






Annual Report 2017

For the Year Ended January 31, 2017



Pigeon History

	1949~	1970~	1980~	1990~
Corporate	<ul style="list-style-type: none"> ▶ 1949 Dofu Boeki, Pigeon's predecessor, established ▶ 1952 Yuichi Nakata appointed President ▶ 1957 Pigeon Honyuki Honpo (Nursing Bottle Manufacturing) Corporation established ▶ 1966 Name changed from Pigeon Honyuki Honpo Corporation to Pigeon Corporation 	<ul style="list-style-type: none"> ▶ 1973 Head office building in Kanda-Tomiyama-cho, Chiyoda-ku, Tokyo, constructed ▶ 1975 Kyowa Tokushu Shiko Co., Ltd. (now Pigeon Home Products Corporation) joined the Pigeon Group 	<ul style="list-style-type: none"> ▶ 1982 Pigeon Textiles (Pigeon Will Corporation) established to manufacture and sell maternity wear ▶ 1983 Yoichi Nakata appointed President; Yuichi Nakata appointed Chairman ▶ 1985 Corporate identity based on the Pigeon philosophy of "Love" adopted ▶ 1988 Shares registered with the Securities Dealers Association of Japan (present-day JASDAQ) 	<ul style="list-style-type: none"> ▶ 1991 Joso 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
Mother-Care Baby & Domestic Care Business	<ul style="list-style-type: none"> ▶ 1949 First nursing bottle in Japan with wide cap (A-type) launched ▶ 1956 Baby and child care-related products launched ▶ 1963 Milk powder case and sponge brush for nursing bottles launched ▶ 1966 Baby powder, first in a new range of baby hygiene products, launched 	<ul style="list-style-type: none"> ▶ 1975 World's first diaper liner made using binderfree manufacturing method launched ▶ 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 New-standard K-type nursing bottle (still used today) launched 	<ul style="list-style-type: none"> ▶ 1982 MagMag training cup with adjustable tops for different ages launched ▶ 1985 Fit, Japan's first seamless breast pad, launched ▶ 1987 Chibion digital thermometer for babies launched ▶ 1988 Babies' natural sucking peristaltic motion revealed 	<ul style="list-style-type: none"> ▶ 1992 Baby wipes launched ▶ 1993 Entry into baby food market ▶ 1994 UV Baby Skincare, first ultraviolet-ray skincare product for babies, released ▶ 1995 Nursing bottle disinfectant Milkpon launched
Child Care Service Business				<ul style="list-style-type: none"> ▶ 1993 Pigeon Land Joso, child-minding center for infants, opened ▶ 1996 Pigeon Wendy, babysitter dispatch service, launched ▶ 1999 Pigeon Kids World Corporation (now Pigeon Hearts Corporation) established
Health & Elder Care Business		<ul style="list-style-type: none"> ▶ 1975 Habilis Business Department, targeting the senior market established 	<ul style="list-style-type: none"> ▶ 1983 Nursing care products under the Habinurse brand launched 	
Overseas Business	<ul style="list-style-type: none"> ▶ 1966 Exports to other countries started 	<ul style="list-style-type: none"> ▶ 1974 First overseas office established, in Singapore ▶ 1978 Pigeon Singapore Pte. Ltd. established in Singapore 		<ul style="list-style-type: none"> ▶ 1990 Thai Pigeon Co., Ltd. established in Thailand ▶ 1996 Pigeon Industries (Thailand) Co., Ltd. established in Thailand
China Business				

About This Annual Report

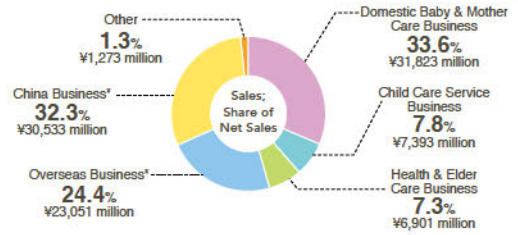
The Pigeon Group (Pigeon Corporation and its consolidated subsidiaries) seeks to maximize economic and social value through communications with all stakeholders, including shareholders and other investors. This document, which contains reports on management strategies, as well as business and ESG initiatives,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

2000~	2010~
<ul style="list-style-type: none"> ▶ 2000 Seiichi Matsumura appointed President and Chief Operating Officer; Yoichi Nakata appointed Chairman and Chief Executive Officer ▶ 2002 PHP Hyogo Corporation joined the Pigeon Group ▶ 2006 Head office relocated to Nihonbashi Hisamatsu-cho, Chuo-ku, Tokyo ▶ 2007 Akio Okoshi appointed President and Chief Operating Officer; Seiichi Matsumura appointed Chairman and Chief Executive Officer; Yoichi Nakata appointed Executive Advisor and Member of the Board 	<ul style="list-style-type: none"> ▶ 2013 Shigeru Yamashita appointed President and Chief Operating Officer; Akio Okoshi appointed Chairman and Chief Executive Officer ▶ 2014 Pigeon Corporation absorbed and merged with Pigeon Will Corporation Pigeon Way formulated Pigeon Scholarship Foundation established (authorized as a public interest incorporated foundation in 2016)
<ul style="list-style-type: none"> ▶ 2002 Wide neck "Bonyu Jikkan" nursing bottles, which promote babies' natural sucking peristaltic motion, launched ▶ 2003 Baby shoes, designed using research on toddlers' walking patterns, released 	<ul style="list-style-type: none"> ▶ 2010 Renewal of "Bonyu Jikkan" series of nursing bottle nipples Full-scale entry into baby stroller market ▶ 2015 Runfee baby stroller that runs smoothly over uneven ground launched 
<ul style="list-style-type: none"> ▶ 2001 Operation of in-company child-minding facilities launched ▶ 2002 Operation of approved child-care center launched ▶ 2004 Operation of 113 child-care facilities in hospitals of the National Hospital Organization (independent administrative agency) launched 	
<ul style="list-style-type: none"> ▶ 2000 Pigeon Manaka Corporation established ▶ 2004 Tahira Corporation (now Pigeon Tahira Corporation) joined the Pigeon Group ▶ 2007 Recoup brand of anti-aging products launched 	<ul style="list-style-type: none"> ▶ 2011 Daycare service launched by Pigeon Manaka Corporation ▶ 2015 Sano Day Service Center opened 
<ul style="list-style-type: none"> ▶ 2004 Lansinoh Laboratories, Inc. in USA joined the Pigeon Group ▶ 2009 Pigeon India Pvt. Ltd., a sales subsidiary, established in India 	<ul style="list-style-type: none"> ▶ 2010 Lansinoh Laboratories Medical Devices Design Industry and Commerce Ltd. Co. established in Turkey Lansinoh Laboratories, Inc. in the USA acquired 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
<ul style="list-style-type: none"> ▶ 2002 Pigeon (Shanghai) Co., Ltd. established in Shanghai, China ▶ 2006 Pigeon Manufacturing (Shanghai) Co., Ltd. established in Shanghai, China ▶ 2009 Pigeon Industries (Changzhou) Co., Ltd. established in Changzhou, China 	






Pigeon Annual Report 2017 Contents

■ Pigeon History	24
■ At a Glance	2
■ Key Performance Indicators	3
■ Dear Stakeholders	4
■ Pigeon Group Activities	16
Domestic Baby & Mother Care Business	16
Child Care Service Business	18
Health & Elder Care Business	19
Overseas Business	20
China Business	22
■ Pigeon ESG Initiatives	24
Environmental	26
Social	28
Governance	33
■ Management's Discussion and Analysis	36
■ Financial Data	40
■ Corporate Information	42

Consolidated Net Sales: ¥94,640 million

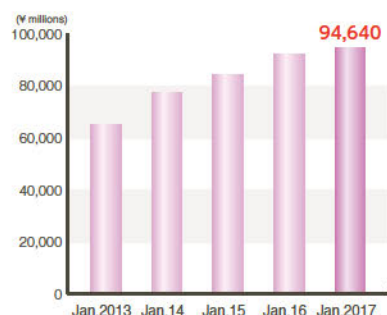


* The consolidated net sales figure refers to the amount after elimination of intersegment transactions.

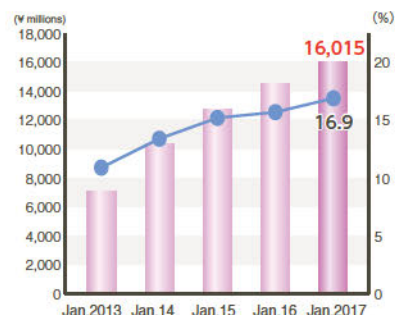
	Products; Services	Business Environment; Our Competitive Edge
Domestic Baby & Mother Care Business	<p>Breastfeeding-related products, weaning-related products, skincare products, women's care products, baby-related large-sized products, other products for babies and mothers</p> 	<p>Based on half a century of research into breastfeeding and early childhood development, we have gained an in-depth understanding of babies' growth processes and identified areas of concern in child-rearing. This has led to our development and launch of numerous high-quality products, resulting in widespread recognition of Pigeon as a leading company in the industry and a very strong and prominent brand. Going forward, we will expand our business with a focus on large-sized products centered on baby strollers.</p> <p>Affiliated Companies Pigeon Home Products Corporation, PHP Hyogo Corporation, PHP Ibaraki Corporation</p>
Child Care Service Business	<p>Child-rearing support services, operation of in-company child-minding facilities and daycare centers, event child-care services, preschool education services</p> 	<p>An increasing number of women want children but wish to keep working. Similarly, more and more women want to return to work while raising children. These factors are providing the impetus for the advancement of our Child Care Service Business. Leveraging Pigeon's reputation for safety, peace of mind, and reliability acquired in baby and child-care products, we will earn the confidence of customers by offering high-quality services as one of Japan's largest companies in the sector.</p> <p>Affiliated Companies Pigeon Hearts Corporation</p>
Health & Elder Care Business	<p>Elder care products, anti-aging products, elder care support services</p> 	<p>To address continuously increasing elderly care costs, the national government amended the nursing care insurance system by raising the personal contribution to nursing care insurance and tightening preconditions for moving into special elderly nursing homes, reflecting a policy shift from care in institutions to at-home care. As the market steadily increases in size, we will trench various measures, including introduction of new, competitively superior products and raising the quality of nursing care services.</p> <p>Affiliated Companies Pigeon Home Products Corporation, PHP Hyogo Corporation, PHP Ibaraki Corporation, Pigeon Manaka Corporation, Pigeon Tahira Corporation</p>
Overseas Business	<p>Baby and mother related products</p> 	<p>Spearheaded by Lansinoh Laboratories, Inc., based in the U.S. state of Virginia, we are expanding our business in the United Kingdom, Germany, and elsewhere in Europe as well as in China, Brazil, and other companies. Going forward, we will strengthen our brand while upgrading our nursing bottles and other product categories. In Asia, meanwhile, we expanded our production base in Thailand while building a distribution system and broadening our sales network in India.</p> <p>Affiliated Companies Pigeon Singapore Pte. Ltd., Pigeon Malaysia (Trading) Sdn. Bhd., Lansinoh Laboratories, Inc., Lansinoh Laboratories Medical Devices Design Industry and Commerce Ltd. Co., Lansinoh Laboratórios Do Brasil Ltda., Lansinoh Laboratories Benelux, Lansinoh Laboratories Shanghai, Pigeon India Pvt. Ltd., Pigeon Industries (Thailand) Co., Ltd., Thai Pigeon Co., Ltd., P. T. Pigeon Indonesia (equity-method affiliate)</p>
China Business	<p>Baby and mother related products</p> 	<p>In China, a huge nation with annual childbirths of around 17 million, the target for Pigeon's products is the "new rich" market. We are advancing our business by proposing innovative lifestyle scenarios, with an emphasis on nursing bottles and nipples, toiletries, and high-end skincare products. With more than 500 types of products on the Chinese market, we supply higher-priced items to meet high-end demand from the growing number of newly wealthy people in major coastal cities.</p> <p>Affiliated Companies Pigeon (Shanghai) Co., Ltd., Pigeon Manufacturing (Shanghai) Co., Ltd., Pigeon Industries (Changzhou) Co., Ltd., Doubleheart Co. Ltd.</p>

Key Performance Indicators

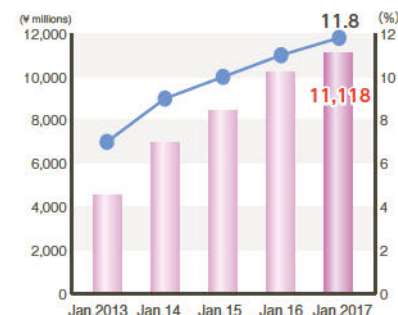
Net Sales



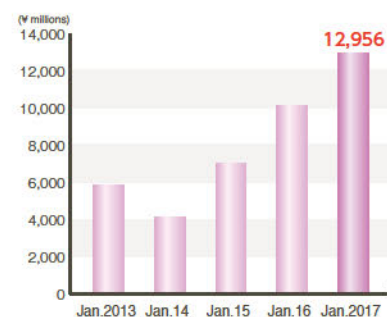
Operating Income/ Operating Margin



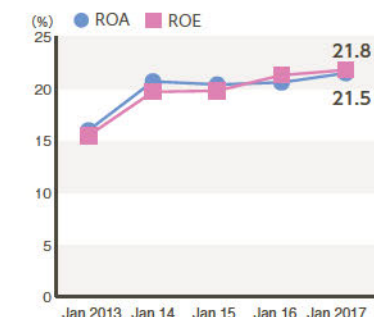
Net Income Attributable to Owners of Parent/ Net Income Margin



