Summary of Consolidated Financial Results for Six Months Ended July 31, 2006

September 13, 2006

Company name: Pigeon Corporation
Listings: Tokyo Stock Exchange (First Section)
Stock code: 7956
Headquarters: Tokyo
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BOD meeting for approving interim financial results: September 11, 2006
U.S. accounting standards: Not applicable

1. Consolidated Financial Results (Six months ended July 31, 2006 and 2005)

(1) Performance (Six months ended July 31) (¥ millions, rounded down)

	Net sales		Operating income		Ordinary income	
		Change (%)		Change (%)		Change (%)
2006	22,092	(4.7)	1,393	(4.0)	1,350	(3.1)
2005	21,100	(6.8)	1,339	(1.4)	1,309	(△0.5)
Year ended January 31,	41,747		2,215		2,200	

	Net income		Net income per share (¥)	Net income per share (fully diluted) (¥)
		Change (%)		
2006	1,052	(31.8)	53.31	—
2005	798	(△5.7)	40.22	40.21
Year ended January 31,	1,342		67.84	67.83

Notes: 1. Equity in earnings of affiliates: ¥19 million (July 2006); ¥22 million (July 2005); ¥44 million (Jan. 2006)
2. Average shares outstanding (cons.): 19,732,178 (6 months ended July 2006); 19,847,330 (6 months ended July 2005); 19,790,146 (Year ended Jan. 2006)
3. Changes in accounting principles: Not applicable
4. Figures in parenthesis represent year-on-year percentage change.

(2) Financial Position (at July 31) (¥ millions, rounded down)

	Total assets	Shareholders' equity	Equity-assets ratio (%)	Equity per share (¥)
2006	35,374	21,699	60.0	1,076.10
2005	35,496	19,682	55.4	997.43
At January 31, 2005	33,937	20,312	59.9	1,029.41

Note: Shares outstanding at term-end (consolidated): 19,731,963 (July 2006); 19,732,925 (July 2005); 19,732,372 (Jan. 2006)

(3) Cash Flows (year ended July 31) (¥ millions, rounded down)

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at year-end
2006	412	782	(798)	2,315
2005	317	(790)	(161)	2,146
Year ended January 31, 2006	1,765	(1,668)	(1,018)	1,903

(4) Scope of Consolidation and Equity-Method Application
Consolidated subsidiaries: 13; Nonconsolidated subsidiaries (equity method): 0; Affiliates (equity method): 2

(5) Changes in Scope of Consolidation and Equity-Method Application
Consolidated: 1 (newly included); 0 (excluded) Equity method application: 0 (newly included); 0 (excluded)

2. Forecast for Fiscal Year Ending January 31, 2007

(¥ millions, rounded down)

	Net sales	Ordinary income	Net income
Full year	44,500	2,700	1,800

(Reference) Forecast net income per share (full year): ¥91.22

Please refer to pages 7-9 of this report for preconditions related to forward-looking statements and related items.

Consolidated Interim Balance Sheets

(Figures rounded down to nearest thousand yen)

	At July 31, 2006		At July 31, 2005		At January 31, 2006	
	Thousands of yen	% of total	Thousands of yen	% of total	Thousands of yen	% of total
ASSETS		%		%		%
I Current Assets						
Cash and time deposits	2,315,222		2,146,280		1,903,361	
Notes and accounts receivable	9,406,459		9,529,666		7,643,258	
Inventories	4,407,128		3,964,666		4,437,556	
Deferred tax assets	612,179		590,478		752,275	
Other receivables	320,887		273,870		385,309	
Other current assets	193,864		225,698		150,450	
Allowance for doubtful accounts	(21,845)		(11,528)		12,155	
Total Current Assets	17,233,894	48.7	16,719,132	47.1	15,260,057	45.0
II Fixed Assets						
1. Tangible Fixed Assets						
Buildings and structures	4,243,530		4,357,879		4,237,705	
Machinery and transportation equipment	2,116,611		2,188,549		2,222,610	
Tools, furniture and fixtures	722,583		641,883		632,669	
Land	5,908,912		6,102,501		6,123,907	
Construction in progress	145,625		125,843		141,234	
Total Tangible Fixed Assets	13,137,264	37.1	13,416,656	37.8	13,358,127	39.4
2. Intangible Fixed Assets						
Consolidation adjustment acounts	1,823,091		2,197,411		2,011,458	
Software	890,225		933,147		972,033	
Other intangible fixed assets	48,299		53,670		51,902	
Total Intangible Fixed Assets	2,761,616	7.8	3,184,229	9.0	3,035,393	8.9
3. Investments and Other Assets						
Investment securities	1,233,198		1,091,364		1,214,238	
Insurance reserve	472,907		516,181		487,241	
Deferred tax assets	219,190		260,579		242,278	
Other	330,168		331,153		357,440	
Allowance for doubtful accounts	(13,315)		(22,720)		(17,031)	
Total Investments and Other Assets	2,242,149	6.3	2,176,558	6.1	2,284,166	6.7
Total Fixed Assets	18,141,030	51.3	18,777,444	52.9	18,677,687	55.0
Total Assets	35,374,924	100.0	35,496,577	100.0	33,937,744	100.0

