

Summary of Financial Results for the Second Quarter of Fiscal Year Ending December 2022 [Japanese Standards] (Consolidated)

August 9, 2022

Name of Listed Company: Pigeon Corporation (Stock code: 7956)
 Listing: Prime Market, Tokyo Stock Exchange
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 Scheduled Filing Date of Quarterly Report: August 10, 2022
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 Preparation of Any Additional Explanatory Materials for Quarterly Financial Results: Yes
 Holding of Any Briefing Session for Quarterly Financial Results: Yes (For analysts and institutional investors)

1. Consolidated Business Performance for the First Half of Fiscal Year Ending December 31, 2022 (January 1 to June 30, 2022)

(1) Consolidated Operating Results (cumulative)

(Millions of yen, rounded down, % figures denote year-on-year change)

	Net Sales		Operating Income		Ordinary Income		Net Income Attributable to Owners of Parent	
2Q ended June 30, 2022	45,292	(4.2)%	5,118	(32.6)%	6,404	(25.0)%	3,990	(21.5)%
2Q ended June 30, 2021	47,277	(2.4)%	7,589	(5.5)%	8,536	0.0%	5,085	(13.2)%

(Note) Comprehensive income: 2Q ended June 30, 2022 ¥9,526 million (26.7%)
 2Q ended June 30, 2021 ¥7,517 million (44.1%)

	Net Income per Share (¥)	Diluted Net Income per Share (¥)
2Q ended June 30, 2022	33.35	—
2Q ended June 30, 2021	42.51	—

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio (%)
2Q ended June 30, 2022	104,274	81,875	75.3
FY ended December 31, 2021	98,042	76,810	75.4

(Reference) Shareholders' Equity: 2Q ended June 30, 2022 ¥78,570 million
 FY ended December 31, 2021 ¥73,885 million

2. Cash Dividends

	Annual Dividend (¥)				
	1Q-end	2Q-end	3Q-end	Year-end	Total
FY ended December 31, 2021	—	37.00	—	37.00	74.00
FY ending December 31, 2022	—	38.00			
FY ending December 31, 2022 (Forecast)			—	38.00	76.00

(Note) Changes in dividend forecasts from the most recent announcement: None

3. Consolidated Business Performance Forecasts for the Fiscal Year Ending December 31, 2022 (January 1 to December 31, 2022)

(% figures denote year-on-year change from the previous term)

	Net Sales		Operating Income		Ordinary Income		Net Income Attributable to Owners of Parent		Net Income per Share
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Yen
Full year	95,000	2.1	12,000	(10.0)	13,000	(11.3)	8,550	(2.7)	71.46

(Note) Revision of forecasts from the most recent announcement: Yes

Notes

(1) Changes in major subsidiaries (or changes in specific subsidiaries that affect the scope of consolidation) during the period under review: None

New: — (Company name: —), Excluded: — (Company name: —)

(2) Application of any accounting procedures specific to preparation of quarterly consolidated financial statements: None

(3) Changes in accounting policies, changes in accounting-based estimates, and restatements

1) Changes in accounting policies associated with revision of accounting standards: Yes

2) Changes in accounting policies other than the above 1): None

3) Changes in accounting-based estimates: None

4) Restatements: None

(Note) For details, please refer to “(4) Notes on Consolidated Financial Statements (Change in Accounting Policy)” in “2. Quarterly Consolidated Financial Statements and Main Notes” on page 10 of the Appendix.

(4) Number of outstanding shares (common stock)

1) Number of shares outstanding at the period-end (including treasury stock)

2Q ended June 30, 2022: 121,653,486

FY ended December 31, 2021: 121,653,486

2) Amount of treasury stock at the period-end

2Q ended June 30, 2022: 1,996,428

FY ended December 31, 2021: 2,018,072

3) Average number of shares outstanding during the period (quarter accumulation)

2Q ended June 30, 2022: 119,646,013

2Q ended June 30, 2021: 119,635,567

(Note) Amount of treasury stock at the period-end includes Company shares held by the board incentive plan (BIP) trust for compensation of directors (102,956 shares as of 2Q ended June 30, 2022; 124,800 shares as of FY ended December 31, 2021). Company shares held by the BIP trust for compensation of directors are also included in the treasury stock subtracted in the calculation of the average number of shares outstanding during the period.