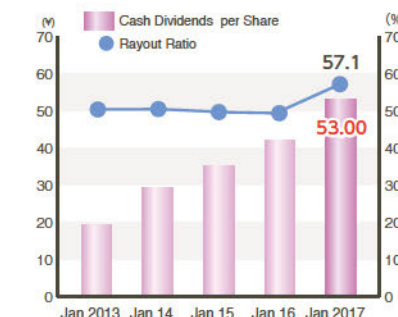
Free Cash Flows



ROA/ROE



Cash Dividends per Share/ Dividend Payout Ratio



Performance Highlights

(¥ millions)

	Jan. 2013	Jan. 2014	Jan. 2015	Jan. 2016	Jan. 2017
Net Sales	65,075	77,465	84,113	92,209	94,640
Gross Profit	27,760	34,464	38,296	43,345	44,688
Gross Margin (%)	42.7	44.5	45.5	47.0	47.2
Operating Income	7,086	10,365	12,780	14,521	16,015
Operating Margin (%)	10.9	13.4	15.2	15.7	16.9
Ordinary Income	7,389	11,002	13,299	15,080	16,462
Ordinary Margin (%)	11.4	14.2	15.8	16.4	17.4
Net Income Attributable to Owners of Parent	4,573	6,985	8,451	10,197	11,118
Total Assets	48,538	57,955	72,367	73,943	78,889
Net Assets	32,365	39,981	47,297	50,792	53,736
Free Cash Flows (Note 1)	5,807	4,135	7,001	10,147	12,956
ROA (%) (Note 2)	16.0	20.7	20.4	20.6	21.5
ROE (%) (Note 2)	15.5	19.7	19.8	21.3	21.8
EPS (¥) (Note 3)	38.09	58.17	70.55	85.15	92.84
Cash Dividends per Share (¥) (Note 3)	19.17	29.33	35.00	42.00	53.00
Dividend Payout Ratio (%)	50.3	50.4	49.6	49.3	57.1
Employees (Consolidated)	3,304	3,458	3,617	3,743	3,739

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

2. ROA is the ratio of ordinary income to total assets. 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. 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 2013.

Dear Stakeholders

**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 recently celebrated 60 years since its founding. Throughout our history, we have leveraged our Corporate Philosophy of "Love" to achieve growth under our Corporate Mission, which is "To bring joy, happiness, and inspiration to babies and families around the world by providing them with products and services that embody love."

Guided by "Pigeon Way," formulated in 2014, I personally took the initiative to explain the thoughts, meaning, and intentions contained therein. In the process, I feel that understanding and proliferation of Pigeon Way have deepened within the Group both in Japan and overseas. More than a simple slogan, "Pigeon Way" needs to be deployed when undertaking individual tasks as a matter of importance. For this reason, we have also incorporated it into the personal

goals of each employee, and we continue efforts to share how we have taken actions that signify and reflect "Pigeon Way" in our daily work. At a production plant in China, for example, local assembly workers used their own ideas and technological innovations to build an automated assembly line for nursing bottles. This shows that the formulation and introduction of "Pigeon Way" are delivering visible outcomes.

Personally, I judge the progress of Pigeon Way from three perspectives: Achievement level of our Corporate Mission, progress in creating economic value, and improvement of employee morale. Another perspective is whether or not actions lead to improvements in corporate value.

Pigeon's Perspective on Corporate Value

At Pigeon, we regard improvement in "corporate value" as improvements in both "social value" and "economic value." "Social value" means value related to Pigeon's raison d'être. For example, are we offering solutions to the problems of customers and society? Are we delivering new aspects of value, such as convenience and comfort? And consequently, is Pigeon an indispensable presence for society and customers?

Key to generating such value is our workforce. If employees feel a desire to "contribute to society" and approach their tasks with motivation and drive, it will naturally lead to an increase in "economic value." Based on this correlation, I think raising "employee morale" is an important element to consider when formulating various management policies.

On the other hand, there is "economic value." Increasing free cash flows efficiently and consistently into the future leads to increased economic value, we believe. Stock prices fluctuate on a daily basis according 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." How do we increase free cash flows? This requires increases in operating income (to be more precise, net operating profit after tax, or NOPAT), as well as enhancements in business model that are difficult to imitate, competitive

advantage and marketing power. We also must take action to improve other performance indicators, notably return on equity (ROE), cash conversion cycle (CCC), and Pigeon Value Added (PVA, a cash flow indicator for NOPAT minus the cost of capital).

In last year's annual report, I reported that Pigeon Corporation received the most prestigious "Grand Prize" at the fiscal 2015 "Corporate Value Improvement Awards" hosted by the Tokyo Stock Exchange (TSE) in January 2016. This award was given in recognition of Pigeon's practice of "corporate value improvement management" at a particularly high level, given the Company's positioning of PVA as an independent performance indicator that expresses the financial amount of corporate value generated in excess of capital cost, as well as unified efforts to improve PVA and delivery of real outcomes. In October 2016, we received the "Porter Prize," which is bestowed on businesses that have achieved and maintain high profitability by practicing exceptional strategies with unique characteristics. In our business, we have created our own distinctive "barriers," or competitive advantages, that serve as a crucial foundation supporting our high profitability—attributes that were recognized in winning the award.

In addition, a nursing bottle nipple that we developed specifically for babies with weak sucking ability and

Dear Stakeholders

tongue movement—due to being born small or with disabilities, for example—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. We are honored to be evaluated so highly by these external parties.



Porter Prize 2016 received for high profitability



Grand Prize received at fiscal 2015 “Corporate Value Improvement Awards”



Nursing bottle nipple for babies with weak sucking ability received

“Good Design Award 2016” and “iF Design Award 2017”

Beneficial Medium-to-Long-Term Business Environment

Fiscal 2016 was a year of major political and economic upheaval, characterized by the United Kingdom’s decision to exit the European Union and the election of Donald Trump as president of the United States. In 2017, meanwhile, the Chinese government will hold its 99th party convention, where that nation’s basic policies for the next five years will be decided. At Pigeon, we will pay close attention to these macro-level changes as we forge ahead with our business, but we will also take note of another major change in the business environment that is not related to politics and economics: the significant global growth of e-commerce sales, especially in such countries as China, the United States, and South Korea. In response, we are already strengthening our e-commerce sales and distribution systems in our China Business, where e-commerce growth is high, but we must take further swift and decisive actions to address these changing business conditions.

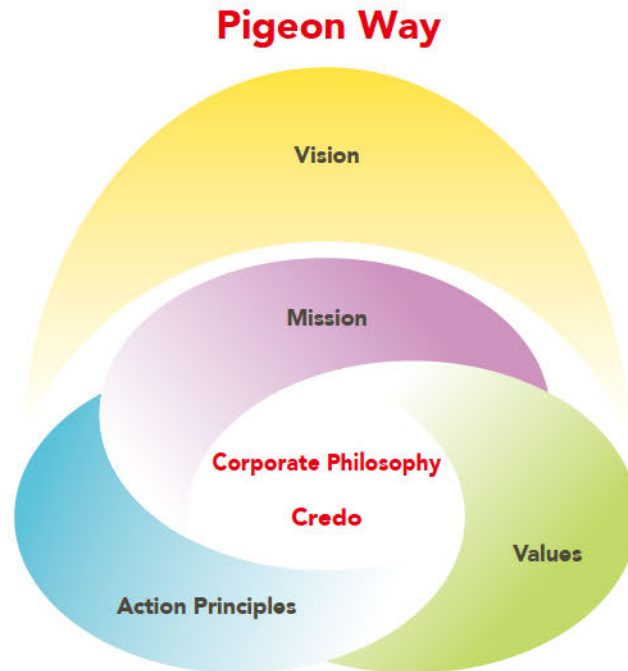
On the other hand, a look at the global market environment from a medium-to-long-term perspective reveals a huge amount of potential. While the falling birthrate is causing concern in Japan, approximately 135 million babies are born each year around the world, and 91.6 million of them, representing around 70%, are born in the top 20 nations in terms of childbirth numbers. Accordingly, we have significant room to broaden our business, highlighting the importance of pushing forward our growth strategy from medium- and long-term perspectives.

Based on these business conditions, in March 2017 we announced our Sixth Medium-Term Business Plan. Before describing the new plan, however, I would like to review the fiscal year ended January 2017, which was the final year of our Fifth Medium-Term Business Plan.

Pigeon Way

What is the Pigeon Way?

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



Corporate Philosophy

The essence and core of our company

Love

Credo

Our fundamental brief based on the corporate philosophy

Only love can beget love

■ Vision

The goal Pigeon Group aims to achieve

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

■ Mission

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

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

■ Values

Important attributes for all Pigeon employees

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

■ Action Principles

The basic guideline for driving all of our actions

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

Fiscal 2016 in Review

In fiscal 2016, ended January 31, 2017, the Group performed well and according to plan despite the impact of the yen's appreciation against the U.S. dollar. The Domestic Baby & Mother Care Business segment enjoyed particularly strong growth, benefiting from inbound purchases by overseas visitors to Japan. The Overseas Business segment reported year-on-year declines in revenue and earnings as the yen's appreciation gathered momentum, but sales of mainstay products in North America and Europe, where we are expanding the Lansinoh brand, have been growing, with steady increases in segment sales and operating income on a local-currency basis. In the China Business segment, as well, the yen appreciated against the Chinese yuan,

leading to declines in sales and operating income, but sales in local-currency terms jumped 16.3% year on year, underscoring that business's healthy performance.

For the year, consolidated net sales amounted to ¥94,640 million, up 2.6% from fiscal 2015. Operating income grew 10.3%, to ¥16,015 million, and ordinary income increased 9.2%, to ¥16,462 million. Net income attributable to owners of parent climbed 9.0%, to ¥11,118 million. This marked the sixth consecutive period of increases in net sales and the 15th consecutive period of operating income growth.

Fiscal 2016 was the final year of our Fifth Medium-Term Business Plan, the slogan of which is "Pursuing world class business excellence, think globally, plan

Research and Development

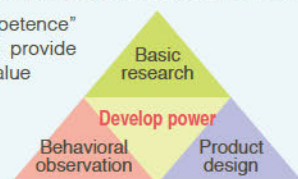
■ Pigeon Research and Development

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

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

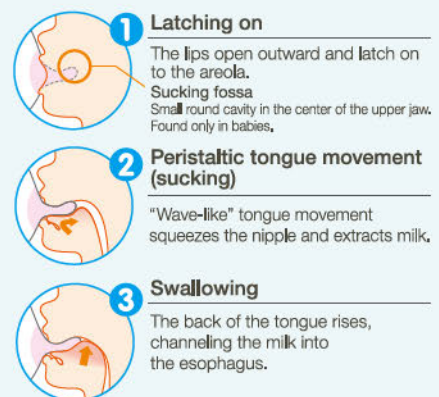
A company's "core competence" is its inherent ability to provide one-of-a-kind levels of value to customers in a way that other companies cannot imitate.



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

■ Basic Research and Achievements

Pigeon's core products—nursing bottles and nipples—are the result of sucking-related research extending back more than 50 years since its establishment. We have been expanding our body of knowledge on the sucking movements established by Pigeon, which consists of the three principles of "Latching on," "Peristaltic tongue movement (sucking)," and "swallowing." One finding from this research has been applied to a new nursing bottle nipple called Bonyu Jikkan®. Launched in spring 2010, this product has been highly acclaimed by customers.



agilely, and implement locally.” Under the plan, we sought to accomplish five key objectives: (1) Become the Global Number One in childcare products; (2) Strengthen the management framework for continuous business development; (3) Improve management quality by focusing on cash flows; (4) Establish global human resource training and personnel systems and promote employee dynamism; and (5) Further enhance enterprise value. These five objectives are stated in Vision 2016, and to achieve that vision, we set 12 tasks that we worked very hard to fulfill.

When we announced the Fifth Medium-Term Business Plan in 2014, we set the targets of ¥100 billion in consolidated net sales and ¥15 billion in operating income for the final year of the plan. Due to foreign exchange factors, we did not reach the initial net sales target, but we exceeded our target for operating income. Moreover, we posted an operating margin

of 16.9% and ROE of 21.8%—both new record-high figures—highlighting our success in significantly reinforcing our earnings structure. In nonfinancial terms, as well, the proliferation of the aforementioned “Pigeon Way” led to positive outcomes, and we received various awards to show that our management strategies and their progress are widely evaluated outside the Group. At a more detailed level, we acknowledge that some issues remain, such as investments in a global IT system to enhance Group performance management. Nevertheless, I believe that we achieved most of the objectives of the Fifth Medium-Term Business Plan.

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.



Overview of Sixth Medium-Term Business Plan

With respect to our Sixth Medium-Term Business Plan announced recently, as a major premise I would like to first help you understand the plan's positioning in the context of the Pigeon Group's medium-to-long-term growth strategy. As I stated earlier, I am convinced that Pigeon has major potential for further growth. For this reason, 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. Some people think that net sales growth is not the key to raising corporate value, but increasing topline revenue is essential to boosting free cash flows. 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." Under the plan, we will pursue three basic policies.

First, based on Pigeon Way, we will 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.'" This means properly deciding in-house what it takes to be called "Global Number One," then concentrating on various performance indicators—such as market share, operating income, and return on invested capital (ROIC)—while earning the support of customers as a "manufacturer and brand that can be trusted."