Consolidated Interim Balance Sheets

(Figures rounded down to nearest thousand yen)

	At July 31, 2006		At July 31, 2005		At January 31, 2006	
	Thousands of yen	% of total	Thousands of yen	% of total	Thousands of yen	% of total
LIABILITIES		%		%		%
Ⅰ Current Liabilities						
Notes and accounts payable	4,813,420		6,602,930		4,627,960	
Short-term borrowings	1,571,408		2,224,094		1,874,178	
Current portion of long-term debt	146,264		1,556,182		1,351,442	
Accrued amount payable	2,284,834		1,210,540		1,840,129	
Income taxes payable	540,684		343,222		439,096	
Accrued bonuses to employees	520,447		513,990		484,924	
Returned goods adjustment reserve	28,700		34,300		26,900	
Other current liabilities	1,177,726		1,254,926		930,139	
Total Current Liabilities	11,083,486	31.4	13,740,187	38.7	11,574,770	34.1
Ⅱ Long-Term Liabilities						
Long-term borrowings	1,060,000		206,264		121,770	
Deferred tax liabilities	815,546		566,994		672,603	
Employees' retirement benefits	186,229		176,007		170,113	
Retirement benefits for directors and corporate auditors	317,904		330,980		338,655	
Other long-term liabilities	212,461		407,246		303,342	
Total Long-Term Liabilities	2,592,141	7.3	1,687,492	4.8	1,606,485	4.7
Total Liabilities	13,675,627	38.7	15,427,680	43.5	13,181,255	38.8
MINORITY INTERESTS						
Minority Interests	—		386,507	1.1	443,656	1.3
SHAREHOLDERS' EQUITY						
Ⅰ Capital stock	—		5,199,597	14.7	5,199,597	15.3
Ⅱ Additional paid-in capital	—		5,146,690	14.5	5,146,690	15.2
Ⅲ Consolidated retained earnings	—		10,705,687	30.2	11,052,496	32.6
Ⅳ Net unrealized gains (losses) on securities	—		(6,052)	(0.0)	38,218	0.1
Ⅴ Foreign currency translation adjustment	—		(444,294)	(1.3)	(204,080)	(0.6)
Ⅵ Treasury stock, at cost	—		(919,238)	(2.6)	(920,087)	(2.7)
Total Shareholders' Equity	—		19,682,389	55.4	20,312,833	59.9
Total Liabilities, Minority Interests and Shareholders' Equity	—		35,496,577	100.0	33,937,744	100.0

SHAREHOLDERS' EQUITY						
Ⅰ Shareholder's equity						
1 Capital stock	5,199,597	14.7	—	—	—	—
2 Additional paid-in capital	5,146,690	14.5	—	—	—	—
3 Consolidated retained earnings	11,907,175	33.7	—	—	—	—
4 Treasury stock, at cost	(920,796)	△2.6	—	—	—	—
Total Shareholders' Equity	21,332,665	60.3	—	—	—	—
Ⅱ Deffered valuation and exchange						
1 Net unrealized gains (losses) on securities	31,884	0.1	—	—	—	—
2 Foreign currency translation adjustment	(130,912)	△0.4	—	—	—	—
Total Deffered valuation and exchange	(99,027)	△0.3	—	—	—	—
Ⅲ Minority Interests	465,658	1.3	—	—	—	—
Total Net Assets	21,699,297	61.3	—	—	—	—
Total Liablities and Net Assets	35,374,924	100.0	—	—	—	—

Consolidated Interim Statements of Income

(Figures rounded down to nearest thousand yen)

