotion costs. Operating income grew 21.2%, to ¥19,412 million, and the operating margin rose 2.0 points, to 18.9%. Ordinary income climbed 22.3%, to ¥20,129 million, impacted by an increase in subsidy income. The Group reported an ¥848 million gain on step acquisitions (recorded as extraordinary income) and did not incur special extra retirement payments (which were incurred in the previous fiscal year). As a result, net income attributable to owners of parent jumped 30.5%, to ¥14,515 million, marking year-on-year increases for all key income indicators.

Performance by Segment

▶ Domestic Baby & Mother Care Business

In fiscal 2017, sales in this segment increased 6.3% year on year, to ¥33,841 million, benefiting from solid ongoing inbound demand from overseas tourists and the like. Segment income grew 23.0%, to ¥5,928 million.

▶ Child Care Support Services

Sales in this segment increased 2.0% year on year, to ¥7,541 million, and segment income rose 3.6%, to ¥218 million.

▶ Health & Elder Care Business

Sales in this segment grew 2.3% year on year, to ¥7,058 million, driven mainly by the core categories of body wipes, food, and oral care products for the elderly. Segment income climbed 5.0%, to ¥468 million.

▶ Overseas Business

In the Overseas Business segment, sales increased 10.3% year on year, to ¥25,427 million. Segment

income rose 20.1%, to ¥5,841 million, benefiting from an improved gross margin and the effective deployment of SG&A expenses.

In North America and Europe, where consolidated subsidiary Lansinoh Laboratories, Inc. spearheads our business development, we enjoyed continued sales growth for breastfeeding-related products, including such flagship items as nipple care cream, breast pumps, and breastmilk storage bags. We also posted increased sales in North America via a new channel (durable medical equipment, or DME), while Lansinoh Laboratories Shanghai reported continued healthy sales in China under an initiative launched in the previous year. In the core priority market of India, we enjoyed increases in both sales and income thanks to aggressive measures, such as expansion of shipping stores.

▶ China Business

In this segment, sales increased 13.0%, to ¥34,494 million, buoyed by healthy sales of mainstay nursing bottles and nipples and skincare products. Segment income grew 16.3%, to ¥9,716 million.

▶ Other

Sales in this segment edged up 1.3%, to ¥1,289 million, while segment income declined 22.2%, to ¥126 million.

Financial Position

▶ Assets

As of January 31, 2018, Pigeon had consolidated total assets of ¥84,467 million, up ¥5,578 million (7.1%) from a year earlier. Within this amount, current assets increased ¥2,933 million (5.3%), and fixed assets rose ¥2,644 million (11.2%). Main factors boosting current assets were a ¥1,294 million (4.3%) increase in cash and time deposits and a ¥731 million (13.7%) rise in products and merchandise. The main factors boosting fixed assets were a ¥1,219 million increase in goodwill and a ¥1,001 million rise in software in progress.

▶ Liabilities

Total liabilities at fiscal year-end stood at ¥21,655 million, down ¥3,497 million (14.0%) from a year

earlier. Within this total, current liabilities declined ¥3,708 million (17.3%), while long-term liabilities rose ¥211 million (5.6%). The main factor holding down current liabilities was a ¥5,000 million decrease in current portion of long-term borrowings, which contrasted with a ¥664 million (26.8%) jump in accrued payables. Main factors boosting long-term liabilities were a ¥249 million (9.3%) increase in deferred tax liabilities and a ¥159 million (121.5%) jump in liabilities related to retirement benefits, which contrasted with a ¥208 million (100%) drop in special extra retirement payments.

▶ Net Assets

Consolidated net assets at fiscal year-end amounted to ¥62,812 million, up ¥9,075 million (16.9%) from a year earlier. This was due mainly to a ¥7,449 million (17.6%) rise in retained earnings and an ¥861 million (137.1%) jump in foreign currency translation adjustment.

▶ Sound Financial Position

At fiscal year-end, the Group had cash and cash equivalents of ¥31,346 million and zero interest-bearing debt, having repaid all borrowings in the year under review. The equity ratio remained high, rising 5.5 points year on year, from 66.4% to 71.9%.