Second, we will further increase corporate value by improving business profitability and efficiency and maximizing cash flows. We have already reached a satisfactory operating margin level, but we will focus on further improvements by bolstering the gross profit margin. Specifically, we will reassess business portfolio, and costs such as distribution expenses, while improving the cash conversion cycle (CCC). We will also establish and reinforce our organizational structure, management system, and governance system to ensure sustainable medium-to-long-term growth.

Third, over the plan's three-year period, we will allocate management resources with priority on key products and make strategic investments accordingly. We have earmarked the three years of the plan as a

period for "laying solid foundations" aimed at achieving continued double-digit growth. With this in mind, we will allocate management resources with priority not only on nursing bottles and nipples, where we have overwhelming strength, but also in key peripheral categories, including breast pumps and other breastfeeding-related products, as well as cups and skincare items. Looking at geographical development, our China Business segment has already grown to become around the same size as our Domestic Baby & Mother Care Business segment. As for markets to be cultivated for future growth, we will advance our business in India, Indonesia, and France (Benelux), as well as the China business of Lansinoh Laboratories, and we will consider entering various African markets.

In order to implement our basic policies, we have included "ESG" (environment, social, governance) in the 12 tasks set under the medium-term plan. The others are "global sharing of corporate philosophy and 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 systems."

In fiscal 2019, ending January 2020, the final year of our Sixth Medium-Term Business Plan, we are targeting consolidated net sales of ¥110.0 billion (representing compound annual growth rate of 5.1% from ¥94.6 billion in the year under review). Although we forecast single-digit topline growth over the next three years, I want to repeat here that it is a period for laying solid foundations for double-digit growth during the Seventh Medium-Term Business Plan and beyond. Our other consolidated targets for fiscal 2019 are: gross profit of ¥55.0 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 (net operating income after tax, divided by invested capital, assuming a 30.0% tax rate) of 20.0% or higher.

Sixth Medium-Term Business Plan: Numerical Targets

Consolidated Performance Targets

(¥ millions)	FY2016	FY2017	FY2018	FY2019	Compound Annual Growth Rate (CAGR)
Net Sales	94,640	99,800	102,300	110,000	+5.1%
Gross Profit	44,688	47,600	50,800	55,000	+7.2%
Operating Income	16,015	17,000	17,900	20,000	+7.7%
Ordinary Income	16,462	17,000	17,900	20,000	+6.7%
Net Income Attributable to Owners of Parent	11,118	11,800	12,300	13,800	+7.5%
EPS (¥)	92.84	98.53	102.70	115.23	
Gross Margin (%)	47.2%	47.7%	49.7%	50.0%	
Operating Margin (%)	16.9%	17.0%	17.5%	18.2%	
Ordinary Margin (%)	17.4%	17.0%	17.5%	18.2%	
Net Income Attributable to Owners of Parent Margin (%)	11.8%	11.8%	12.0%	12.5%	

	FY2016 Result	Sixth Medium-Term Business Plan Target
ROE	21.8%	22.0% or higher
ROIC	19.2%	20.0% or higher

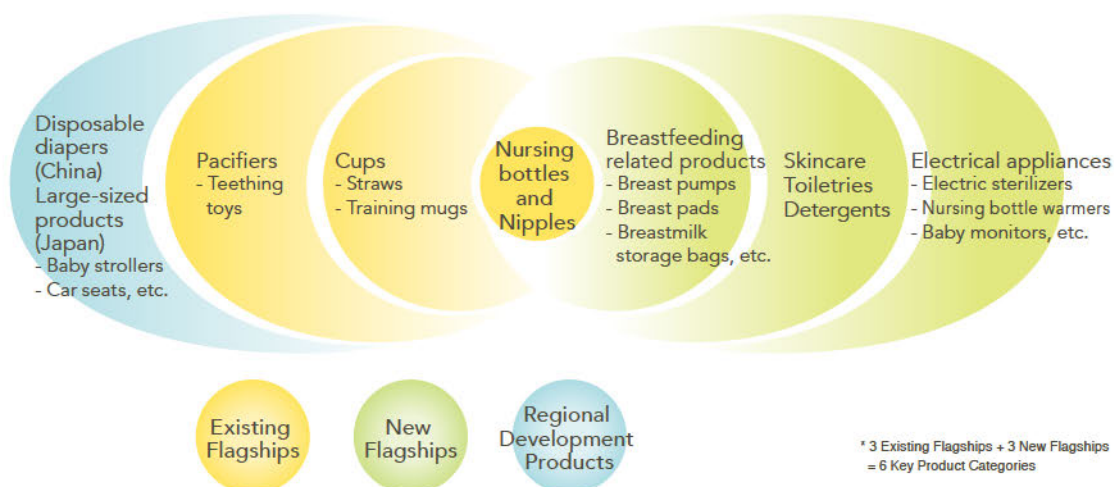
* ROE: Return on equity. The denominator is the average of the figures at the beginning and end of the fiscal year.

* 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: Key Strategies

Expansion of Key Product Categories

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





■ Domestic Baby & Mother Care Business

In fiscal 2016, we significantly improved our earnings power in the Domestic Baby & Mother Care Business segment, which posted a 13.4% year-on-year increase in sales and a 42.4% jump in operating income. In this segment, we will focus on expanding market share in six key product categories: (1) nursing bottles and nipples; (2) cups such as MagMag®; (3) pacifiers and teething toys; (4) breastfeeding-related products, such as breast pumps and breast pads; (5) skincare products, toiletries,

and detergents; and (6) electric products, such as electric sterilizers. In the baby stroller category, we will undertake proactive sales and marketing activities by leveraging the “Runfee” series, which has been highly popular since its launch, to garner a 25% market share by fiscal 2019. We will also continue emphasizing proliferation activities aimed at collaboration with medical professionals while deploying websites to promote our direct communication policy.

■ Child Care Support Services; Health & Elder Care Business

In the Child Care Support Services segment, where we have 188 child-care facilities under our management, both sales and operating income increased year on year. Going forward, we will place top priority on improving service quality. This means increasing the quality of care by practicing highly specialized child care that accounts for children’s individuality, while further entrenching a safe and secure management system and nurturing competent child-care workers. At the same time, we will clarify the positioning of this business in an effort to further improve profitability and thus enhance business efficiency.

In the previous fiscal year, the PVA figure for the Health & Elder Care Business segment became negative for the first time. In the year under review, we enhanced the efficiency of our business operational system and otherwise implemented drastic reforms aimed at improving earnings. As a result, we achieved a turnaround, with year-on-year increases in both segment sales and operating income. Under our Sixth Medium-Term Business Plan, we will strengthen our in-house sales system and distribution system to improve profitability and achieve further business growth.

Overseas Business

In India, where around 24 million babies are born each year—more than any other nation—we have started production of nursing bottles and nipples at a new facility and also commenced exports of those products. This facility serves as a production base not only for India but also for surrounding countries, and our plan is to further improve profitability and add momentum to our business expansion in India. In Singapore, meanwhile, the Pigeon brand won first place in a survey of recognition rates for baby-related brands. I feel that the trend for market proliferation of the Pigeon brand is expanding globally.

The Lansinoh brand of nipple care creams, breast pads, and breastmilk storage bags again retained the top share of the North American market. With respect to breast pumps, where the North American market alone is valued at around ¥100 billion, we launched a new product called Smartpump™, which has been well received. In Europe, meanwhile, we expanded

our business in the three key markets of the United Kingdom, Germany, and Turkey. We also opened a new factory in Turkey in January 2017, which will underpin our business growth in Europe. In April, we started rolling out Lansinoh-brand products in China. Sales have been much greater than expected, and we will work to further expedite growth of that brand.

Under our Sixth Medium-Term Business Plan, we will promote business growth by raising market share for our six key product categories. We will also complement our activities at hospitals by stepping up neonatal intensive care unit (NICU) initiatives. In addition, we will increase our presence in nations identified as growth markets, namely, India, Indonesia, France (Benelux), and China (concentrating on the Lansinoh brand). At the same time, we will consider entry into African markets, including Nigeria—behind only India and China in terms of childbirth numbers—as well as Kenya and countries on the west coast.

Breastfeeding Rooms Established to Promote Breastfeeding



Breastfeeding room in Singapore



Breastfeeding room in the Philippines



Smartpump™ (electric breast pump of Lansinoh Laboratories)



Breastfeeding room in Indonesia

China Business

Pigeon has achieved dramatic growth in its China Business, which is now a major pillar on a par with the Domestic Baby & Mother Care Business segment, and is also a major contributor to Group earnings. In the year under review, our mainstay products, such as nursing bottles and nipples, continued selling well. We also stepped up sales promotion for disposable diapers, with sales more than doubling year on year. In addition, we strengthened our response to the growing e-commerce sector, with online sales performing very well.

Regarding the medium-to-long-term outlook, with around 17 million babies born each year, China ranks second in the world to India. In 2015, China discontinued its long-standing "one-child policy," and GDP per head of population is increasing. Accordingly, business conditions for the child-care-related sector remain favorable. Moreover, recognition of Pigeon as a safe, reliable brand that can be trusted is spreading across the nation. When customers feel that our products are good, they will convey the information through word of mouth, leading to purchases by other customers. Another purchasing motivation is recommendations from specialists, such as doctors and nurses in hospitals. In collaboration with China's

Ministry of Health to promote breastfeeding, we are also opening breastfeeding advice offices in large hospitals and clinics in various regions. We now have a business model in China that is difficult to be imitated.

Under our Sixth Medium-Term Business Plan, we will work to raise market share for our six key product categories, including nursing bottles and nipples. At the same time, we will promote business expansion in China by expediting growth of our disposable diaper business. We will also address the rise of e-commerce by reinforcing our sales and distribution systems to further solidify our business foundation. Driving the ongoing expansion of e-commerce are young people in their 20s and 30s, so we are actively embracing e-commerce as a sales channel to augment traditional baby product specialty stores. We firmly believe that this will generate major business growth in China. With respect to customer interaction, we will further strengthen direct communications, including through the use of WeChat, Weibo, and other social media, in addition to initiatives at hospitals.



Parenting seminar in China



Hospital-related activities in China



Breastfeeding rooms in China

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 declared cash dividends of ¥53.00 per share (including a ¥6.00 commemorative dividend), for a dividend payout ratio of 57.1%. In the year ending January 2018, we plan to pay annual dividends of ¥56.00 per share, up ¥3.00 year on year.

Corporate Governance

While the passion and DNA of our founder were originally passed down in the form of a family-run business, since listing publicly we have achieved growth as a truly public company. 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 aim to enhance corporate governance from the perspective of its essence, which is to build "frameworks for transparent, fair, swift, and resolute decision-making." In the year under review, we appointed our second outside director, but we do not consider two outside directors to be sufficient. For this reason, we are constantly searching for outside officers who will enhance our ability to build "frameworks for transparent, fair, swift, and resolute decision-making."

With respect to diversity of officers, in the year under review we added a new internal member to the Board of Directors: Mr. Kevin Vyse-Peacock, CEO of Lansinoh Laboratories, a subsidiary of the Company. However, we have not yet found suitable female director candidates, and I personally and fully acknowledge this as an issue from the perspective of diversity. At present, women account for around 20% of Pigeon's overall management

positions, and they include executive officers. By stepping up recruitment and fostering of women, we hope to resolve the issue of female directors in the next few years. In the meantime, we are forging powerfully ahead with workstyle reforms covering both female and male employees. For the second 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 set an average monthly overtime target of 2.5 hours. In these and other ways, we are promoting health-oriented management.

With respect to ESG, we recognize the extreme importance of enhancing the "social value" aspect of corporate value, and we began producing this annual report with the intention of disclosing specific indicators and achievements related to such social value. Although these efforts and the scope of disclosure remain inadequate in some areas, we will make further enhancements going forward.

By meticulously implementing our Sixth Medium-Term Business Plan, we aim to increase both the social and economic aspects of corporate value. We look forward to the understanding and support of shareholders and other investors.

山下 茂

Shigeru Yamashita

President and Chief Operating Officer

we are expanding our product lineup for the maternity market in order to meet the diversifying needs of customers. We are also striving to maintain and boost our market shares for all product categories by stepping up educational activities. Pigeon is renowned for its ability to offer a full range of baby products. Deploying this capability, we are working in collaboration with large retailers to establish in-store Pigeon product sections and develop sales promotion strategies.

New Market Initiatives

In large-sized products, a category that we have been fostering, we offer the "Runfee" baby stroller, which runs smoothly over uneven ground thanks to its 16.5cm large-diameter tires, thus resolving concerns of customers. The market share for Runfee has grown sharply since its launch in January 2015. 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 2016, sales in the Domestic Baby & Mother Care Business segment amounted to ¥31,823 million, up 13.4% from the previous year. Segment income grew significantly, rising 42.4%, to ¥6,244 million, benefiting mainly from increased sales of nursing bottles and others.

In February 2016, we launched a renewed "Pure" series of laundry detergents for baby clothes, as well as "Runfee ef," a lightweight baby stroller that offers a smooth ride and improved interior comfort. In March 2016, we unveiled four types of the redesigned "Bonyu Jikkan®" series of nursing bottles and nipples, and in August we released a new version of "Mimi-Chibion®," an improved ear thermometer that allows users to take and read temperatures easily. Sales and market share have been increasing as a result.