	Six months ended July 31, 2006		Six months ended July 31, 2005		Year ended January 31, 2006	
	Thousands of yen	% of total	Thousands of yen	% of total	Thousands of yen	% of total
		%		%		%
Ⅰ Net Sales	22,092,449	100.0	21,100,511	100.0	41,747,212	100.0
Ⅱ Cost of Sales	13,726,978	62.1	13,110,274	62.1	26,116,655	62.6
Gross profit	863,470	3.9	7,990,236	37.9	15,630,556	37.4
Reversal of reserve for returned products	26,900		31,200		31,200	
Transfer to reserve for returned products	28,700		34,300		26,900	
Adjusted gross profit	8,363,470		7,987,136		15,634,856	
Ⅲ Selling, General and Administrative Expenses	6,970,471	31.6	6,647,211	31.5	13,419,853	32.1
Operating Income	1,393,198	6.3	1,339,925	6.4	2,215,002	5.3
Ⅳ Other Income	145,699	0.7	156,418	0.7	364,344	0.9
Interest	8,823		2,318		9,518	
Dividend income	814		932		12,953	
Currency exchange income	—		17,193		—	
Rental income	56,064		71,184		138,711	
Equity in earnings of nonconsolidated subsidiaries and affiliates	19,051		22,548		44,333	
Other	60,945		42,240		158,826	
Ⅴ Other Expenses	187,996	0.9	186,463	0.9	378,870	0.9
Interest expense	23,008		27,294		51,617	
Sales discounts	88,580		99,271		213,673	
Currency exchange loss	31,598		—		0	
Rental income-related costs	35,047		52,150		98,644	
Other	9,761		7,747		14,934	
Ordinary Income	1,350,901	6.1	1,309,879	6.2	2,200,476	5.3
Ⅵ Extraordinary Income	1,272,833	5.8	52,556	0.2	56,593	0.1
Gain on sales of property	1,251,506		—		0	
Gain on sale of investment securities	20,000		—		0	
Reversal of allowance for doubtful accounts	1,326		51,316		53,750	
Other	—		1,239		2,843	
Ⅶ Extraordinary Loss	638,867	2.9	47,654	0.2	72,912	0.2
Loss on disposal of property	205,222		5,518		0	
Loss on sale/disposal of property	86,925		37,684		61,418	
Impairment loss	120,182		—		0	
Expenses for headquarter relocation	207,440		—		0	
Other	19,096		4,452		11,494	
Income before Income Taxes	1,984,867	9.0	1,314,781	6.2	21,184,156	50.7
Income Taxes	582,857	2.6	337,352	1.6	682,451	1.6
Adjustment for Corporate Tax	307,445	1.4	151,214	0.7	92,942	0.2
Less: Minority Interest in Net Income of Consolidated Subsidiaries	42,561	0.2	27,773	0.1	66,183	0.2
Net Income	1,052,003	4.8	798,441	3.8	1,342,579	3.2

Consolidated Interim Retained Earnings

(Figures rounded down to nearest thousand yen)

	Six months ended July 31, 2005	Year ended January 31, 2006
	Thousands of yen	Thousands of yen
CAPITAL SURPLUS		
Ⅰ. Balance at beginning of term	5,145,608	5,145,608
Ⅱ. Increase in capital surplus		
Profit from disposal of treasury stock	1,081	1,081
Ⅱ. Balance at end of term	5,146,690	5,134,837
EARNED SURPLUS		
Ⅰ. Balance at beginning of term	10,149,781	10,149,781
Ⅱ. Increase in earned surplus		
Interim (annual) net income	642,814	1,270,955
Ⅲ. Decrease in earned surplus	798,441	1,342,579
Cash dividends	242,535	439,864
Ⅳ. Balance at end of term	10,705,687	11,052,496

Consolidated Statement of Shareholders' Equity

Six months ended July 31, 2006 (Figures rounded down to nearest thousand yen)

	Shareholders' Equity				
	Capital	Capital Surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of January 31, 2006 (in yen thousand)	5,199,597	5,146,690	11,052,496	△ 920,087	20,478,696
Amount of change during the consolidated interim fiscal year					
Dividends of surplus			△ 197,323		△ 197,323
Interim net income			1,052,003		1,052,003
Acquisition of treasury stocks				△ 709	△ 709
(Net) amount of change during the consolidated interim fiscal year in terms other than those under shareholders' equity					
Total amount of change during the consolidated interim fiscal year (in yen thousand)	—	—	854,679	△ 709	853,969
Balance as of July 31, 2006 (in yen thousand)	5,199,597	5,146,690	11,907,175	△ 920,796	21,332,665

(Figures rounded down to nearest thousand yen)

	Valuation and exchange differences etc.			Minority Intersets	Total net assets
	Profit/loss on deferred valuation of other securities	Profit/loss on deferred exchange	Total Valuation and exchange difference		
Balance as of January 31, 2006 (in yen thousand)	38,218	△ 204,080	△ 165,862	443,656	20,756,489
Amount of change during the consolidated interim fiscal year					
Dividends of surplus					△ 197,323
Interim net income					1,052,003
Acquisition of treasury stocks					△ 709
(Net) amount of change during the consolidated interim fiscal year in terms other than those under shareholders' equity	△ 6,333	73,168	66,835	22,002	88,837
Total amount of change during the consolidated interim fiscal year (in yen thousand)	△ 6,333	73,168	66,835	22,002	942,807
Balance as of July 31, 2006 (in yen thousand)	31,884	△ 130,912	△ 99,027	465,658	21,699,297