Cash Flows

▶ Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥17,094 million, from ¥14,810 million in the previous year. Factors boosted operating cash flows included ¥20,916 million in income before income taxes and ¥2,444 million in depreciation. Contrasting factors included a ¥761 million increase in inventories and ¥5,868 million in income taxes paid.

▶ Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥3,586 million, from ¥1,854 million in the previous year. Main factors included ¥2,199 million in acquisition of property, plant, and equipment and ¥1,055 million in acquisition of intangible fixed assets.

► Cash Flows from Financing Activities

Net cash used in financing activities was ¥12,812 million, from ¥6,223 million in the previous year. Main factors holding down cash flows included ¥7,066 million in payment of cash dividends, ¥5,000 million in repayment of long-term borrowings, and ¥673 million in repayment of short-term borrowings.

Profit Appropriation Policy

Under our business model, we generate income efficiently with a slim asset base, without major reliance on external fund-procurement sources. Accordingly, we believe we can address future business growth of the Pigeon Ground with our current capital composition.

For capital efficiency, we use Pigeon Value Added (PVA), return on invested capital (ROIC), and return on equity (ROE) as key performance indicators, and we have set high targets for each. We implement specific measures to achieve those targets and disclose our progress at semiannual financial results briefings. We place particular emphasis on enhancing the efficiency of working capital and reducing it. To this end, we have set a target for cash conversion cycle (CCC) and are making Groupwide efforts to achieve that target.

Over the three years of our Sixth Medium-Term Business Plan, we expect to generate around ¥46.0 billion in operating cash flows. Of this amount, we will deploy around ¥20 billion for capital expenditures, strategic M&As, and other growth-oriented investments. We plan to make year-on-year increases in dividends for each fiscal period, with a consolidated dividend payout ratio target of 55%.

In fiscal 2017, invested capital totaled ¥61,124 million, compared with the fiscal 2016 amount of ¥58,269 million and our target of ¥59,633 million, resulting in a PVA spread of 17.2%, compared with the fiscal 2016 figure of 14.2% and our target of 15.0%. The PVA for fiscal 2017 was ¥10,533 million, compared with the fiscal 2016 figure of ¥8,297 million and our target of ¥8,918 million. In all cases, we exceeded the previous year's results and our targets.

Net operating profit after tax (NOPAT) was ¥13,589 million, compared with the fiscal 2016 figure of ¥11,211 million and our target of ¥11,900 million. ROIC (assuming a taxation rate of 30.0%) was 22.2%, compared with the fiscal 2016 figure of 19.2% and our target of

19.9%. ROE at fiscal year-end was 25.7%, up 3.9 points from 21.8% a year earlier.

In addition, the cash conversion cycle (CCC) in fiscal 2017 was 67.6 days, which was 6.8 days better than 74.4 days in fiscal 2016 and 3.5 days better than our target of 71.1 days.

During the year, we paid an interim cash dividend of ¥31.00 per share (¥31.00 regular dividend). Thanks to a solid earnings performance that surpassed our projections, however, we declared a year-end dividend of ¥35.00 per share (¥35.00 regular dividend), up ¥4.00 from ¥31.00, our forecast announced on September 4, 2017. This brought total annual dividends to ¥66.00 per share (¥66.00 regular dividends), up ¥13.00 year on year. The consolidated dividend payout ratio was 54.5%.

Outlook

In fiscal 2018, the second year of our Sixth Medium-Term Business Plan, we are targeting consolidated net sales of ¥107.0 billion (up 4.3% from fiscal 2017), operating income of ¥20.4 billion (up 5.1%), ordinary income of ¥20.4 billion (up 1.3%), and net income attributable to owners of parent of ¥14.1 billion (down 2.9%).

(In this Integrated 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.)