We also held various events as a part of our direct communications program. These included "Maternity Seminars" for women expecting to give birth in the near future and seminars for healthcare professionals about breastfeeding while parenting. In fiscal 2016, we held a total of 32 such events, with participation from around 2,700 people. With respect to "Pigeon Info," a website that supports women during pregnancy, in childbirth, and while raising children, we continued updating information on Pigeon merchandise, and in February 2016 we opened a new portal called "Bonyuiku" to provide information about breastfeeding and otherwise assist parents in raising children while breastfeeding.

● Outlook

Under our Sixth Medium-Term Business Plan, we will focus on expanding market share in six key product categories: nursing bottles and nipples, where we have overwhelming strength; cups; pacifiers and teething toys; breastfeeding-related products, such as breast pumps and breast pads; skincare products, toiletries, and detergents; and electric products, such as electric sterilizers. We have also identified large-sized products, such as baby strollers and car seats, as a growth category and will work to further broaden market share. In addition, we will enhance direct communication with consumers, further increase the geographical coverage and frequency of our medical seminars, and rebuild and reinforce our activities targeting hospitals. In fiscal 2017, we will conduct in-depth marketing activities in key product categories. In the large-sized product category, as well, we will emphasize proactive sales, marketing, and investment activities with the aim of capturing a 16% market share in value terms. Through these measures, we forecast sales in the Domestic Baby & Mother Care Business segment of ¥33.1 billion for the year ending January 2018.

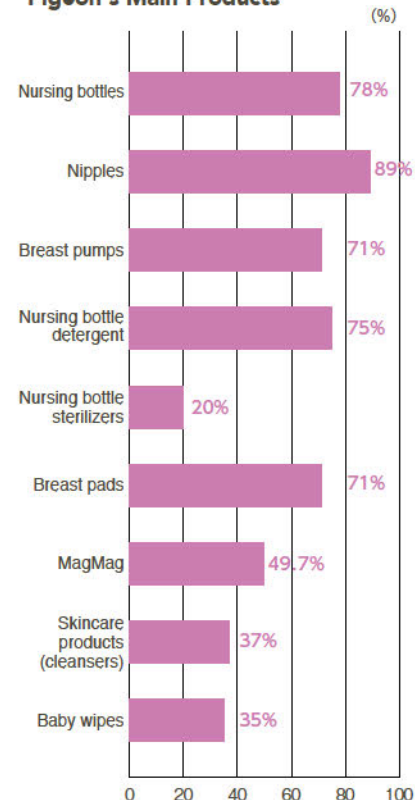


"Runfee ef" baby stroller



Seminar for medical professionals

Domestic Market Share of Pigeon's Main Products



(Jan. 2017)

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 care services that meet the varied needs of users. These include the operation of child-minding facilities, such as licensed and certified daycare centers and in-company child-minding facilities. The Pigeon Group also operates preschool education facilities, such as Kids World, which is implementing new programs. Pigeon has earned the trust of parents for the high quality of its services while operating one of Japan’s largest child-care service businesses.

● Business Strategy

The solid reputation and trust earned by our Child 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 operating our business 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

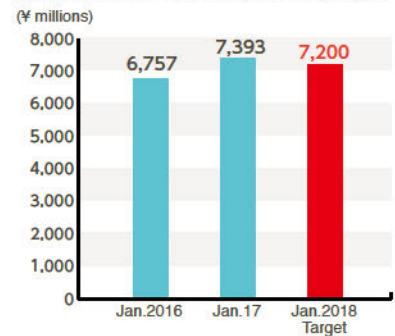
In the year under review, sales in Child Care Service Business segment increased 9.4% year on year, to ¥7,393 million. Segment income jumped 41.9%, to ¥211 million, thanks to the rise in gross profit associated with the revenue increase, as well as effective deployment of SG&A expenses.

During the year, we were newly entrusted to operate two in-company child-care facilities, bringing the total number of facilities under our management, including in the National Hospital Organization, to 188.

● Outlook

Under our Sixth Medium-Term Business Plan, we will place top priority on improving business quality. This means increasing the quality of care by practicing highly specialized child care that accounts for children’s individuality, while further entrenching a safe and secure management system and nurturing competent child-care workers. In fiscal 2017, we will continue striving to enhance the quality of child care and improve profitability, with a segment sales target of ¥7.2 billion.

Sales of Child Care Service Business



Health & Elder Care Business

● Business Environment

Japan's population is aging rapidly while the number of births declines. In 2016, when baby boomers (born between 1947 and 1949) were aged 65 and over, the population of elderly people reached 34.61 million (September 15, 2016 statistics, Ministry of Internal Affairs and Communications.). This is equivalent to 27.3% of the total population, and the market size continues to grow steadily. To address continuously increasing elderly 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 elderly nursing 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

To date, we have advanced our Health & Elder Care Business through the Habinurse brand of elder care products and the Recoup brand of products that support the active elderly. In the fiscal year ended January 2012, we restructured the organization of this segment by slimming down and concentrating managerial resources around the Habinurse brand of elder care products that are enjoying strong demand. Since then, we have been working to improve product competitiveness by specializing in the key categories of wipes, body wipes, skincare products, food, and oral care products. We sell Habinurse 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.

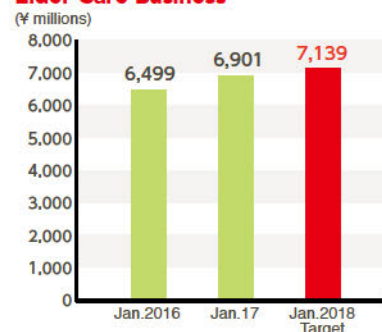
● Performance and Highlights

Sales in this segment grew 6.2% year on year, to ¥6,901 million, driven mainly by the key categories of wipes, body wipes, skincare products, food, and oral care products. Segment income surged 258.6%, to ¥504 million, reflecting efforts to enhance the efficiency of our business operating system and a reduction in SG&A expenses, in addition to higher segment sales. In February 2016, we released a series of oral care products for seniors receiving nursing care.

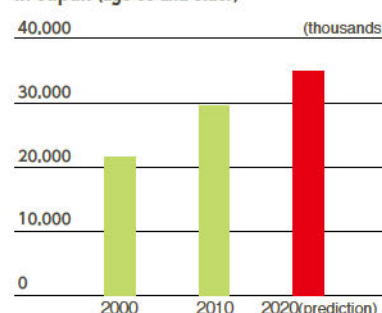
● Outlook

Under our Sixth Medium-Term Business Plan, we will strengthen our in-house sales system and distribution system to achieve business growth and improve profitability. We will also work with collaborative partners from outside the Group to develop and sell new products that reflect the feelings of consumers and nursing care recipients. In addition, we will step up promotional activities with emphases on the four themes most beneficial to consumers and nursing care recipients: carefree, effortless, simple, and reliable. Through these efforts, we will seek to enhance the efficiency of our business system and enhance profitability. Our segment sales target for fiscal 2017 is ¥7,139 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



Line-up of health and elder care items

Overseas 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 2016, as the yen's appreciation gathered momentum, segment sales declined 8.6% year on year, to ¥23,051 million, and segment income decreased 4.1%, to ¥5,352 million.

● Market Movements and 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 childbirth numbers of only 976,000 per year, the potential market for our overseas business is extremely large, and we have significant room for growth.

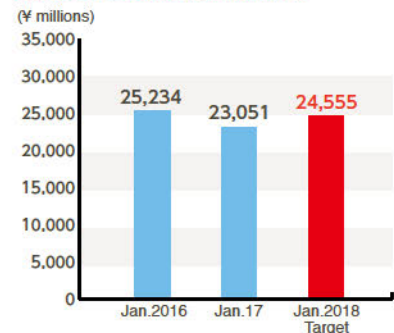
Our competitive advantage in overseas markets derives from two key strengths. One is the appeal of our products. We conduct basic research into "matters that concern our customers," and make products accordingly. Another strength is teamwork with high-quality business partners. To develop our overseas 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.

● Business Strategies

Under our Sixth Medium-Term Business Plan, we will promote business growth by raising market share for our six key product categories while boosting growth of the Lansinoh Brand. With respect to nursing bottles, one of the six key product categories, we will target 15-percentage-point increases in market share in each nation, compared with current levels. We will also strengthen our brand power by complementing our activities at hospitals with neonatal intensive care unit (NICU) initiatives. We will focus particular attention on nations identified as growth markets, namely, India, Indonesia, France (Benelux), and China (Lansinoh Laboratories Shanghai). At the same time, we will consider entry into African markets, including Kenya and countries on the west coast of Africa such as Nigeria.

In fiscal 2017, we will concentrate on proactively expanding our business and improving profitability of the Lansinoh brand in Europe. In India, as well, we will strive to enhance profitability through business expansion and increased factory capacity utilization. Through these initiatives, we forecast sales in the Overseas Business segment of ¥24,555 million in the year ending January 2018. (This assumes an exchange rate of ¥110.00 per U.S. dollar, compared with a rate of ¥108.77 per U.S. dollar in fiscal 2016.)

Sales of Overseas Business



North America/ Europe

● Business Overview

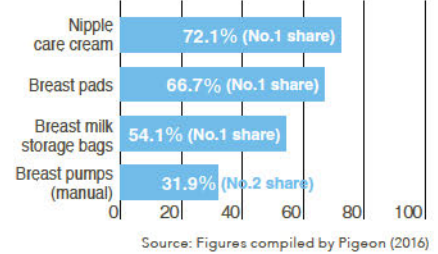
With respect to total fertility rate and childbirth numbers, the United States is relatively stable among advanced countries. In that nation, where breastfeeding is recommended, specialist "lactation consultants" provide general support for women around the time of birth by emphasizing the importance of breastfeeding and providing guidance and advice related to 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.

● Lansinoh's Position

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

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



● Performance and Outlook

In the year under review, we enjoyed healthy sales growth for nipple care creams, breast pads, breast pumps, and other mainstay breastfeeding-related products in North America, where sales totaled ¥7,061 million, down 0.8% from the previous year (up 2.5% in local-currency terms). In Europe, we reinforced our sales systems in the key markets of the United Kingdom, Germany and Turkey and reported firm sales as a result.

Under our Sixth Medium-Term Business Plan, we will further step up development of the Lansinoh brand in Europe to expand our business and improve profitability.



Lineup of Lansinoh-brand products

Asia/Near and Middle East/Other Countries

● Business Strategies

The Pigeon Group is actively entering new markets in order to expand its business. In addition to enhancing our production bases in Thailand, we began local production of nursing bottles and nipples in India in January 2015, which has since begun manufacturing for other countries and exporting to Japan. In Singapore, our measures to strengthen brand power through direct communication were successful, and in fiscal 2016 the Pigeon brand won first place in a survey of recognition rates for baby-related brands.

Under our Sixth Medium-Term Business Plan, we will target renewed growth by pursuing expansion into Africa and other new markets.

● Business Development in 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 years old. Moreover, the number of childbirths continues to grow, and is projected to reach 24 million per year, significantly higher than China.

We are working to raise recognition of Pigeon in India as a top-quality brand with high added value, as we have done in Japan and China. 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 promote our offerings in more than 10,000 outlets, centering on pharmacies, and going forward we plan to further broaden our pharmacy channels, with a target of 50,000 outlets.

China Business

● Business Overview

With a population of around 1.38 billion, China's annual childbirths have averaged about 17 million over the past several years, which is 17 times the number of births of Japan. Pigeon is targeting the wealthiest 25% of the market, representing around 4.3 million people. Given that we generate ¥31.8 billion sales from our Baby & Mother Care Business in Japan, where only 976,000 babies are born annually, we regard our growth potential in China to be extremely large. Looking ahead, we estimate that the number of childbirths to remain high in China in light of the abolition of its "one-child policy" in 2015. These factors, coupled with increasing disposable incomes nationwide and growing concern among consumers about product safety, will underpin the growth of our China 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, and recognition of Pigeon among consumers as a safe, reliable, high-quality brand is spreading as a consequence.

● 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 (62 hospitals as of January 2017). In the year ended January 2017 we had partnerships with around 280 hospitals including Pigeon Breastfeeding Advice Offices, throughout the country providing educational activities related to breastfeeding.

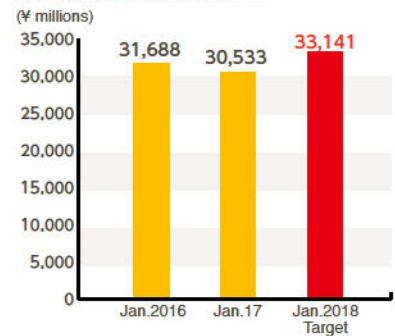
With respect to manufacturing, Pigeon Manufacturing (Shanghai) Co., Ltd., established in 2008, has been manufacturing and assembling various products. These include silicon nursing bottle nipples, detergents, and toiletries, as well as nursing bottles. To address the rapidly growing market for consumables, 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 Development and Network

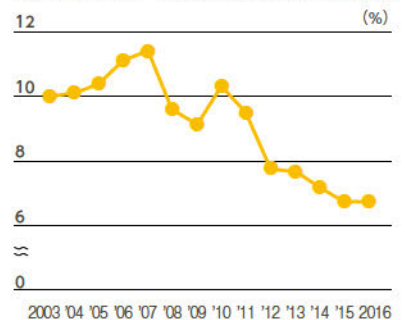
We are expanding ties with local distributors in order to develop our sales network across the entire nation. For the retail channel, we will rebuild our distribution network by mobilizing both primary and secondary distributors as we seek to further boost sales in China. Meanwhile, we have a network of dedicated Pigeon sections "Pigeon Corner" within baby specialty shops and department stores across China (around 3,500 such sections as of January 31, 2017). Through this network, we will address new brand style guidelines and otherwise deepen ties with existing stores.