* Summaries of quarterly financial results are exempt from quarterly review by certified public accountants and auditing corporations.

* Cautionary Statement regarding Performance Forecasts

The forecasts and future projections stated in this report have been prepared on the basis of the information and assumption that shall be reasonable as of the date of announcement of this summary information, and the forecasts and future projections stated in this report are in no way intended as a promise of achievement as a company.

In addition, the actual results could differ significantly from forecast figures depending on a variety of factors. See the section “(3) Explanation of Consolidated Performance Forecast and Other Future Predictions” in “1. Qualitative Information Regarding the Financial Results for the Current Quarter” on page 4 regarding conditions which are preconditions for business performance forecasts and cautions for using the business performance forecast.

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1. Qualitative Information Regarding the Financial Results for the Current Quarter

(1) Explanation of Business Performance

During the consolidated first half under review, various challenges beset the Japanese and global economies. In the Japanese economy, although the impact of the COVID-19 pandemic continued to be felt, signs of recovery emerged in some areas. In the global economy, including Japan's, signs emerged of a lessening of the pandemic's impact, but some cities suffered lockdowns. Meanwhile, the war in Ukraine dragged on, the price of crude oil remained elevated and supply chains were disrupted, stoking concerns about the way forward for the economy.

Amid such circumstances, the Group has established three basic strategies (brand strategy, core product strategy, and regional strategy) in its Seventh Medium-Term Business Plan (for the period between the fiscal year ended December 2020 and the fiscal year ending December 2022) that was formulated in February 2020. Now, in the final year of the Plan, guided by these basic strategies, we are implementing various measures for business growth, as well as to realize our purpose which is "we want to make the world more baby-friendly by furthering our commitment to understanding and addressing babies' unique needs."

During the consolidated first half under review, sales were severely impacted by lockdowns imposed in China as a measure against the COVID-19 pandemic. Net sales slipped to ¥45,292 million (down 4.2% YOY). In earnings, the decline in net sales precipitated a downturn in gross profit even as material costs drove up input prices. Operating income dropped to ¥5,118 million (down 32.6% YOY), ordinary income fell to ¥6,404 million (down 25.0% YOY) and net income attributable to owners of parent contracted to ¥3,990 million (down 21.5% YOY).

The main exchange rates used in the preparation of this six-month period's financial statements for the Company's overseas consolidated subsidiaries (revenues and expenses) are as follows:

- 1 US\$: 123.15 yen (107.76 yen)
- 1 CNY: 18.97 yen (16.65 yen)

Note: Figures in parentheses represent the exchange rate in the same period of the previous fiscal year.

From the fiscal year ended December 31, 2020, the Group has a total of four reporting segments: the Japan Business, China Business, Singapore Business, and Lansinoh Business.

An outline of each segment is given below.

Japan Business

This segment consists of businesses such as the Baby Care Business, Child Care Service Business, and Health & Elder Care Business. Net sales for the entire segment amounted to ¥17,904 million (down 10.0% YOY). Segment profit decreased compared to the same period of the previous fiscal year to ¥592 million (down 49.5% YOY) due to factors such as a decrease in gross profit caused by the decline in net sales.

In the category of childcare and feminine products, in February Pigeon overhauled its lineup of nursing bottles and breast pumps, which are two mainstay product areas for the Group, boosting net sales YoY. In baby wipes and certain other consumables, net sales underperformed YoY amid price competition. Also in February, in the skincare category, the Group updated its Pigeon Basic Skin Care series of baby skincare products. In tandem with this renewal, the Group launched a vigorous campaign of advertising activities, including "A campaign named 'Babies' Choice! Catchphrases designed with babies in mind.'" However, sales struggled due to a slump in overseas demand. In the Japan Business, in April the Group launched two strollers: Runfee Lino'n RB2L, a stroller that is easy to push and stylish, making outings fun, available only at select stores in this segment; and Bingle BB2, a lightweight, Type B stroller that uses mesh-based sheets for comfortable outings, introduced to baby-product boutiques across Japan.