Consolidated Balance Sheets

(¥ millions)

Item	Period	Jan. 2014	Jan. 2015	Jan. 2016	Jan. 2017	Jan. 2018
Assets						
Cash and Deposits		13,102	21,590	24,297	30,052	31,346
Notes and Accounts Receivable - Trade		12,569	15,278	13,870	16,103	16,440
Merchandise and Finished Goods		5,350	5,899	6,146	5,328	6,059
Other Current Assets		4,340	4,258	4,600	3,761	4,333
Total Current Assets		35,363	47,027	48,913	55,244	58,178
Tangible Fixed Assets		19,023	21,383	21,471	20,263	21,116
Intangible Fixed Assets		1,441	1,724	1,346	1,106	3,307
Investment Securities		1,448	1,531	1,477	1,481	1,020
Other Fixed Assets		679	701	734	794	846
Total Fixed Assets		22,591	25,339	25,029	23,644	26,289
Total Assets		57,955	72,367	73,943	78,889	84,467
Liabilities						
Notes and Accounts Payable - Trade		4,518	4,462	3,743	4,857	5,194
Accounts Payable		3,401	3,778	2,147	2,477	3,141
Income Taxes Payable		1,155	1,535	1,505	2,324	2,578
Accrued Bonuses to Employees		782	783	894	929	1,035
Other Current Liabilities		2,962	4,714	5,934	10,794	5,725
Total Current Liabilities		12,818	15,272	14,223	21,381	17,673
Long-term Borrowings		2,011	5,928	5,000	—	—
Other Fixed Liabilities		3,143	3,869	3,926	3,770	3,982
Total Fixed Liabilities		5,154	9,797	8,926	3,770	3,982
Total Liabilities		17,973	25,069	23,150	25,152	21,655
Net Assets						
Capital Stock		5,199	5,199	5,199	5,199	5,199
Capital Surplus		5,180	5,180	5,180	5,179	5,179
Retained Earnings		26,929	31,383	36,790	42,280	49,729
Treasury Stock		△ 455	△ 942	△ 947	△ 948	△ 949
Valuation Difference on Available-for-Sale Securities		30	36	32	47	44
Foreign Currency Translation Adjustment		2,240	5,306	3,311	628	1,490
Non-Controlling Interests		856	1,132	1,225	1,349	2,119
Total Net Assets		39,981	47,297	50,792	53,736	62,812
Total liabilities and Net Assets		57,955	72,367	73,943	78,889	84,467

Figures less than 1million yen are truncated.

Equity Ratio, ROE/ROIC

(%)

	Jan. 2014	Jan. 2015	Jan. 2016	Jan. 2017	Jan. 2018
Equity Ratio	67.5	63.8	67.0	66.4	71.9
ROE	19.7	19.8	21.3	21.8	25.7
ROIC	14.2	13.7	15.1	16.3	22.2

ROE is the ratio of net income attributable to owners of parent to shareholders' equity. The denominator for both is the average of the figures at the beginning and end of the fiscal year. ROIC is ratio of Return on Invested Capital (NOPAT/Invested Capital, calculated with a tax rate of 30.0% for the year ended January 31, 2018 and 2017 (the lower figure), and 40.7% for the years ended January 31, 2009 through 2017 (the upper figure). Invested Capital is averaged between beginning and year-end figures.)

Consolidated Statements of Income

(¥ millions)

Item	Period	Jan. 2014	Jan. 2015	Jan. 2016	Jan. 2017	Jan. 2018
Net Sales		77,465	84,113	92,209	94,640	102,563
Cost of Sales		43,000	45,817	48,864	49,951	51,990
Gross Profit		34,464	38,296	43,345	44,688	50,572
Gross Margin (%)		44.5	45.5	47.0	47.2	49.3
Selling, General and Administrative Expenses		24,098	25,515	28,823	28,673	31,159
Operating Income		10,365	12,780	14,521	16,015	19,412
Operating Margin (%)		13.4	15.2	15.7	16.9	18.9
Non-operating Income		974	923	1,112	945	1,263
Non-operating Expenses		337	404	553	498	547
Ordinary Income		11,002	13,299	15,080	16,462	20,129
Ordinary Margin (%)		14.2	15.8	16.4	17.4	19.6
Extraordinary Income		8	8	10	122	1,058
Extraordinary Loss		24	167	204	350	271
Income before Income Taxes		10,986	13,140	14,887	16,234	20,916
Income Taxes - Current		3,077	3,768	4,548	5,165	5,931
Income Taxes - Deferred		705	734	△ 124	△ 273	225
Net Income		7,203	8,636	10,462	11,342	14,759
Net Income Attributable to Non-Controlling Interests		217	185	265	224	244
Net Income Attributable to Owners of Parent		6,985	8,451	10,197	11,118	14,515

Figures less than 1million yen are truncated.