Consolidated Interim Statements of Cash Flows

(Figures rounded down to nearest thousand yen)

	Six months ended July 31, 2006	Six months ended July 31, 2005	Year ended January 31, 2006
	Thousands of yen	Thousands of yen	Thousands of yen
Ⅰ. Cash Flows from Operating Activities			
Income before income taxes	1,984,867	1,314,781	2,184,156
Depreciation	686,247	616,959	1,372,632
Amortization of difference between investment costs and equity in net assets acquired	120,182	-	-
Amortization of goodwill	188,367	187,191	375,386
Increase/decrease in allowance for doubtful accounts	6,255	(606,969)	(612,945)
Change in accrued bonuses to employees	35,513	(3,792)	(32,778)
Change in employees' retirement benefits	16,115	8,854	2,961
Increase/decrease in reserve for retirement benefits to directors and corporate auditors	(20,751)	1,641	9,316
Interest and dividend income	(9,637)	(3,251)	(22,472)
Gain on sale of securities			
Equity in earnings (losses) of nonconsolidated subsidiaries and affiliates	(19,051)	(22,548)	(44,333)
Interest expense	23,008	27,294	51,617
Gain on fixed assets disposal	(1,251,506)	-	-
Gain on sales of investment securities	(20,000)	-	-
Loss on fixed assets disposal	205,222	5,518	-
Loss on fixed assets sales	86,925	37,684	61,418
Decrease (increase) in trade receivables	(1,739,965)	(887,215)	1,106,195
Decrease (increase) in inventories	34,734	(509,901)	(909,408)
(Decrease) increase in trade payables	178,166	414,874	(1,621,029)
(Decrease) increase in account payables	336,051	-	576,320
Decrease (increase) in consumption tax payable	64,316	(126,118)	(135,748)
Increase/decrease in bankruptcy claims	—	626,427	632,399
Increase in employees' accrued retirement benefits	(99,985)	(96,616)	(198,518)
Other	(2,938)	130,710	34,080
Subtotal	66,414	1,115,523	21,922
Interest and dividends received	(23,389)	4,452	(49,680)
Interest paid	(432,580)	(26,641)	(1,036,073)
Income taxes paid	412,583	(775,902)	1,765,419
Net Cash Provided by (Used in) Operating Activities	412,583	317,431	1,765,419
Ⅱ. Cash Flows from investing Actives			
Acquisition of property, plant and equipment	(472,661)	(386,972)	(1,047,788)
Proceeds from sales of property, plant and equipment	1,365,006	4,972	8,255
Acquisition of intangible assets	(74,103)	(378,184)	(569,769)
Acquisition of investments in securities	(8,000)	-	(17,760)
Proceeds from sales of investments in securities	25,000	-	510
Payment to life insurance fund for directors	(23,814)	(25,166)	(54,587)
Proceeds due to maturity/cancellation of insurance reserve	41,437	10,003	65,313
Acquisition of shares in subsidiaries	-	(28,115)	(29,765)
Loans advanced	(1,253)	(492)	(1,017)
Collection of loan receivables	679	2,958	3,642
Proceeds from recovery of lease deposits	29,292	13,288	—
Other	(98,657)	(3,191)	(25,568)
Net Cash Provided by (Used in) Investing Activities	782,925	(790,897)	(1,668,535)
Ⅲ. Cash Flows from Financing Activities			
Net increase in short-term bank loans	5,594,910	5,924,816	14,282,168
Repayment of short-term debt	(5,892,319)	(4,583,852)	(13,307,509)
Proceeds from long-term debt	1,000,000	-	-
Repayment of long-term debt	(1,266,948)	(368,712)	(657,946)
Payment of cash dividends	(197,021)	(243,120)	(441,703)
Payment of cash dividends to minority shareholders	(36,059)	(32,695)	(34,787)
Proceeds from sale of treasury stock	-	22,748	22,748
Acqisition of treasury stock	(709)	(880,607)	(881,456)
Net Cah Provided by (Used in) Financing Activities	(798,147)	(161,422)	(1,018,487)
Ⅳ. Translation Gain (Loss) Related to Cash and Cash Equivalents	14,499	12,876	56,673
Ⅴ. Net Change in Cash and Cash Equivalents	411,860	(622,011)	(864,930)
Ⅵ. Cash and Cash Equivalents at Beginning of Term	1,903,361	2,768,291	2,768,291
Ⅶ. Cash and Cash Equivalents at End of Term	2,315,222	2,146,280	1,903,361

Corporate Group

The Pigeon Group consists of the Pigeon Corporation (the parent company), 13 consolidated subsidiaries, and two equity-method affiliates. The Group is engaged mainly in the manufacture, purchase, and sale of baby care, child care, and healthcare products, as well as in the provision of child-rearing and healthcare support services. In May 2006, Tahira Co., Ltd., a consolidated subsidiary, changed its name to Pigeon Tahira Co., Ltd.