The Group was also active in direct communications. We offered live presentations of the

Breastfeeding Seminar, a maternity seminar that provides a fun way to learn about breastfeeding. Over 1,400 expectant mothers and others attended these seminars. For medical professionals, the Group presented an online seminar that attracted over 600 viewers. To alleviate the anxiety of mothers and fathers, we are continuing to work to energize mutual communication and support content provided via the internet and social media. We are also striving further to improve the Pigeon Info website, which supports women in the various phases of pregnancy, childbirth, and childcare, and align it more closely with customer needs.

In products for health and elder care, net sales decreased YoY, as the Group rejigged this category's product lineup to improve gross profit margin from the previous fiscal year. However, an improving effect on profit margin is gradually emerging. The Group is continuing its thorough implementation of measures such as bolstering sales activities with respect to retail outlets, elder-care facilities and other partners and improving the quality of elder-care services.

Regarding child care service, during the consolidated first six-month period under review, we currently provide services at 64 in-company child-care facilities, and shall continue to develop this business further while striving to improve the quality of service content.

China Business

Net sales in this segment amounted to ¥16,238 million (down 16.5% YOY), and segment profit also decreased compared to the same period of the previous fiscal year to ¥4,609 million (down 31.9% YOY). In April, amid the spread of the COVID-19 pandemic, the Group was obliged to shut down plant operations in this segment due to lockdowns in the Shanghai area, where the Group operates sales and production bases. From the latter half of April onward, production activities gradually revived, until the lockdowns were completely lifted in June. However, logistical disruptions and other impacts persisted. On the other hand, at 618, an e-commerce shopping event, our brand continued to enjoy top ranking in the nursing bottle and skin care product categories, despite its presentation directly after the lockdowns. In addition, the Group continued promotional activities, such as establishing a flagship store on a new platform.

In Mainland China, the Group has almost completed product-line revisions on online sales channels for the Shizen Jikken nursing bottle series (marketed as Bonyu Jikken® in Japan), whose overhaul and start of advance sales had been accomplished in September 2021. On offline channels, although the product-line revamp took longer than expected due to the lockdowns, shipments proceeded smoothly. A further development was the launch in North America of sales of Pigeon-brand baby products in this segment.

The Group is continuing to execute the various measures that were delayed by lockdowns, invigorate direct communication with consumers, support the provision of child-care information during the COVID-19 pandemic and strengthen activities at hospitals, maternity clinics and the like. In these ways, we are working to broaden contact points with customers and expand our operations.

Singapore Business

Net sales of the segment amounted to ¥6,924 million (up 14.9% YOY), and segment profit also increased to ¥1,210 million (up 49.8% YOY).

This segment is responsible for operations in the ASEAN region and India. As these regions continued to recover from the COVID-19 pandemic, the Group reorganized and relaunched its sales and marketing activities on a "living with COVID-19" basis, revising prices in some markets. Net sales and profits both rose. In India, a key country for this segment, and other countries,, sales of core products such as nursing bottles and skin-care products maintained a firm trend. For generation-Z and millennial consumers, who tend to prefer sustainable products, the Group launched in succession the Natural Botanical Baby skin-care series, produced with natural ingredients to be gentle on babies' skin and friendly to the environment; and nursing bottles produced with T-Ester, a novel plastic that is transparent like glass and highly resistant to damage from UV disinfection. Moving forward, we will continue to promote the development and launch of products for the upper-middle class, and actively develop sales and marketing activities with the aim of achieving market penetration for the Group brands.

Lansinoh Business

Net sales of the segment amounted to ¥7,814 million (up 25.4% YOY), while segment profit decreased to ¥252 million (down 51.6% YOY).

North America and Europe, two vital markets for the segment, suffered continued delays in product arrivals and shipments due to disruptions in logistics. In North America, net sales in this region rose YoY in local-currency terms, as sales were firm for nipple care creams and breast pumps, which are mainstay products. In Europe, procurement delays due to logistical disruptions in Germany and other countries were compounded by sluggish consumption caused by high cost of living. Net sales in this region fell YoY in local-currency terms.

Profits were down YoY. Logistical costs such as marine transportation expenses persisted at a high level, affecting unit costs, shipping expenses and other factors. Vigorous marketing activities also contributed to expenses.