Recent years have seen rapid growth of sales via major Chinese e-commerce

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~).



Dedicated Pigeon retail section in China "Pigeon Corner"

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.

● Expansion in Neighboring Countries

Pigeon launched its business in South Korea in the 1980s, focusing primarily on exports from Japan. In February 2009, we changed our brand name for the local market to “DoubleHeart,” which has since won high recognition mainly for its breastfeeding- and weaning-related products. In August 2012, we transformed our branch office there into a subsidiary, which is spearheading efforts to further raise brand recognition and broaden our range of offerings.

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

● Business Performance and Outlook

In the year under review, sales of the China Business segment totaled ¥30,533 million, down 3.6% from the previous fiscal year, and segment income declined 2.7%, to ¥8,355 million. The segment’s performance was impacted by the yen’s appreciation against the Chinese yuan from the beginning of the period.

In local-currency terms, we enjoyed a double-digit year-on-year sales increase, so our business remains on a growth trajectory. Meanwhile, our mainstay products, such as nursing bottles and nipples, are selling well, and purchasing among consumers has been steady. With respect to disposable diapers, for example, measures to reinforce sales were successful, with sales doubling year on year.

Under our Sixth Medium-Term Business Plan, we will promote business growth by raising market share for our six key product categories and emphasizing increased sales of disposable diapers. We will also reinforce our sales and distribution systems, including e-commerce channels, to further solidify our business foundation. At the same time, we will step up initiatives at hospitals while actively promoting our direct communication policy to strengthen interaction with consumers. Through these efforts, we are targeting sales in the China Business segment of ¥33,141 million in the year ending January 2018.



E-commerce site in China



Seminars for Mothers in China



Exhibition in China



Line-up of products for Chinese market

Work on the ESG Issues



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 these 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, social, and governance criteria. To achieve sustained improvements in corporate value, we recognize the necessity of actively and assertively responding to social, environmental, and other ESG issues. For this reason, 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	Key issues	Core priorities	Page
Environment	<ul style="list-style-type: none"> - Climate change - Natural resources - Contamination, waste - Environmental opportunities 	<ul style="list-style-type: none"> - CO₂ reduction, power-saving - Sustainable resources - Waste/garbage reduction, pollution prevention - Tree planting activities 	<ul style="list-style-type: none"> - For the Environment (p26-27) - For the Environment (p26-27) - For the Environment (p26-27) - For the Environment, For Local Communities (p26-28)
Social	<ul style="list-style-type: none"> - Human capital - Product liability - Regional activities - Fair business practices - Diversity/inclusion 	<ul style="list-style-type: none"> - Overtime measures, target management system, global personnel development - Product safety/quality - Tree-planting campaign, fostering children’s creativity, donations of elementary school buildings - “Pigeon Partners Line,” respect for property rights - Support for employee diversity, female management, child-rearing 	<ul style="list-style-type: none"> - For Employees (p30) - For Consumers (p25) - For Local Communities (p28) - For Business Partners (p29) - Human Rights (p32)
Governance	Corporate governance	<ul style="list-style-type: none"> - Strengthen governance structure - Compliance, “Speak Up” 	Corporate Governance (p33-34)

For Consumers

Customer-Focused Management; Products Derived from More than 50 Years of Research into Infants

Feedback from customers is a valuable asset for our company. Since the 1970s, Pigeon has established Customer Service Center to obtain customer feedback for reflection in its business. In December 2016, we announced that we have established a complaint response management system that conforms to ISO 10002 international standards (guidelines for quality management, customer satisfaction, handling complaints in an organization). We are also implementing measures to deliver safe, reliable products based on our original Pigeon Quality Standards.

The development of Pigeon's products is based on more than 50 years of research into infants and feedback from customers raising children. For example, the Company's nursing bottles and nipples are being created based on an ongoing research into the breastfeeding exercise, from various perspectives including observation of baby's oral cavity through monitoring and measurement conducted at the Central Laboratory, home visit observation, and ultrasonic tomography (echo).

Using Our Products with Peace of Mind

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

After-sales service and advice are handled by the Customer Service Center. Placing importance on two-way communication with customers, our basic policy is to constantly strive to improve satisfaction levels by seriously listening to the voices of customers and acting their best interests. We also established a complaint response management system that conforms to ISO 10002 international standards, and we are working to increase customer satisfaction by targeting ongoing improvements in products, services, and complaint responses through the PDCA (plan-do-check-act) cycle.

Complaint Response Management System



For All Babies

Pigeon is committed to "enabling all babies 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 special needs can also suck milk with limited effort required. Regarding "nipples for infants with low birth weight," we reduced the size of the teat so that even babies with small lips may hold naturally the nipple in their mouth. Also, we created a "nursing bottle specially designed for babies with cleft lips and/or palates" by providing them with an ingenious selection of structure, shape, and even bottle. Among babies with low birth weight, especially those with weak sucking and swallowing functions, we have developed a special nursing bottle nipple with adjusted softness enabling them to easily drink mother's milk and packaged milk. Our accumulated know-how, gained through our constant support for sucking for babies in hospitals, is reflected in our regular product development activities and directly linked to the strength of Pigeon-brand products.



Helping babies who were born small

For the Environment

Basic Approach to Environmental Protection

The Pigeon Group regards global warming as a very serious problem and is committed to preventing such warming and realizing a sustainable society. In addition to complying with relevant laws, such as the Energy Saving Act and Law Concerning the Promotion of Measures to Cope with Global Warming, 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 manufacture, including selection of raw materials and ingredients.

Environmental Management Systems

As a global entity with international business operations, 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

Climate Change Mitigation, Biodiversity

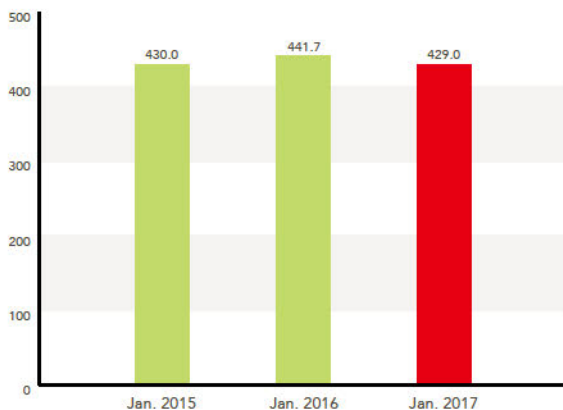
The Pigeon Group gives full consideration to climate change mitigation and biodiversity. To this end, we have specified the volume of our greenhouse gas emissions, both direct and indirect, and we are working to save electricity. We have also established a consistent Groupwide method for calculating reductions in greenhouse gas emission volumes at our various factories, and strengthened our system for managing carbon dioxide emission reductions and electricity savings. At our Chinese production facilities, though on a small scale, we are working to maximize solar and wind power generation while using paint containing photocatalytic paints, under the theme of "environmentally friendly factories," and we are promoting all-LED lighting to save electricity.

CO₂ Emissions by Pigeon Group Domestic and Chinese Production Companies

3 domestic production companies

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

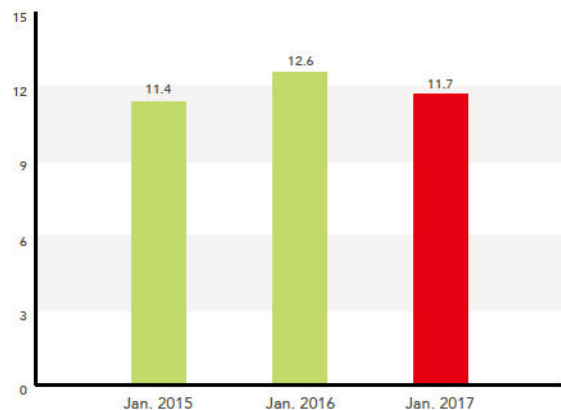
CO₂ emissions (kg)/Net sales (¥ millions)



2 Chinese production companies

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

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



Sustainable Use of Resources

Pigeon is committed to the sustainable use of resources. Among chemically derived materials that we handle, we use rubber as the raw material for our nursing bottle nipples. Here, we do not use any natural rubber, but rather silicon and silica gel.

Raw Materials Procurement Volume

FY2016	Pigeon Manufacturing (Shanghai) Co., Ltd.	Thai Pigeon Co., Ltd.
Silicon (tons)	448	378
PPSU (tons)	96	216



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

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 additive that has 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.

With respect to our overseas production facilities, in Thailand our waste is processed by a company that complies with that nation's Hazardous Substance Control Act (HSCA). In these ways, we are making Groupwide efforts to prevent pollution.

Environmental Opportunities

For the past 31 years, we have continuously held our annual Newborn Baby Commemorative Tree-Planting Campaign, which providing parents with memories of their babies' birth (For details, see For Local Communities). Being a forest conservation initiative, the campaign also 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 31 years, we have planted more than 130,000 seedlings on 42.65 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



Newborn Baby Commemorative Tree-Planting Campaign

For Local Communities

From Local Activities to Global Development

The Pigeon Group has achieved harmonious coexistence with people in local communities through a positive communication approach, which fosters a sense of trust. As our business becomes more and more global in nature, we will broaden this basic approach to a global level. Specifically, we will contribute to the protection, promotion, and education of local community culture, while fostering local employment, job advancement, and skills development, in order to promote progress in various regions.

[Japan]

Environmental Benefits of Tree-Planting Campaign

In 1986, Pigeon launched the Newborn Baby Commemorative Tree-Planting Campaign, and since 1987 it has held tree-planting drives on an annual basis at the “Pigeon Miwa no Mori” site, leased from Japan’s Forestry Agency in a national forest near Hitachi-Omiya City, Ibaraki Prefecture. In 2017, we celebrated its 31th anniversary. Under the slogan “Raising Children, Raising Trees: The Spirit Is The Same,” the campaign seeks to share the emotion and joy of childbirth with as many people as possible. It also serves to create forests and environments that will remain into the children’s future. This ongoing initiative is helping to make people more conscious about the issue of environmental conservation. In the past 30 years, the campaign has managed to plant more than 130,000 trees in a total plantation area around eight times that of Tokyo Dome.

Supporting Children’s Creativity

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



Prize-winning entry, Tomorrow’s Science Children’s Art Exhibition

Supporting Women During Breastfeeding Stages

In December 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.

Providing Scholarships to Students

The Pigeon Scholarship Foundation, established as a general incorporated foundation in 2014, was certified as a public interest incorporated foundation in July 2016. The aim of the 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. Going forward, we will provide scholarship support to students in the neonatal, pediatric, and obstetrics departments of universities (students majoring in medicine at domestic general universities or medical universities).

[Overseas]

The Pigeon Group bases its overseas business expansion on the following philosophy: “Instead of merely seeking the growth of Pigeon’s business, we shall exist as a corporation that contributes to the countries where we do business.” With this in mind, we make social investments from educational and cultural perspectives aimed at improving people’s lives in local communities.

Elementary School Building Donations

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. has provided various types of support, resulting in the opening of the Pigeon Hope Elementary School in Meishan District of Sichuan Province in 2009. (We also made donations to rebuild the school following another earthquake in 2013.) In 2010, we donated a school building to Huzhu Tu Autonomous County in Qinghai Province, in 2011 we donated a kindergarten building to Xinjiang Uygur Autonomous Region, and in 2012 we donated a school building to Yuping Dong Autonomous County in Guizhou Province. We have been making donations at the pace of one building per year, and as of March 31, 2017, we had donated to a total of nine elementary schools.

For Business Partners

Fair Trading

Pigeon has a diverse array of business partners handling its products, which include child care, elder care, and maternity items. In Japan, our partners include drugstores, specialty stores for babies, supermarkets, home centers, department stores, nursing homes, and hospitals. Overseas, our offerings, mainly childcare products, are sold via department stores, specialty stores for babies, pharmacies, and other stores. Also, in the Child Care Service Business, the Pigeon Group supports the various child-care support systems of corporations, municipalities and other organizations through the operation of in-company child-minding facilities and similar services.

The Pigeon Group believes that it must first win the understanding and support of its clients, who are important business partners, in order to fulfill its social responsibilities across the entire supply chain. Regarding transactions with antisocial forces, we have already received confirmation from all business partners that they do not engage in such transactions and are taking stringent measures to ensure against such transactions from occurring. In addition, we are working to resolve various other issues across the supply chain, including such social issues as human rights and labor, as well as global environmental problems. To ensure that business partners understand the importance of legal compliance, we hold briefings with our suppliers two or three times a year to convey our policies in this area.



Pigeon Partners Line

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

Respect for Property Rights

Seeking to prevent patent infringement and the like from the product development perspective, Pigeon established an intellectual property-related department within its Central 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.

Responsible Political Involvement and Fair Competition

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 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.



Negotiation with business partner

For Employees

Human Capital: Building 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.

Overtime Measures

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."

Goal Management System

We have broadly entrenched "Pigeon Way" throughout the entire Group. In Japan, Singapore, Thailand (Pigeon Industries (Thailand) Co., Ltd.), and Lansinoh Laboratories, we have incorporated behavior evaluation benchmarks based on "Pigeon Way" into the goal management systems for individual employees. We will incorporate this into goal management systems at other operations going forward.

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.