Management Policies

Basic Policies

Based on its corporate commitment, “providing the gift of love to all,” the Pigeon Group is dedicated to helping those in need—while pregnant, giving birth, and rearing children, as well as in old age. Our policy is to develop our business by delivering products and services that address the needs of these people. Fulfilling our role as a “lifestyle support company focusing on child rearing,” we are leveraging the Pigeon brand and the quality of our management to build a high corporate profile that is recognized worldwide. This is our medium-term corporate vision.

The current fiscal period under review is the second year of our second medium-term management plan for the 21st century. Entitled “Global 500,” the plan covers the three-year period from February 2005 to January 2008. During the interim period under review, we steadily implemented top-priority business initiatives and maximized synergies derived from the Group’s comprehensive strengths.

Profit Appropriation Policy

The Pigeon Group regards the return of profits to shareholders—made possible by ongoing improvements to Groupwide profitability—as an important management priority. Our policy is to make the most effective use of retained earnings. We actively invest these funds in growth areas, new businesses, and research and development, as well as in reinforcing our operating foundation by streamlining production facilities to lower costs and raise product quality. With respect to appropriating earnings, our policy is to actively return profits to shareholders. We do this by paying stable and ongoing cash dividends, with the emphasis on raising dividend levels where possible. Based on this policy, we are targeting a consolidated dividend payout ratio of 30% and a dividends-on-equity ratio of 2%. For the interim period under review, we plan to pay a regular dividend of ¥10.00 per share, plus a commemorative dividend of ¥5.00 to celebrate our 50th anniversary (as announced on March 13, 2006), for total cash dividends of ¥15.00 per share.

Medium-Term Strategies

Building on the achievements of Corporate Value Creation 21, our previous medium-term business plan, we are now implementing Global 500, our second business plan for the 21st century. The theme of the current plan, covering the three-year period to January 2008, is to maximize corporate value on a global scale. Under the plan, we are seeking achieve annual consolidated net sales of ¥50 billion. Below is an outline of the plan.

Global 500: Second Medium-Term Plan for the 21st Century
(February 2005–January 2008)

Basic Policies

Through relentless market penetration, the Group will reinforce its unique position and competitive edge in the baby and child care segment, its core business. At the same time, we will actively mobilize Groupwide synergies and "drawing power" to build a strong presence in growth areas. Through these actions, we will seek to maximize corporate value on a global scale. Specific initiatives are listed below.
(1) Our domestic business in baby and child care products forms the core of the Group's operations and is a key determinant of our overall corporate value. Our basic strategy for this business is to "create value."
(2) We will position our child-rearing support, overseas, and healthcare businesses as growth areas.
(3) Addressing changes in the earnings structure of our overall business, we will reform internal systems and redistribute managerial resources.

Key Performance Targets (Consolidated)

Our consolidated performance targets for the year ending January 2008, the final term of the plan, are as follows.

Net sales: ¥50 billion
Gross profit ratio: 39.5%
Operating income ratio: 8%
Ordinary income ratio: 7.5%
ROA (ratio of ordinary income to total assets): 10.0%

Issues to Address

According to statistics released by the Ministry of Health, Labour and Welfare in August 2006, the first half of calendar 2006 saw a year-on-year upturn in the number of births for the first time in six years. This can be attributed to child-rearing support measures adopted by the government and corporations, as well as economic recovery. While one reason for the upturn is the fact that second-generation female baby-boomers are now reaching childbearing age, we cannot expect this upward trend to continue. Despite such challenges, the Group will unite in a concerted effort to meet the performance objectives of Global 500 and satisfy the expectations of all shareholders.

Items Related to Parent Company

Not applicable, as Pigeon Corporation does not have a parent company.

Other Important Item

As announced previously, in June 2006 Pigeon Corporation and some consolidated subsidiaries centralized their operations under a single roof, by moving to a rental office building in Nihonbashi-Hisamatsucho, Tokyo. The decision to move reflected the Group's expanding business in recent years and is aimed at further raising business efficiency and maximizing synergies, with a view to improving the Group's performance.

Performance and Financial Position

Performance

(1) Environment and Interim Results

In the domestic baby and child care segment, the Pigeon Group's main business, we introduced products that reflect our commitment to sharing with all of our customers the emotion and joy of giving birth and raising children. We also undertook proactive marketing aimed at restoring market share for our mainstay baby wipes, following a substantial year-on-year decline in market share in the previous fiscal period.