Moving forward, to expand its business further, the Group is implementing initiatives such as enhancing our product lineup, strengthening e-commerce, implementing marketing activities tailored to consumer behavior in each region, and carrying out brand-strengthening activities.

(2) Explanation of Financial Position

(Assets)

As of June 30, 2022, our Group recorded total assets of ¥104,274 million, up ¥6,231 million from the previous consolidated fiscal year ended December 31, 2021. Both current assets and fixed assets increased by ¥4,142 million and ¥2,088 million, respectively.

Current assets increased mainly due to increases in notes and accounts receivable - trade of ¥1,663 million, in merchandise and finished goods of ¥1,208 million, and in raw materials and supplies of ¥664 million.

Fixed assets increased mainly due to an increase in tangible fixed assets, namely buildings and structures, of ¥1,301 million.

(Liabilities)

As of June 30, 2022, our Group recorded total liabilities of ¥22,398 million, up ¥1,166 million from the previous consolidated fiscal year ended December 31, 2021. Current liabilities increased by ¥1,357 million and fixed liabilities decreased by ¥191 million.

Current liabilities increased mainly due to a decrease in notes and accounts payable - trade of ¥1,696 million, despite a decrease in income taxes payable of ¥373 million.

Fixed liabilities decreased mainly due to a decrease in other fixed liabilities of ¥267 million, despite an increase in net defined benefit liability of ¥121 million.

(Net Assets)

As of June 30, 2022, our Group recorded total net assets of ¥81,875 million, up ¥5,064 million from the previous consolidated fiscal year ended December 31, 2021.

Net assets increased mainly due to an increase in foreign currency translation adjustment of ¥5,078 million.

(3) Explanation of Consolidated Performance Forecast and Other Future Predictions

At the time of writing, predictions about the direction of the COVID-19 pandemic in Japan and other countries, trends in the foreign-exchange market and other matters are difficult to make.

Consequently, the impact of these factors on the business results of the Pigeon Group are challenging to calculate. However, in view of the business results for the consolidated first half under review, the forecast of the Group's business results for the full fiscal year, announced on February 15, 2022, is revised as follows: As of August 9, 2022, the Group forecasts net sales of ¥95,000 million (down 3.7% from the previous forecast), operating income of ¥12,000 million (down 15.5% from the previous forecast), ordinary income of ¥13,000 million (down 9.1% from the previous forecast) and net income attributable to owners of parent of ¥8,550 million (down 10.0% from the previous forecast).

2. Quarterly Consolidated Financial Statements and Main Notes**(1) Quarterly Consolidated Balance Sheets**

(Millions of yen)

	At December 31, 2021	At June 30, 2022
ASSETS		
I. Current Assets:		
Cash and deposits	35,218	35,557
Notes and accounts receivable - trade	16,253	17,916
Merchandise and finished goods	8,723	9,931
Work in process	623	602
Raw materials and supplies	3,359	4,024
Other current assets	2,270	2,598
Allowance for doubtful accounts	(194)	(235)
Total Current Assets	66,254	70,397
II. Fixed Assets:		
1. Tangible Fixed Assets:		
Buildings and structures, net	9,125	10,427
Land	7,272	7,401
Other tangible fixed assets, net	10,695	11,192
Total Tangible Fixed Assets	27,093	29,021
2. Intangible Fixed Assets:		
Goodwill	534	509
Other intangible fixed assets	2,037	2,308
Total Intangible Fixed Assets	2,572	2,817
3. Investments and Other Assets:		
Other	2,123	2,038
Allowance for doubtful accounts	(0)	(0)
Total Investments and Other Assets	2,122	2,038
Total Fixed Assets	31,788	33,877
Total Assets	98,042	104,274
LIABILITIES		
I. Current Liabilities:		
Notes and accounts payable - trade	4,087	5,783
Electronically recorded obligations - operating	1,623	1,729
Income taxes payable	1,180	806
Accrued bonuses to employees	882	872
Provision for expenses related to voluntary product recall	18	—
Provision for loss on litigation	9	11
Other current liabilities	7,268	7,225
Total Current Liabilities	15,072	16,429
II. Fixed Liabilities:		
Net defined benefit liability	478	599
Provision for share-based remuneration	313	268
Other fixed liabilities	5,367	5,099
Total Fixed Liabilities	6,159	5,968
Total Liabilities	21,232	22,398