Training Systems, Global Human Resource Development

Pigeon gives all employees opportunities to participate in technology development, education, and practical training. Even before the enactment of the Equal Employment Opportunity Law, we had eliminated differences between men and women with respect to career paths and training courses. In line with recent globalization of our operations, we have worked hard to foster personnel who can excel on the global stage by introducing in-house English language classes (42 students as of January 31, 2017). At our overseas bases, the employee turnover rate has remained low level thanks to our speedy career advancement policies. With a view to the future, we are also conducting a Global Leadership Program, a multinational training program for participation by selected employees.

Participants in Global Leadership Program			(Persons)
Year	FY2013	FY2016	FY2018 (schedule)
Participants in Global Leadership Program	19	18	20



Global Leadership Program

Strengthening Support for Advancement of Women

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.”

Back in 2007, Pigeon received “Kurumin” accreditation as a “Child-rearing Support Company.” We have also established and upgraded various child-care frameworks aimed at promoting advancement of women and encouraging men to participate in child-care.

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.”

We have also set five key objectives for the period from April 2016 to the end of January 2018: (1) Increase number of men using the compatibility support system to 10 or more; (2) Increase awareness about parental leave among male employees; (3) Grasp and improve status and outcomes of work-at-home system; (4) Establish framework enabling women to give birth, raise children, and return to work with peace of mind; and (5) Open a breastfeeding room in the Central Laboratory (following one already opened in the head office) that breastfeeding employees can use.

We are also concentrating on fostering female managerial staff, with the aim of raising the female manager ratio.

Child-Rearing Support Activities

As a company involved in child rearing, Pigeon has sought to expand and upgrade its support systems for child-rearing employees. For example, we implemented a 12-month parental leave system before Japan’s Child Care and Family Care Leave Act was enacted in 1990. In 1999, we received a work-life balance award from the Tokyo Metropolitan Government acknowledging this initiative. In 2006, we adopted a new parental leave scheme, called “One Month Together,” offering one month’s paid leave for male employees as a means of encouraging more men to take parental leave. This underscores the major changes we have made to provide workplace environments where both men and women can take parental leave as a matter of course. For two consecutive years since 2015, the uptake of “One Month Together” has been 100%.

In 2015, we set up a breastfeeding/pumping room called Lactation Lounge in our head office to create a comfortable working environment for employees with small babies. In addition to employees, the room is available for use by mothers working in the vicinity of head office, as well as mothers and babies living nearby, reflecting our local and social contribution efforts.

Participation in Japan Women’s Innovative Network (J-Win) Activities (Persons)

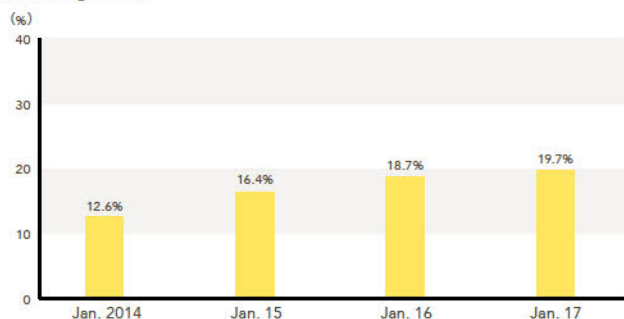
FY2015	FY2016	FY2017	Total
6	6	6	18

J-Win is an association that supports advancement and entrenchment of diversity-oriented management.

Employees Using Work-at-Home System (Persons)

FY2015	FY2016	FY2017
4	8	9

Female Manager Ratio



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



Lactation Lounge in our head office

Social

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 May 2017, we had provided such support for approximately 5,000 rooms in 15 countries around the world.

In addition to this, we launched a system enabling employees to take time off for fertility treatment, and we have since expanded the system to include employees going through the adoption process. We also focus on assisting female employees to smoothly return to work after childbirth, through programs for early reinstatement of women workers, monetary support for children waiting for admission to daycare, and the like. Going forward, we will continue creating work environments aimed at fostering employees who are well-versed in the subject of raising children.



Breastfeeding room in the Philippines



Breastfeeding room in Panama

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, for systems we have established at PHP Hyogo Corporation, Thai Pigeon Co., Ltd., Pigeon Industries (Thailand) Co., Ltd. Pigeon Manufacturing (Shanghai) Co., Ltd., and Pigeon Industries (Changzhou) Co., Ltd.

Human Rights

Policy of Respecting Human Rights

When performing their tasks, our employees constantly reflect on the Pigeon Group's Corporate Philosophy of "Love" and its Credo of "Only love can beget love." We also cite "integrity" as one of the basic values to be observed by each and every employee. By "integrity," we mean embracing and respecting diversity in such areas as human rights, gender, and customs.

Discrimination and the Socially Vulnerable; Civil and Political Rights; Economic, Social, and Cultural Rights

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

Basic Workplace Principles and Rights

The Pigeon Group respects the human rights and other rights of workers in Japan and overseas. Here, our Compliance Committee spearheads efforts to manage labor-related compliance in an appropriate manner. We also implement and firmly maintain policies related to health and safety and workplace environments that cover all employees, both permanent and nonpermanent, in Japan and overseas.

Corporate Governance

Corporate Governance System

Pigeon’s top management team currently consists of 10 directors (including two outside directors) and four corporate auditors (including two outside ones). 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 2000, we introduced an executive officer system to strengthen the business execution function. Furthermore, in April 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.

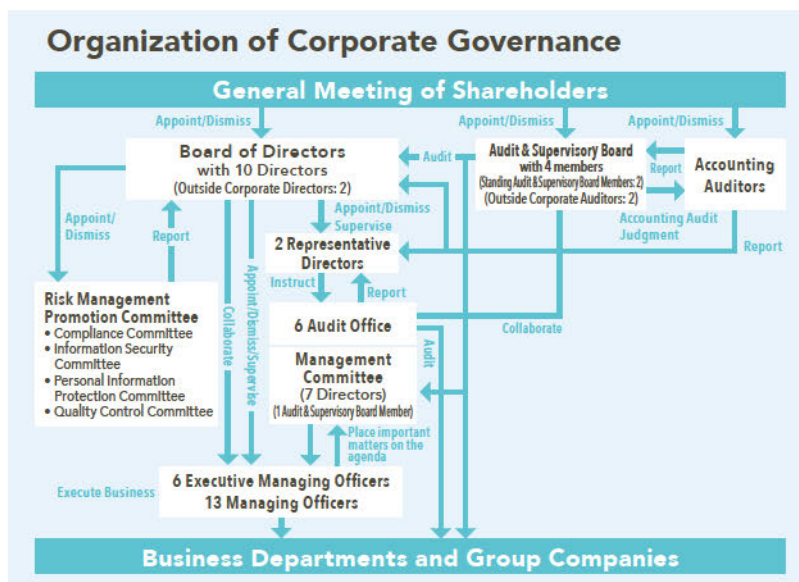
The Board of Directors has the authority to oversee the execution of duties by directors and executive officers. Chaired by the Chairman, Director of the Board, the Board meets to make decisions concerning laws and regulations, the Articles of Incorporation, and matters stipulated in the rules of the 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, as well as from both inside and outside corporate auditors. 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.

The Management Committee, chaired by the President, Director of the Board, meets each week in principle to swiftly resolve problems from frontline perspectives. Corporate auditors also attend these meetings to express their opinions and otherwise enhance the management oversight function. Our four corporate auditors, including two from outside the Company, attend Board of Directors 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, under Article 427, Paragraph 1 of the Companies Act, the Company has concluded contracts with outside directors and outside corporate auditors to limit their liability as stated under Article 423, Paragraph 1 of that act. Based on the contracts, the maximum amount of liability for damages caused by outside directors and outside corporate auditors is stipulated in Article 425, Paragraph 1 of the Companies Act.

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, outside 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.

Corporate auditors, the Audit Office, and the accounting auditor collaborate with each other, meeting as necessary to exchange information and opinions, in addition to regular reporting sessions. The certified public accountants who audited the Company’s accounts for the fiscal year ended January 2017 were Ms. Mami Kato and Mr. Takeshi Tadokoro, both of whom are designated executive employees of PricewaterhouseCoopers Arata.



Board of Directors and Outside Directors

The Board of Directors is strengthening the control/oversight function of business execution by obtaining robust opinions from its outside directors, as well as from both inside and outside corporate auditors. Outside directors offer advice on the Company's business strategies and otherwise fulfill a role in ensuring impartial decision-making and improving corporate governance. Seeking to further strengthen corporate governance and raise corporate value, Pigeon appointed an outside director at its General Meeting of Shareholders, held in April 2015, and one more outside director at its next meeting in April 2016. Both people are effectively performing their duties as outside directors. The first appointee, Mr. Takayuki Nitta, has valuable knowledge about business management based on a wealth of experience in business consulting and investment management companies, and he continues providing considerable advice on ways to promote shareholder-oriented management. The second appointee, Mr. Rehito Hatoyama, has a wealth of experience and high-level knowledge about overseas business strategies and managing the execution of those strategies, and he continues providing considerable advice on global business development.

Audit & Supervisory Board and Outside Corporate Auditors

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

The outside auditors are Mr. Shigeru Nishiyama, a graduate school professor and certified public accountant, and Mr. Shuji Idesawa, who is an attorney. Because both auditors are highly impartial and have specialist knowledge, their role extends beyond compliance to include raising corporate value. In addition to Board of Directors' meetings, the outside corporate auditors ask questions and provide opinions at face-to-face meetings with representative directors and other directors. Based on their independent viewpoints and impartial perspectives, they not only exercise their legally accepted authority to audit the legal appropriateness of business, but also fulfill a monitoring function by advising on the suitability of business decisions.

Compliance System

Guided by the Pigeon Way, which embodies our "hearts" and "actions" and is the cornerstone of all our activities, we operate our compliance system 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 believe it is important to constantly communicate our Corporate Philosophy and Values to all employees of Pigeon Group companies. To this end, our representative directors and all other executives lead by example in rigorously promoting our spirit of ethics and compliance. With respect to consolidated subsidiaries, our Corporate Administration Division implements cross-lateral Groupwide responses by developing a system capable of verifying current conditions from the perspective of ensuring appropriate monitoring and reporting systems.

We also are 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 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 as a reporting/consulting system 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 meeting 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 May 31, 2017)



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
China Business Division
Manager/
Supervision of Overseas
Business Div.



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



Director, Junior Managing
Executive Officer
Yasunori Kurachi
Health & Elder Care Business
Division Manager
President of Pigeon Tahira Co.,
Ltd.
Supervision of Domestic Baby
& Mother Care Business Div./
Supervision of Child-rearing
Support Services Div.



Director, Junior Managing
Executive Officer
Kevin Vyse-Peacock
President of Lansinoh
Laboratories, Inc.



Outside Director
Takayuki Nitta



Outside Director
Rehito Hatoyama



Audit & Supervisory
Board Member
Kazuhisa Amari



Audit & Supervisory
Board Member
Shinobu Iwamoto



Outside Audit &
Supervisory Board
Member
Shigeru Nishiyama



Outside Audit &
Supervisory Board
Member
Shuji Idesawa

Managing Officers

Nobuyuki Hashimoto	Senior Managing Officer Domestic Baby & Mother Care Business Division Manager
Yusuke Nakata	Senior Managing Officer Overseas 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
Takatoshi Urakari	Human Resources & General Affairs Division Manager
Kaoru Kasahara	Research & Development Division Manager
Kazuyuki Tajima	Quality Control Division Manager
Takanori Tsuru	Child Care Service Business Division Manager President of Pigeon Hearts Co., Ltd.
Hiroshi Nishimoto	Logistics Division Manager
Koji Ishigami	Senior Managing Director of Pigeon Tahira Co., Ltd.
Ken Kaku	President of Pigeon Manufacturing (Shanghai) Co., Ltd.
Koji Matsutori	Director of Lansinoh Laboratories, Inc.

Management's Discussion and Analysis

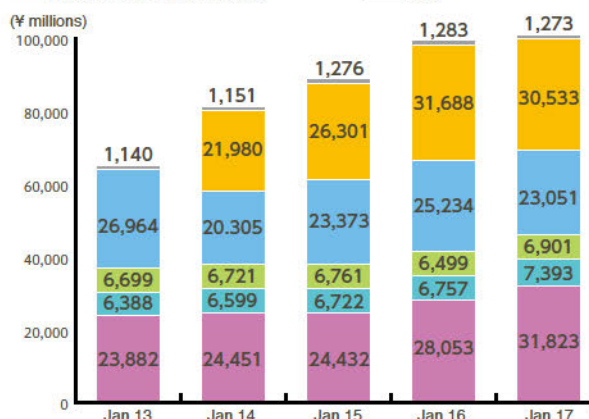
Net Sales and Gross Margin by Segment

	Jan.17		
	Amount	Percentage (%)	Gross Margin(%)
Consolidated Amount	94,640	100.0%	47.2%
Domestic Baby & Mother Care Business	31,823	33.6%	47.0%
Child Care Service Business	7,393	7.8%	10.6%
Health & Elder Care Business	6,901	7.3%	31.4%
Overseas Business	23,051	24.4%	55.6%
China Business	30,533	32.3%	44.6%
Eliminations	(6,337)	(6.7%)	—
Other	1,273	1.3%	15.6%

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

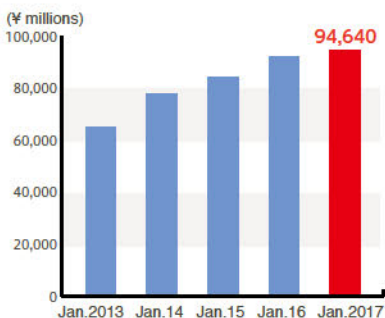
Net Sales by Segment

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

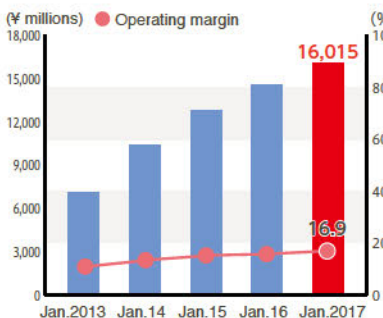


Notes: 1. In the year ended January 31, 2015, the Company separated its China Business from the "Overseas Business". The figures in the year ended January 31, 2014, are presented based on the new reporting segments. The numerical value of "China Business" for the year ended January 31, 2013 are included in "Overseas Business".
2. The consolidated net sales figure refers to the amount after elimination of intersegment transactions.