In our overseas business, we achieved improved year-on-year results thanks to the success of our sales strategy, which emphasizes introduction of new products and building brand image, with the focus on East Asia, especially China, as well as North America and Europe. In China, we continued increasing the number of sales offices in large cities—mainly Beijing, Shanghai, and Guangzhou—while expanding our presence in regional cities, generating a steady improvement in performance.

In the child-rearing support segment, there was concern about a slowdown in the pace of privatization of public child-minding facilities in some areas. With respect to operation of in-company child-minding facilities, however, we made solid progress, taking advantage of our competitive edge in the terms of service content.

By contrast, our healthcare business faced difficult conditions following an amendment to the Nursing Care Insurance System in April 2006.

Consolidated net sales for the interim period totaled ¥22,092 million, up 4.7% from the previous corresponding period. Ordinary income grew 3.1%, to ¥1,350 million, and net income climbed 31.8%, to ¥1,052 million.

Segment Review

Baby and Child Care

Interim sales in this segment amounted to ¥17,215 million, up 6.5% from the previous corresponding period. Operating income increased 5.6%, to ¥2,549 million. This segment is classified into three categories: domestic baby and child care products, overseas business, and child-rearing support services.

Domestic Baby and Child Care Products: The first half of calendar 2006 saw a year-on-year upturn in the number of births for the first time in six years. Despite such positive news, however, market conditions remained difficult. Facing these challenges, we actively promoted direct communications with our business partners—from distributors to customers—to ensure a full understanding of the high quality of our products. These efforts were well received. As a result, we reported healthy sales of items that contribute strongly to our performance, including baby bottles and nipples, pacifiers, and breast pads.

Overseas Business: The Group achieved increased year-on-year sales in overseas regions, including China, Taiwan, and the Middle East. During the period, we expanded sales of mainstay items and introduced new products, achieving higher sales in our various markets. Particularly strong performers were baby wipes in China, baby bottles and nipples in the Middle East, and a mild detergent for washing baby bottles and vegetables in Hong Kong. Main consolidated subsidiaries— Pigeon Singapore Pte. Ltd., Pigeon Industries (Thailand) Co., Ltd., Thai Pigeon Co., Ltd., Pigeon (Shanghai) Co., Ltd., and Lansinoh Laboratories, Inc.—all reported improved performances, owing to synergies derived from our overseas subsidiaries in the areas of production and sales.

Child-Rearing Support Services: During the period, Pigeon sought aggressively to take over the operation of newly privatized child-minding facilities. In April 2006, for example, we were entrusted with the operation of a daycare center run by the Nakano Ward government. We also performed according to plan in the area of in-company child-minding operations, opening our third center within Toyota Motor Corporation. Drawing on our expertise in the child-rearing support business, where we are the domestic leader, we have been preparing to open our first overseas facility, in Shanghai. At this stage, we hope to commence operations in November 2006. Going forward, we plan to further expand our business in China by exploiting synergies between our businesses in baby and child care products and child-rearing support services.

Healthcare

Interim sales in this segment slipped 5.2%, to ¥3,211 million, and operating income declined 9.1%, to ¥175 million.

During the period, we sought to expand our business by aggressively maximizing synergies between Pigeon Corporation and two consolidated subsidiaries in the areas of product development, sales, distribution, and services. Those subsidiaries are Pigeon Tahira Co., Ltd., which makes lifestyle-enhancement products for the elderly, and Pigeon Manaka Co., Ltd., which provides healthcare dispatch services for the elderly in Tochigi Prefecture. An amendment to the Nursing Care Insurance System in April 2006, however, led to severe business conditions.

Others

Interim sales from other operations totaled ¥1,665 million, up 7.9%. Operating income grew 27.2%, to ¥178 million.

Pigeon Will Co., Ltd., a consolidated subsidiary that sells maternity undergarments, expanded its operations in the year under review. During the year, we reported increased sales of Folic Acid Plus (food with health claims), an easy-to-drink vitamin supplement combining all of the nutritional elements essential during pregnancy and breastfeeding into one tablet. We also launched a line of skincare products for women in China. This segment's overall performance improved as a result.

Interim Sales by Segment (Consolidated) (¥ millions)

	6 months to July 2005	6 months to July 2006	Change	Change (%)
Baby & child care	16,169	17,215	1,046	6.5
Healthcare	3,386	3,211	–175	–5.2
Others	1,544	1,665	121	7.9
Total	21,100	22,092	991	4.7

Full-Year Outlook

The fiscal period to January 2007 is the second year of Global 500, our second medium-term business plan for the 21st century. During the remainder of the year, we will step up efforts to harness synergies among Group companies, in order to achieve continues increases in revenues and earnings and further raise our corporate value on a global basis.