(Millions of yen)

	At December 31, 2021	At June 30, 2022
NET ASSETS		
I. Shareholders' Equity:		
Capital stock	5,199	5,199
Capital surplus	5,179	5,131
Retained earnings	61,163	60,722
Treasury stock	(1,479)	(1,387)
Total Shareholders' Equity	70,062	69,666
II. Accumulated Other Comprehensive Income:		
Valuation difference on available-for-sale securities	16	19
Foreign currency translation adjustment	3,805	8,884
Total Accumulated Other Comprehensive Income	3,822	8,903
III. Non-controlling Interests	2,925	3,305
Total Net Assets	76,810	81,875
Total Liabilities and Net Assets	98,042	104,274

(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income

Quarterly Consolidated Statement of Income
(Scope of Consolidation of Second Quarter)

(Millions of yen)

	Six months ended June 30, 2021	Six months ended June 30, 2022
I. Net Sales	47,277	45,292
II. Cost of Sales	24,719	24,543
Gross profit	22,558	20,749
III. Selling, General and Administrative Expenses	14,969	15,631
Operating Income	7,589	5,118
IV. Non-operating Income:		
Interest income	89	73
Dividend income	126	12
Subsidy income	361	492
Foreign exchange gains	276	569
Other non-operating income	136	202
Total Non-operating Income	990	1,350
V. Non-operating Expenses:		
Interest expenses	27	46
Other non-operating expenses	14	18
Total Non-operating Expenses	42	64
Ordinary Income	8,536	6,404
VI. Extraordinary Income:		
Gain on sales of fixed assets	4	6
Gain on sales of investment securities	33	—
Total Extraordinary Income	38	6
VII. Extraordinary Loss:		
Loss on sales of fixed assets	1	1
Loss on disposal of fixed assets	30	24
Expenses related to voluntary product recall	822	—
Total Extraordinary Loss	853	25
Income before Income Taxes	7,721	6,385
Income taxes - current	2,621	2,271
Income taxes - deferred	(53)	6
Total Corporate Income Tax	2,568	2,277
Net Income	5,153	4,108
Net Income Attributable to Non-controlling Interests	68	117
Net Income Attributable to Owners of Parent	5,085	3,990

Quarterly Consolidated Statement of Comprehensive Income
(Scope of Consolidation of Second Quarter)

(Millions of yen)

	Six months ended June 30, 2021	Six months ended June 30, 2022
Net Income	5,153	4,108
Other Comprehensive Income		
Valuation difference on available-for-sale securities	12	2
Foreign currency translation adjustment	2,351	5,415
Total Other Comprehensive Income	2,363	5,417
Quarterly Comprehensive Income	7,517	9,526
(Break down)		
Quarterly comprehensive income on parent company	7,410	9,065
Quarterly comprehensive income on non-controlling interests	107	461