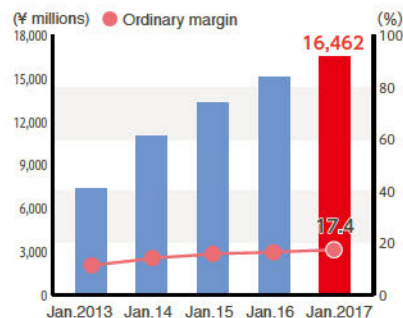
Net Sales



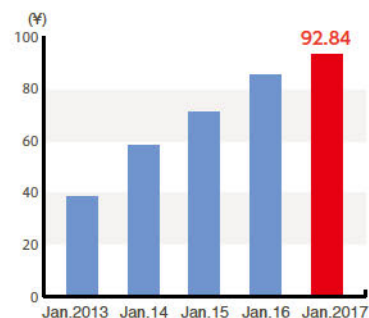
Operating Income/Operating Margin



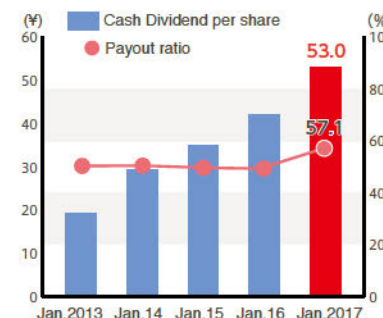
Ordinary Income/Ordinary Margin



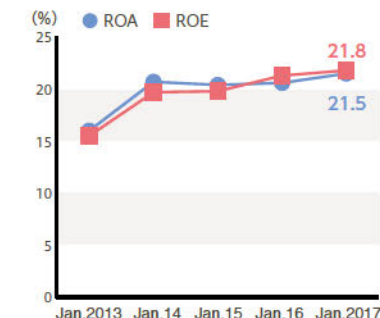
EPS



Cash Dividends per Share/Dividend Payout Ratio



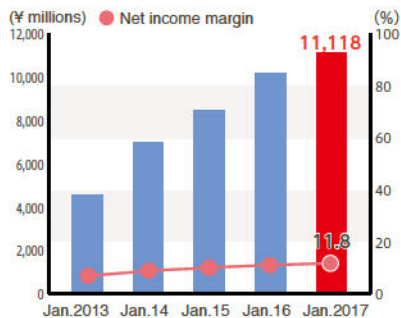
ROA/ROE



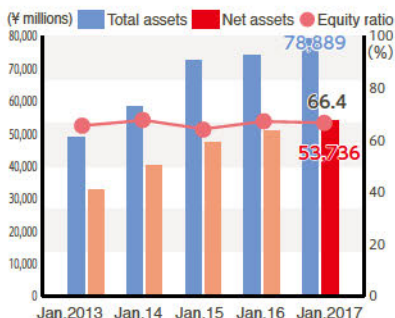
Note: The Group carried out a 2-for-1 split of common stock, effective August 1, 2013, and a 3-for-1 split of common stock, effective May 1, 2015. Figures in the above tables have been calculated assuming those stock splits were conducted at the beginning of the fiscal year ended January 2013.

Note: ROA is the ratio of ordinary income to total assets. 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.

Net Income Attributable to Owners of Parent



Total Assets/Net assets/Equity Ratio



Business Environment and Performance

► Business Conditions in Fiscal 2016

In fiscal 2016, ended January 31, 2017, the Japanese economy continued maintaining an overall moderate recovery tone despite signs of weakness in some areas, such as personal consumption, from the beginning of the period. However, there was a growing sense of uncertainty about the world economic outlook, including for emerging nations, due to economic slowdown in China, the United Kingdom's decision to exit the European Union, and other factors. Meanwhile, foreign exchange markets have remained unstable since the presidential election in the United States.

Fiscal 2016 was the final year of our Fifth Medium-Term Management Plan, covering the three-year period to January 2017. The slogan of the plan is "Pursuing excellence, think globally, plan agilely, and implement locally." During the year, we pursued initiatives targeting renewed growth. Under the plan, we formulated "Vision 2016" aimed at expanding Group operations and improving management quality. Vision 2016 has five key objectives: (1) Reinforce brand power (become the Global Number One in child-care products); (2) Strengthen the management framework for continuous business development; (3) Improve management quality by focusing on cash flows; (4) Foster global human resources, construct a global personnel system, and promote employee dynamism; and (5) Further enhance enterprise value.

In fiscal 2016, 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 ¥94,640 million, up 2.6% from fiscal 2015. Factors boosting our performance included growth in the Domestic Baby & Mother Care Business stemming from increased consumption from inbound foreign visitors. This was despite the impact of a strong yen and weak U.S. dollar.

Main exchange rates used in the financial statements (income and expenses) of overseas consolidated subsidiaries are as follows: US\$1.00 equals ¥108.77 (¥121.10 in fiscal 2015) and 1 Chinese yuan equals ¥16.35 (¥19.22 in fiscal 2015).

► Income Statement Analysis

Cost of sales rose 2.2% year on year, to ¥49,951 million, and the cost of sales ratio improved by 0.2 point. As a result, gross profit climbed 3.1%, to ¥44,688 million, growing at a higher rate than net sales.

Selling, general, and administrative (SG&A) expenses edged down 0.5%, to ¥28,673 million, owing to declines in market research costs and personnel expenses. Operating income grew 10.3%, to ¥16,015 million, and the operating margin rose 1.2 points, to 16.9%. Ordinary income increased 9.2%, to ¥16,462 million, impacted by a ¥75 million decrease in financial income (net of financial expenses). Despite incurring special extra retirement

payments of ¥239 million, reported as an extraordinary loss, net income attributable to owners of parent climbed 9.0%, to ¥11,118 million, marking year-on-year increases for all key income indicators.

Performance by Segment

► Domestic Baby & Mother Care Business

In fiscal 2016, sales in this segment totaled ¥31,823 million, up 13.4% from fiscal 2015. Segment income grew significantly, rising 42.4%, to ¥6,244 million, benefiting mainly from increased sales of nursing bottles.

► Child Care Support Services

Sales in this segment increased 9.4% year on year, to ¥7,393 million. Segment income jumped 41.9%, to ¥211 million, thanks to the rise in gross profit associated with the sales increase, as well as effective deployment of SG&A expenses.

► Health & Elder Care Business

Sales in this segment grew 6.2% year on year, to ¥6,901 million, driven mainly by the core categories of wipes, body wipes, skincare products, and food and oral care products. Segment income surged 258.6%, to ¥504 million, reflecting efforts to enhance the efficiency of our business operating system and a reduction in SG&A expenses, in addition to higher segment sales.

► Overseas Business

The yen's appreciation gathered pace during the year, causing an 8.6% sales decline in the Overseas Business segment, to ¥23,051 million. Segment income decreased 4.1%, to ¥5,352 million.

In North America and Europe, where consolidated subsidiary Lansinoh Laboratories, Inc. spearheads our business development, we enjoyed a healthy increase in sales of breastfeeding products, including such flagship items as nipple care cream, breast pads, and breast pumps. We also enjoyed steady sales in China by Lansinoh Laboratories Shanghai, undertaking a new initiative.

► China Business

In this segment, sales decreased 3.6%, to ¥30,533 million, impacted by the yen's ongoing appreciation against the Chinese yuan from the beginning of the period, as well as parallel imports of items already sold in Japan. This was despite increased sales on a local-currency basis. Segment income was down 2.7%, to ¥8,355 million.

► Other

Sales in this segment edged down 0.8%, to ¥1,273 million, and segment income grew 7.1%, to ¥162 million.

Financial Position

► Assets

As of January 31, 2017, Pigeon had consolidated total assets of ¥78,889 million, up ¥4,946 million (6.7%) from a year earlier. Within this amount, current assets increased ¥6,331 million (12.9%), and fixed assets declined ¥1,384 million (5.5%). Main factors boosting current assets were a ¥5,754 million (23.7%) increase in cash and deposits and a ¥2,232 million (16.1%) rise in notes and accounts receivable-trade, which contrasted with an ¥818 million (13.3%) decline in merchandise and finished goods. The main factors holding down fixed assets were a ¥382 million (5.2%) decrease in buildings and structures and a ¥528 million (8.4%) decline in machinery, equipment, and vehicles.

► Liabilities

Total liabilities at fiscal year-end stood at ¥25,152 million, up ¥2,002 million (8.6%) from a year earlier. Within this total, current liabilities jumped ¥7,158 million (50.3%), and fixed liabilities fell ¥5,156 million (57.8%). The main factors boosting current liabilities were a ¥1,114 million (29.8%) jump in notes and accounts payable-trade and a ¥4,071 million (438.4%) surge in current portion of long-term borrowings. Main factors holding down fixed liabilities were a ¥5,000 million (100.0%) drop in long-term borrowings and a ¥304 million (69.9%) fall in liabilities related to retirement benefits.

► Net Assets

Consolidated net assets at fiscal year-end amounted to ¥53,736 million, up ¥2,944 million (5.8%) from a year earlier. This was due mainly to a ¥5,489 million (14.9%) rise in retained earnings, which contrasted with a ¥2,682 million (81.0%) fall in foreign currency translation adjustment.

► Sound Financial Position

At fiscal year-end, the Group had cash and cash equivalents of ¥30,052 million, and interest-bearing debt of ¥5,699 million, down ¥609 million (9.7%) from a year earlier. The equity ratio remained high, at 66.4%.

Cash Flows

► Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥14,810 million, from ¥13,479 million in the previous year. Factors boosted operating cash flows included ¥16,234 million in income before income taxes and ¥2,259 million in depreciation and amortization. Contrasting factors included a ¥2,927 million increase in notes and accounts receivable-trade and a ¥4,295 million decrease in income taxes paid.

► Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥1,854 million,

from ¥3,332 million in the previous year. Main factors included ¥2,424 million in purchase of tangible fixed assets.

► Cash Flows from Financing Activities

Net cash used in financing activities was ¥6,223 million, from ¥6,567 million in the previous year. Main factors holding down cash flows included ¥837 million in repayments of long-term loans payable and ¥5,622 million in payment of cash dividends.

► ROA and ROE

Seeking to improve profitability and capital efficiency, Pigeon uses return on equity (ROE) as a key performance indicator. At the fiscal year-end, ROE was up 0.5 point from a year earlier, from 21.3% to 21.8%. Return on assets (ROA) at fiscal year-end was 21.5%, up 0.9 point from 20.6% a year earlier.

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

Seeking to increase enterprise value, we are mindful of free cash flows when conducting internal management, and we employ an indicator called Pigeon Value Added (PVA), which is based on economic added value, to make various investment and other decisions and to make performance evaluations of each business segment. In fiscal 2016, invested capital totaled ¥58,269 million, compared with the fiscal 2015 amount of ¥57,102 million and our target of ¥58,247 million, resulting in a PVA spread of 11.3%, compared with the fiscal 2015 figure of 10.1% and our target of 10.3%. The PVA for fiscal 2016 was ¥6,584 million, compared with the fiscal 2015 figure of ¥5,756 million and our target of ¥5,983 million.

In addition, the cash conversion cycle (CCC) in fiscal 2016 was 74.4 days, which was 6.6 days better than 81.0 days in fiscal 2015 and 1.0 day better than our target of 75.4 days.

Profit Appropriation Policy

The Pigeon Group regards the return of profits to shareholders as an important management priority. Our basic policy is to actively return profits to shareholders through the appropriation of retained earnings and other means, while reinforcing our financial position based on considerations of medium-term changes in business conditions and the Group's business strategies. In addition to strengthening our financial position, we effectively use retained earnings in a number of ways to fortify our operational base and improve future Group earnings. These include investing in new businesses and research and development, as well as investing in production facilities to raise production capacity, reduce costs, and enhance product quality.

With respect to specific goals of shareholder return,

under our Fifth Medium-Term Management Plan we set an ROE target of 21% or higher with a plan to pay increased year-on-year cash dividends for each business period, targeting a consolidated total shareholder return of 45–50%. To this end, we strove to further strengthen and upgrade measures for returning profits to all shareholders.