Consolidated Statement of Cash Flows

(¥ millions)

Item	Period	Jan. 2014	Jan. 2015	Jan. 2016	Jan. 2017	Jan. 2018
Cash Flows from Operating Activities		7,930	10,135	13,479	14,810	17,094
Cash Flows from Investing Activities		△ 3,794	△ 3,134	△ 3,332	△ 1,854	△ 3,586
Cash Flows from Financing Activities		△ 3,163	△ 150	△ 6,567	△ 6,223	△ 12,812
Effect of Exchange Rate Changes on Cash and Cash Equivalents		1,556	1,637	△ 873	△ 891	599
Net Increase (Decrease) in Cash and Cash Equivalents		2,528	8,488	2,706	5,840	1,294
Cash and Cash Equivalents at Beginning of Period		10,574	13,102	21,590	24,297	30,052
Cash and Cash Equivalents at End of Period		13,102	21,590	24,297	30,052	31,346

Figures less than 1million yen are truncated.

Per Share Data

	Jan. 2014	Jan. 2015	Jan. 2016	Jan. 2017	Jan. 2018
EPS (yen)	58.17	70.55	85.15	92.84	121.20
Cash Dividends (yen)	29.33	35.00	42.00	53.00	66.00
Dividend Payout Ratio (%)	50.4	49.6	49.3	57.1	54.5
BPS (yen)	325.83	385.46	413.88	437.43	506.79

The Company carried out a 3-for-1 split of common stock, effective May 1, 2015. Figures have been calculated assuming that those stock splits were conducted at the beginning of the year ended January 31, 2014.

Employees

(persons)

	Jan. 2014	Jan. 2015	Jan. 2016	Jan. 2017	Jan. 2018
Employees (Consolidated)	3,458	3,617	3,743	3,739	4,306

Corporate Data (As of January 31, 2018)

Company Name	Pigeon Corporation
Address	4-4, Nihonbashi Hisamatsu-cho, 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
Capital Stock	¥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, elder care products, etc.; operation of child-minding centers
Employees	(Consolidated) 4,306 persons, (Headquarters) 984 persons

Consolidated Subsidiaries (21 companies) (As of January 31, 2018)

- 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.
- PT PIGEON INDONESIA
- 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.

Domestic Consolidated Subsidiaries

Pigeon Corporation

Child Care Service Business

- **PIGEON HEARTS CO., LTD.**
Child-minding and daycare services, babysitter dispatch services, preschool education services February 1999

Health & Elder Care Business

- **PIGEON MANAKA CO., LTD.**
At-home nursing care services, sale of nursing care products October 2000
- **PIGEON TAHIRA CO., LTD.**
Sale of nursing care products February 2004

Domestic Production Plants

- **PIGEON HOME PRODUCTS CO., LTD.**
Manufacture and sale of toiletries October 1985
- **PHP IBARAKI CO., LTD.**
Manufacture and sale of nonwoven products January 1995
- **PHP HYOGO CO., LTD.**
Manufacture and sale of nonwoven products April 2002

Overseas Consolidated Subsidiaries

Lansinoh Business North America, Latin America, Europe, China

- LANSINOH LABORATORIES, INC.**
USA April 2004
Sale of maternity and baby products
- **LANSINOH LABORATORIES MEDICAL DEVICES DESIGN INDUSTRY AND COMMERCE LTD. CO.**
Turkey November 2011
Manufacture of maternity and baby products
- LANSINOH LABORATÓRIOS DO BRASIL LTDA.**
Brazil April 2014
Sale of maternity and baby products
- LANSINOH LABORATORIES BENELUX**
Belgium May 2015
Sale of maternity and baby products
- LANSINOH LABORATORIES SHANGHAI**
China March 2016
Sale of maternity and baby products