For the entire fiscal year, we forecast consolidated net sales of ¥44.5 billion (up 6.6%), ordinary income of ¥2.7 billion (up 22.7%), and net income of ¥1.8 billion (up 34.1%).

Financial Position

Assets

As of July 31, 2006, Pigeon had consolidated total assets of ¥35,374 million, up ¥1,437 million (or 4.2%) from January 31, 2006. Within this amount, total current assets rose ¥1,973 million (12.9%), and total fixed assets declined ¥536 million (2.9%).

Major factors boosting current assets were a ¥411 million (21.6%) increase in cash and time deposits and a ¥1,763 million (23.1%) rise in notes and accounts receivable.

Principal reasons for the fall in fixed assets were a ¥214 million (3.5%) decline in land and a ¥188 million (9.4%) decrease in the consolidation adjustment account.

Liabilities

Total liabilities at interim term-end stood at ¥13,675 million, up ¥494 million (3.8%) over the period. Current liabilities declined ¥491 million (4.2%), while long-term liabilities jumped ¥985 million (61.4%).

Main factors causing current liabilities to decline were a ¥302 million (16.2%

fall in short-term bank loans and a ¥125 million (89.2%) drop in current portion of long-term debt, which outweighed a ¥444 million (24.2%) rise in accrued amount payable.

The increase in long-term liabilities stemmed mainly from a ¥938 million (770.5%) surge in long-term debt.

Net assets

At July 31, 2006, consolidated net assets amounted to ¥21,699 million, equivalent to ¥942 million (4.5%) more than the sum of minority interests and total shareholders' equity at January 31, 2006. In addition to interim net income, the increase in net assets resulted primarily from an ¥854 million (7.7%) rise in retained earnings.

Cash Flows

Cash and cash equivalents at July 31, 2006, stood at ¥2,315 million, up ¥411 million compared with the beginning of the period (but down ¥622 million year-on-year).

Factors boosting cash and cash equivalents included ¥1,984 million in income before income taxes (up 51.0% year-on-year), ¥686 million in depreciation (up ¥11.2%), and ¥1,365 million in proceeds from sales of property, plant, and equipment (up from ¥4 million). Contrasting factors included a ¥1,251 million gain on sales of property, plant, and equipment (up from ¥1 million in the previous corresponding period) and a ¥1,739 million increase in notes and accounts receivable (up 96.1%). There was also a ¥564 million net decline in four loan-related items: increase (decrease) in short-term bank loans, increase (decrease) in long-term debt, repayment of short-term bank loans, and repayment of long-term debt (compared with a ¥972 million net increase in the same items in the previous corresponding period).

Net cash provided by operating activities amounted to ¥412 million, up 30.0% from the previous corresponding period. Factors boosting operating cash flows included ¥1,984 million in income before income taxes (up 51.0% year-on-year) and ¥686 million in depreciation (up 11.2%). Contrasting factors included a ¥1,251 million gain on sales of property, plant, and equipment (up from ¥1 million in the previous corresponding period), a ¥1,739 million increase in notes and accounts receivable (up 96.1%), and ¥432 million in income taxes paid (down 44.2%).

Net cash provided by investing activities totaled ¥782 million, compared with ¥790 million used in investing activities in the previous corresponding period. Factors boosting investing cash flows included ¥1,365 million in proceeds from sales of property, plant, and equipment (up from ¥4 million in the previous corresponding period), which outweighed such factors as ¥546 million in acquisition of property, plant, and equipment (down 28.5% year-on-year).

Net cash used in financing activities was ¥798 million, up 394.4%. This stemmed mainly from a ¥564 million net decline in four loan-related items: increase (decrease) in short-term bank loans, increase (decrease) in long-term debt, repayment of short-term bank loans, and repayment of long-term debt (compared with a ¥972 million net increase in the same items in the previous corresponding period).

Cash Flow Indexes

	6 months to July 2005	6 months to July 2006	Year to Jan. 2006
Equity ratio (%)	55.4	60.0	59.9
Equity ratio based on market price (%)	90.6	99.6	97.9
Debt repayment term (years)	6.4	3.4	1.9
Interest coverage ratio (%)	11.9	17.6	35.5

Notes:

1. Equity ratio based on market price: Market value of total stock ÷ Total assets
2. Debt repayment term: Interest-bearing debt ÷ Operating cash flows
3. Interest coverage ratio: Operating cash flows ÷ Interest paid

   - Each index is calculated based on consolidated financial figures.
   - Market value of total stock is calculated by multiplying the stock price (closing price at the end of the term) by the number of shares outstanding at the end of the term (after deduction of treasury stock).
   - Operating cash flow figures are taken from the Cash Flows from Operating Activities section of the Consolidated Statements of Cash Flows. Interest-bearing debt refers to all debt that incurs interest (listed in Consolidated Balance Sheets). For interest paid, interest expenses (listed in Consolidated Statements of Cash Flows) are used.