(3) Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	Six months ended June 30, 2021	Six months ended June 30, 2022
I. Cash Flows from Operating Activities		
Income before Income Taxes	7,721	6,385
Depreciation	1,904	2,290
Amortization of goodwill	81	91
Increase (decrease) in allowance for doubtful accounts	(7)	7
Increase (decrease) in accrued bonuses to employees	(53)	(59)
Increase (decrease) in net defined benefit liability	32	71
Interest and dividend income	(215)	(85)
Interest expenses	27	46
Loss (gain) on sales of fixed assets	(3)	(5)
Loss on disposal of fixed assets	30	24
Loss (gain) on sales of investment securities	(33)	—
Increase (decrease) in provision for expenses related to voluntary product recall	146	(18)
Decrease (increase) in notes and accounts receivable - trade	(578)	475
Decrease (increase) in inventories	(1,385)	(532)
Increase (decrease) in notes and accounts payable - trade	153	666
Increase (decrease) in accounts payable	(402)	(233)
Increase (decrease) in accrued consumption taxes	(643)	(15)
Other	(737)	(813)
Subtotal	6,037	8,294
Interest and dividend income received	215	77
Interest expenses paid	(25)	(46)
Income taxes paid	(3,078)	(2,620)
Net Cash Provided by (Used in) Operating Activities	3,149	5,706
II. Cash Flows from Investing Activities		
Purchase of tangible fixed assets	(1,882)	(2,609)
Proceeds from sales of tangible fixed assets	11	9
Purchase of intangible fixed assets	(47)	(148)
Proceeds from sales of investment securities	130	—
Other	23	(42)
Net Cash Provided by (Used in) Investing Activities	(1,764)	(2,790)
III. Cash Flows from Financing Activities		
Payment of cash dividends	(4,310)	(4,425)
Dividends paid to non-controlling interests	(69)	(84)
Purchase of treasury stock	(0)	(0)
Proceeds from sale of treasury stock	—	44
Other	36	(147)
Net Cash Provided by (Used in) Financing Activities	(4,343)	(4,614)
IV. Effect of Exchange Rate Change on Cash and Cash Equivalents	1,144	2,038
V. Net Increase (Decrease) in Cash and Cash Equivalents	(1,814)	339
VI. Cash and Cash Equivalents at Beginning of Period	37,163	35,218
VIII. Cash and Cash Equivalents at End of Period	35,348	35,557

(4) Notes on Consolidated Financial Statements

(Notes Regarding Going Concern Assumptions)

Not applicable.

(Change in Accounting Policy)

(Application of Accounting Standards, etc., Related to Fair Value Measurement)

The Group applies the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019; hereinafter, “the Accounting Standard for Fair Value Measurement”) from the beginning of the consolidated first quarter of this fiscal year. In accordance with the transitional handling stipulated in the Accounting Standard for Fair Value Measurement, Paragraph 19, as well as the Accounting Standards for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), Paragraph 44-2, the Group applies the new accounting policy stipulated in the Accounting Standard for Fair Value Measurement, etc. going forward. This change does not affect the quarterly consolidated financial statements.

(Notes Regarding Substantial Changes in Shareholders' Equity)

Not applicable.

(Segment Information)

Six months ended June 30, 2021

1. Information Regarding Net Sales and Profit (Loss) in Each Reporting Segment

(Millions of yen)

	Reporting Segment				Total	Adjustments (Note 1)	Amount Accounted on Quarterly Consolidated Statement of Income (Note 2)
	Japan Business	China Business	Singapore Business	Lansinoh Business			
Net sales							
Net sales to external customers	18,153	19,324	3,584	6,213	47,277	—	47,277
Internal sales or exchange between segments	1,734	115	2,439	17	4,306	(4,306)	—
Total	19,888	19,440	6,024	6,231	51,584	(4,306)	47,277
Segment profit	1,172	6,766	807	522	9,269	(1,680)	7,589

(Notes)

1. The negative amount of ¥1,680 million from adjustments in segment profit includes negative ¥39 million in elimination of intersegment transactions and negative ¥1,641 million in non-allocable operating expenses. Non-allocable operating expenses are administrative costs of our Group.

2. Segment profits are adjusted to operating income in the quarterly consolidated statement of income.

Six months ended June 30, 2022

1. Information Regarding Net Sales and Profit (Loss) in Each Reporting Segment

(Millions of yen)

	Reporting Segment				Total	Adjustments (Note 1)	Amount Accounted on Quarterly Consolidated Statement of Income (Note 2)
	Japan Business	China Business	Singapore Business	Lansinoh Business			
Net sales							
Net sales to external customers	16,899	16,011	4,573	7,808	45,292	—	45,292
Internal sales or exchange between segments	1,005	226	2,350	6	3,588	(3,588)	—
Total	17,904	16,238	6,924	7,814	48,881	(3,588)	45,292
Segment profit	592	4,609	1,210	252	6,665	(1,546)	5,118

(Notes)

1. The negative amount of ¥1,546 million from adjustments in segment profit includes ¥48 million in elimination of intersegment transactions and negative ¥1,595 million in non-allocable operating expenses. Non-allocable operating expenses are administrative costs of our Group.

2. Segment profits are adjusted to operating income in the quarterly consolidated statement of income.