Singapore Business Southeast Asia, West Asia

- PIGEON SINGAPORE PTE. LTD.**
Singapore February 1978
Sale of maternity and baby products
- PIGEON MALAYSIA (TRADING) SDN. BHD.**
Malaysia January 2011
Sale of maternity and baby products
- **PIGEON INDIA PVT. LTD.**
India November 2009
Manufacture and sales of maternity and baby products
- **PIGEON INDUSTRIES (THAILAND) CO., LTD.**
Thailand April 1996
Manufacture of maternity and baby products
- **THAI PIGEON CO., LTD.**
Thailand September 1990
Manufacture of maternity and baby products
- **PT PIGEON INDONESIA**
Indonesia January 1995
Manufacture of maternity and baby products

China Business China, South Korea

- PIGEON (SHANGHAI) CO., LTD.**
China April 2002
Manufacture and sales of maternity and baby products
- **PIGEON INDUSTRIES (CHANGZHOU) CO., LTD.**
China June 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

Stock Data (As of January 31, 2018)

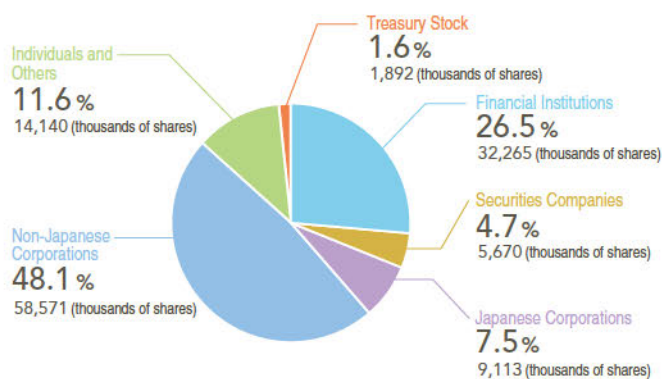
- Shares Authorized 360 million
- Shares Issued 121,653,486
- Number of Shareholders 13,528
- Treasury Stock 1,892,329

Situation of Major Shareholders (As of January 31, 2018) (As of January 31, 2018)

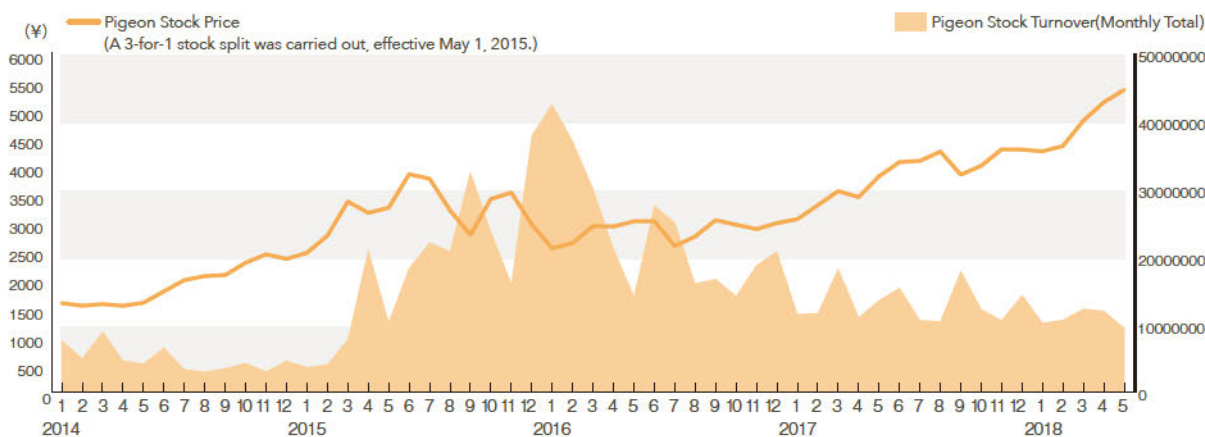
Shareholder name	Number of shares (Thousand)	Ownership (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	6,680	5.6
Japan Trustee Services Bank, Ltd. (Trust Account)	5,781	4.8
JP Morgan Chase Bank 385164	3,300	2.8
BBH for Matthews Asia Dividend Fund	3,077	2.6
Yoichi Nakata	3,038	2.5
Y.N Corporation	3,000	2.5
The Bank of New York Mellon 140044	2,860	2.4
Ueda Yagi Tanshi Co., Ltd.	2,671	2.2
Japan Trustee Services Bank, Ltd. (Trust Account 5)	2,304	1.9
The Bank OF New York, Non-Treaty Jasdec Account	1,951	1.6