Business Risks

The operating results of the Pigeon Group may be potentially and significantly affected by various factors that could occur in the future. The Group has identified the major risks that could affect its business development. Details are given below. Information contained within related to the future is based on the Group's judgment as of the end of the interim period under review.

Declining Birthrate

We predict that overall (quantitative) demand in the domestic market for baby and child care products, the Group's main business, will be influenced by the falling birthrate, and sales in this segment may decline as a result.

Overseas Business Risk

At present, the Group makes products in Thailand, China, and Indonesia, and also has business activities elsewhere in Asia, as well as in the Middle East, North America, and Europe. Risks associated with our overseas business are described below. We will hedge against such risks to the extent possible, but various unforeseen factors could potentially affect our business performance.

- Legal revisions or tightening regulations that have a negative impact on the Group
- Socioeconomic upheaval caused by terrorist acts, war, or the outbreak of infectious diseases, such as SARS and avian influenza
- Earthquakes and other natural disasters
- Unforeseen foreign exchange fluctuations

Climactic and Natural Disasters

The markets for baby and child care products and healthcare products, the Group's mainstay businesses, are relatively impervious to weather-related factors. However, the sudden occurrence of natural and other disasters, as well as unforeseen accidents, could potentially damage our manufacturing facilities, causing loss of assets, accumulation of products, and other factors leading to financial losses. The Group's business results could be affected as s result.

Changes in Raw Materials Prices
Major raw materials used by the Group include some that are affected by the market prices of crude oil and pulp. If the prices of such materials rise, our manufacturing costs will also increase, and market conditions may prevent us from reflecting such rises in our sales prices, potentially affecting the Group's business results.

Problems with Manufacturing Subcontractors
The Group subcontracts part of the production of baby and child care products and healthcare products to outside manufacturers. While all due care is taken to ensure top quality, there is a risk that quality could be compromised by an unforeseen event, potentially affecting the Group's business results.

Changes in Laws and Regulations
In the course of developing its domestic business, the Group is subject to a variety of legal regulations, including the Pharmaceutical Affairs Law, Food Sanitation Law, and Product Liability Law. If such laws and regulations are revised, or unexpected ones introduced, the Group's business performance could be affected as a result.

Risks Related to the Child-Rearing Support Business
To assist families in which both parents are working, the Group offers a number of services, including operation of child-minding and daycare centers and provision of babysitter dispatch services. It also has its own Kids World chain of child-minding centers. Through these activities, the Group is entrusted with the care of numerous babies and toddlers. The Group takes every precaution to ensure maximum safety, but acknowledges the possibility that an accident could cause injury to a baby or toddler. To date, there have been no accidents or compensation claims that could affect the Group's business operations. However, there is no guarantee that such events will not occur in the future. If such an event does occur, the Group's business performance may be affected as a result.

Litigation
As a manufacturer of products for consumers, the Group understands the extreme importance of product quality and safety, as well as the quality of materials used in its products. Any claims against the reliability or safety of our products could cause a sudden decline in sales, which could potentially affect the Group's business performance. Since our establishment, we have not been the target of large-sum compensation claims or lawsuits. In our business, however, there is a constant inherent risk of being sued, either in Japan or overseas. Therefore, the Group's business results could potentially be affected if it is subject to a compensation claim, the extent of impact being determined by the outcome of such legal action.

Information System Risk
The Group has in its possession personal information about numerous customers, acquired via sales promotion campaigns, the annual "Newborn Baby Commemorative

Tree-Planting Campaign," and other events. To prevent loss, mistaken use, and falsification of such important information, the Group undertakes security measures for managing its systems and information. However, unforeseen events could cause our information systems to break down, stop, or undergo temporary disruption, resulting in potential loss, leakage, or falsification of personal and other internal information. Such events, which include power outages, major disasters, software and hardware defects, computer viruses, and illegal access, could have a negative impact on the Group's operating activities and potentially affect its performance and financial position.

Protection of Personal Information
In the course of providing products and services to consumers, the Group handles a large volume of personal information. For some time, we have sought to ensure that all employees understand the importance of protecting personal information, provide mandatory in-house education forums, and reinforce our systems for managing customer information. Due to unforeseen circumstances, however, there is a risk that personal information could be leaked to a third party, which could potentially affect the Group's business performance.

Cautionary Note on Forward-Looking Statements

In this document, statements other than historical facts related to plans, forecasts, and strategies are based on information available at the time of writing. The Corporation cannot provide guarantees or commitments for these forward-looking statements. Due to various factors, actual results may differ significantly from those anticipated in this document.