During the year, we paid an interim cash dividend of ¥25.00 per share, consisting of a ¥22.00 regular dividend and a ¥3.00 commemorative dividend to show appreciation for the support of shareholders in light of the 60th anniversary of our foundation, a milestone that we will celebrate in August 2017. Thanks to a solid earnings performance that surpassed our projections, however, we declared a year-end dividend of ¥28.00 per share (¥25.00 regular dividend and ¥3.00 commemorative dividend), up ¥3.00 from ¥25.00 (¥22.00 regular dividend and ¥3.00 commemorative dividend), our forecast announced on September 5, 2016. This brought total annual dividends to ¥53.00 per share, up ¥11.00 year on year. The consolidated dividend payout ratio was 57.1%.

Outlook

The Pigeon Group announced its Sixth Medium-Term Business Plan, covering the three-year period from February 2017 to January 2020. 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.” Under the plan, we will target expansion of Group operations and improvement of management quality by pursuing 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.

In fiscal 2017, the first year of our Sixth Medium-Term Business Plan, we are targeting consolidated net sales of ¥99.8 billion (up 5.5% from fiscal 2016), operating income of ¥17.0 billion (up 6.1%), ordinary income of ¥17.0 billion (up 3.3%), and net income attributable to owners of parent of ¥11.8 billion (up 6.1%).

(In this annual report, statements other than historical or

present-day facts are regarded as future forecasts. Such future forecasts reflect the Pigeon Group’s hypotheses and judgments based on information currently available, and thus contain discernable and unpredictable risks, uncertainties, and other factors that may impact on the Group’s performance and financial position.)

Consolidated Balance Sheets

(¥ millions)

Item	Period	Jan. 2013	Jan. 2014	Jan. 2015	Jan. 2016	Jan. 2017
Assets						
Cash and Deposits		10,574	13,102	21,590	24,297	30,052
Notes and Accounts Receivable - Trade		10,540	12,569	15,278	13,870	16,103
Merchandise and Finished Goods		4,816	5,350	5,899	6,146	5,328
Other Current Assets		3,171	4,340	4,258	4,600	3,761
Total Current Assets		29,103	35,363	47,027	48,913	55,244
Tangible Fixed Assets		16,208	19,023	21,383	21,471	20,263
Intangible Fixed Assets		1,176	1,441	1,724	1,346	1,106
Investment Securities		1,420	1,448	1,531	1,477	1,481
Other Fixed Assets		631	679	701	734	794
Total Fixed Assets		19,435	22,591	25,339	25,029	23,644
Total Assets		48,538	57,955	72,367	73,943	78,889
Liabilities						
Notes and Accounts Payable - Trade		3,864	4,518	4,462	3,743	4,857
Accounts Payable		3,179	3,401	3,778	2,147	2,477
Income Taxes Payable		1,134	1,155	1,535	1,505	2,324
Accrued Bonuses to Employees		606	782	783	894	929
Other Current Liabilities		2,832	2,962	4,714	5,934	10,794
Total Current Liabilities		11,615	12,818	15,272	14,223	21,381
Long-term Borrowings		2,204	2,011	5,928	5,000	—
Other Fixed Liabilities		2,353	3,143	3,869	3,926	3,770
Total Fixed Liabilities		4,557	5,154	9,797	8,926	3,770
Total Liabilities		16,173	17,973	25,069	23,150	25,152
Net Assets						
Capital Stock		5,199	5,199	5,199	5,199	5,199
Capital Surplus		5,180	5,180	5,180	5,180	5,179
Retained Earnings		22,686	26,929	31,383	36,790	42,280
Treasury Stock		(450)	(455)	(942)	(947)	(948)
Valuation Difference on Available-for-Sale Securities		26	30	36	32	47
Foreign Currency Translation Adjustment		(970)	2,240	5,306	3,311	628
Non-Controlling Interests		693	856	1,132	1,225	1,349
Total Net Assets		32,365	39,981	47,297	50,792	53,736
Total liabilities and Net Assets		48,538	57,955	72,367	73,943	78,889

Equity Ratio, ROA/ROE

(%)

	Jan. 2013	Jan. 2014	Jan. 2015	Jan. 2016	Jan. 2017
Equity Ratio	65.3	67.5	63.8	67.0	66.4
ROA	16.0	20.7	20.4	20.6	21.5
ROE	15.5	19.7	19.8	21.3	21.8

Note: ROA is the ratio of ordinary income to total assets.

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.

Consolidated Statements of Income

(¥ millions)

Item	Period	Jan. 2013	Jan. 2014	Jan. 2015	Jan. 2016	Jan. 2017
Net Sales		65,075	77,465	84,113	92,209	94,640
Cost of Sales		37,314	43,000	45,817	48,864	49,951
Gross Profit		27,760	34,464	38,296	43,345	44,688
Gross Margin (%)		42.7	44.5	45.5	47.0	47.2
Selling, General and Administrative Expenses		20,674	24,098	25,515	28,823	28,673
Operating Income		7,086	10,365	12,780	14,521	16,015
Operating Margin (%)		10.9	13.4	15.2	15.7	16.9
Non-operating Income		656	974	923	1,112	945
Non-operating Expenses		352	337	404	553	498
Ordinary Income		7,389	11,002	13,299	15,080	16,462
Ordinary Margin (%)		11.4	14.2	15.8	16.4	17.4
Extraordinary Income		7	8	8	10	122
Extraordinary Loss		26	24	167	204	350
Income before Income Taxes		7,369	10,986	13,140	14,887	16,234
Income Taxes - Current		2,128	3,077	3,768	4,548	5,165
Income Taxes - Deferred		526	705	734	(124)	(273)
Net Income		4,714	7,203	8,636	10,462	11,342
Net Income Attributable to Non-Controlling Interests		140	217	185	265	224
Net Income Attributable to Owners of Parent		4,573	6,985	8,451	10,197	11,118

Consolidated Statement of Cash Flows

(¥ millions)

Item	Period	Jan. 2013	Jan. 2014	Jan. 2015	Jan. 2016	Jan. 2017
Cash Flows from Operating Activities		7,656	7,930	10,135	13,479	14,810
Cash Flows from Investing Activities		(1,848)	(3,794)	(3,134)	(3,332)	(1,854)
Cash Flows from Financing Activities		(3,149)	(3,163)	(150)	(6,567)	(6,223)
Effect of Exchange Rate Changes on Cash and Cash Equivalents		622	1,556	1,637	(873)	(891)
Net Increase (Decrease) in Cash and Cash Equivalents		3,280	2,528	8,488	2,706	5,840
Cash and Cash Equivalents at Beginning of Period		7,293	10,574	13,102	21,590	24,297
Cash and Cash Equivalents at End of Period		10,574	13,102	21,590	24,297	30,052

Per Share Data

(¥)

	Jan. 2013	Jan. 2014	Jan. 2015	Jan. 2016	Jan. 2017
EPS (yen)	38.09	58.17	70.55	85.15	92.84
Cash Dividends (yen)	19.17	29.33	35.00	42.00	53.00
Dividend Payout Ratio (%)	50.3	50.4	49.6	49.3	57.1
BPS (yen)	263.75	325.83	385.46	413.88	437.43

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

Employees

(persons)

	Jan. 2013	Jan. 2014	Jan. 2015	Jan. 2016	Jan. 2017
Employees (Consolidated)	3,304	3,458	3,617	3,743	3,739

Corporate Information

Corporate Data (As of January 31, 2017)

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) 3,739 persons, (Headquarters) 1,017 persons

Consolidated Subsidiaries (20 companies) (As of January 31, 2017)

- PIGEON HOME PRODUCTS CORPORATION
- PIGEON HEARTS CORPORATION
- PHP HYOGO CORPORATION
- PHP IBARAKI CORPORATION
- PIGEON TAHIRA CORPORATION
- PIGEON MANAKA CORPORATION
- PIGEON SINGAPORE PTE. LTD.
- PIGEON MALAYSIA (TRADING) SDN. BHD.
- PIGEON (SHANGHAI) CO., LTD.
- PIGEON MANUFACTURING (SHANGHAI) CO., LTD.
- PIGEON INDUSTRIES (CHANGZHOU) CO., LTD.
- LANSINOH LABORATORIES, INC.
- LANSINOH LABORATORIES MEDICAL DEVICES DESIGN INDUSTRY AND COMMERCE LTD. CO.
- LANSINOH LABORATÓRIOS DO BRASIL LTDA.
- LANSINOH LABORATORIES BENELUX
- LANSINOH LABORATORIES SHANGHAI
- DOUBLEHEART CO. LTD.
- PIGEON INDIA PVT. LTD.
- PIGEON INDUSTRIES (THAILAND) CO., LTD.
- THAI PIGEON CO., LTD.

Equity Method Affiliate (1 company)

- PT. PIGEON INDONESIA

Pigeon Group

● Production plant (As of January 31, 2017)

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 HYOGO CO., LTD.**
Manufacture and sale of nonwoven products April 2002
- **PHP IBARAKI CO., LTD.**
Manufacture and sale of nonwoven products January 1995

Overseas Consolidated Subsidiaries

Overseas Business Div. North America, Latin America, Europe

- 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

Overseas Business Div. East Asia (China)

- LANSINOH LABORATORIES SHANGHAI**
China March 2016
Sale of maternity and baby products

China Business Div. East Asia (China, South Korea)

- PIGEON (SHANGHAI) CO., LTD.**
China April 2002
Manufacture and sales of maternity and baby products
- **PIGEON MANUFACTURING (SHANGHAI) CO., LTD.**
China April 2006
Manufacture of maternity and baby products
- 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
- **P. T. PIGEON INDONESIA (Equity Method Affiliate)**
Indonesia
Manufacture of maternity and baby products
- **PIGEON INDUSTRIES (CHANGZHOU) CO., LTD.**
China June 2009
Manufacture of maternity and baby products
- DOUBLEHEART CO. LTD.**
South Korea August 2012
Sale of maternity and baby products

Corporate Information

Stock Data (As of January 31, 2017)

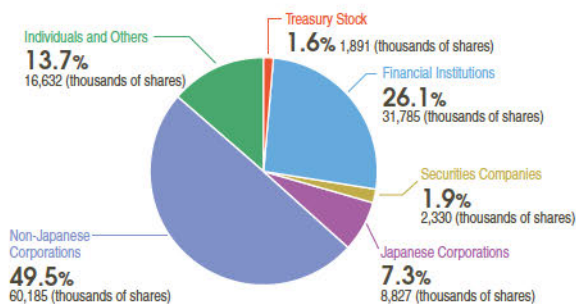
- Shares Authorized 360 million
- Shares Issued 121,653,486
- Number of Shareholders 16,345
- Treasury Stock 1,891,943

Ten Largest Shareholders (As of January 31, 2017)

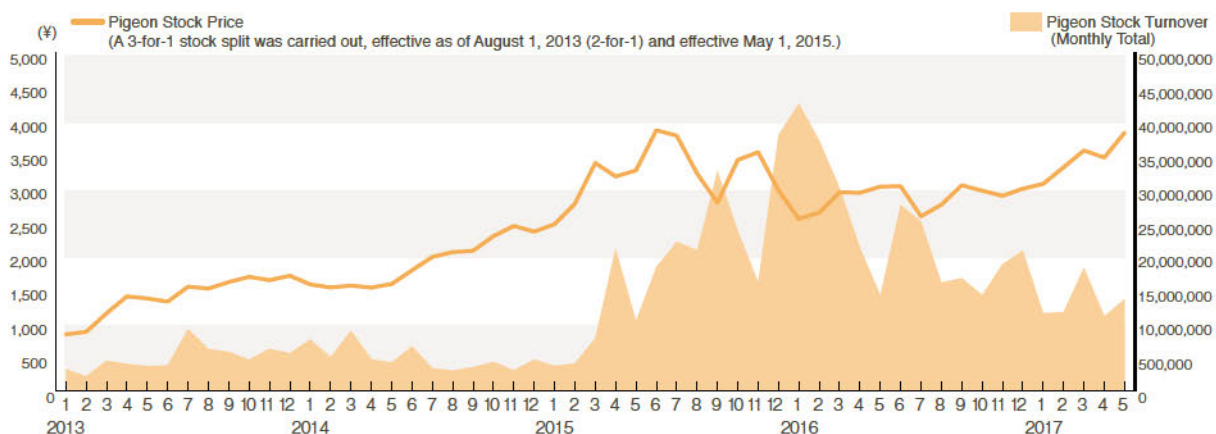
Shareholder's Name	Shares Held (thousands)	Ownership* (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	6,071	5.1
Japan Trustee Services Bank, Ltd. (Trust Account)	5,169	4.3
The Nomura Trust and Banking Co., Ltd. (Trust Account)	3,792	3.2
Yoichi Nakata	3,638	3.0
BBH for Matthews Asia Dividend Fund	3,316	2.8
JP Morgan Chase Bank 385164	3,300	2.8
The Bank of New York Mellon 140044	3,264	2.7
The Bank of New York, Non-Treaty Jasdec Account	3,161	2.6
Y.N Corporation	3,000	2.5
Ueda Yagi Tanshi Co., Ltd.	2,543	2.1

*Percentage of ownership figures are based on 119,761,543 shares (121,653,486 shares issued and outstanding, minus 1,891,943 shares of treasury stock).

Share Breakdown by Shareholders (As of January 31, 2017)



Stock Price Range/Turnover of Common Stock





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

PIGEON CORPORATION

(Securities Code: 7956)

Head Office: 4-4, Nihonbashi Hisamatsu-cho,
Chuo-ku, Tokyo 103-8480, Japan

TEL: +81-3-3661-4200

TEL: +81-3-3661-4188 (Public & Investor Relations Department/Direct)

FAX: +81-3-3661-4320

<http://www.pigeon.com>



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



Printed in Japan