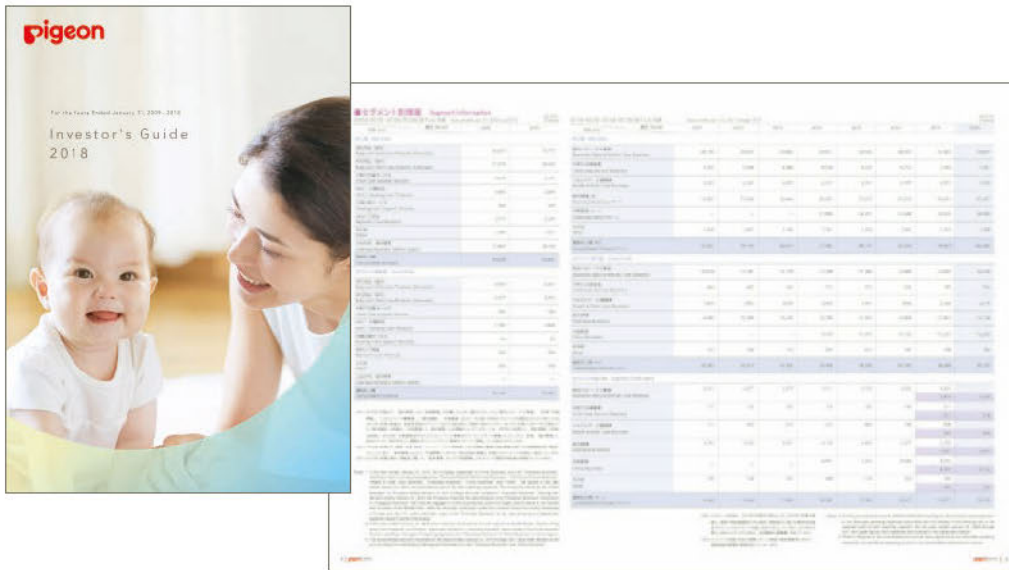
*Percentage of ownership figures are based on 119,761,157 shares (121,653,486 shares issued and outstanding, minus 1,892,329 shares of treasury stock).

Share Breakdown by Shareholders (As of January 31, 2018)

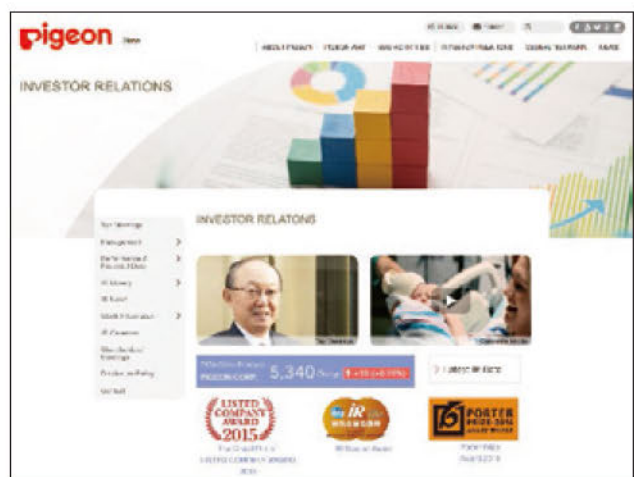


Stock Price Range/Turnover of Common Stock





Investor's Guide 2018



Please see the IR section of our corporate website below.
<https://www.pigeon.com/ir/>

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