

**Consolidated Earnings Report for the
Second Quarter of the Fiscal Year Ending
December 31, 2016 (Unaudited)**

August 4, 2016

Kuraray Co., Ltd.

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Name of listed company: Kuraray Co., Ltd.
Stock code: 3405
Stock exchange listing: Tokyo, first section
URL: <http://www.kuraray.com/>

Representative:

Title: Representative Director and President
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(Millions of yen rounded down unless otherwise stated)

Preparation of supplementary documentation for the quarterly earnings report: Yes

Holding of quarterly earnings results briefing: Yes (for securities analysts and institutional investors)

1. Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending December 31, 2016 (January 1, 2016 to June 30, 2016)

(1) Consolidated Operating Results (Cumulative)

(Percentages displayed for net sales, operating income, ordinary income and net income are comparisons with the corresponding period of the previous fiscal year.)

(Millions of yen)

	Net Sales		Operating Income		Ordinary Income		Net Income Attributable to Owners of the Parent	
		(Change)		(Change)		(Change)		(Change)
Fiscal 2016 2Q	244,099	(7.1%)	34,641	9.6%	33,681	4.7%	22,376	6.9%
Fiscal 2015 2Q	262,877	—	31,605	—	32,160	—	20,931	—

Note: Comprehensive income: For the fiscal 2016 second quarter: (¥13,084 million) —
For the fiscal 2015 second quarter: ¥23,402 million —

	Net Income per Share (Yen)	Fully Diluted Net Income per Share (Yen)
Fiscal 2016 2Q	63.70	63.57
Fiscal 2015 2Q	59.65	59.48

(2) Consolidated Financial Position

(Millions of yen)

	Total Assets	Net Assets	Shareholders' Equity Ratio (%)
As of June 30, 2016	660,200	482,341	71.9%
As of December 31, 2015	701,770	503,589	70.7%

(Reference)

Shareholders' equity: As of June 30, 2016: ¥474,627 million
As of December 31, 2015: ¥496,062 million

2. Dividends

(Yen)

Record Date	Cash Dividends per Share				
	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Annual
Fiscal 2015	—	18.00	—	22.00	40.00
Fiscal 2016	—	20.00			
Fiscal 2016 (Forecast)			—	20.00	40.00

Note: Revisions to cash dividend forecast during this period: No

3. Forecasts of Consolidated Financial Results for the Fiscal Year Ending December 31, 2016 (January 1, 2016 to December 31, 2016)

(Percentages displayed for net sales, operating income, ordinary income and net income are comparisons with the corresponding period of the previous fiscal year)

(Millions of yen)

	Net Sales		Operating Income		Ordinary Income		Net Income Attributable to Owners of the Parent		Net Income per Share
		(%)		(%)		(%)		(%)	(Yen)
Full Fiscal Year	500,000	(4.2%)	70,000	5.9%	68,000	5.4%	40,000	11.9%	113.84

Note: Revisions to forecasts of consolidated financial results during this period: Yes

4. Other

(1) Changes in Important Subsidiaries during the Period (Changes in Special Subsidiaries Involving Changes in the Scope of Consolidation)

No

(2) Adoption of Special Accounting Practices in the Preparation of Quarterly Consolidated Financial Statements

No

(3) Changes in Accounting Policies, Accounting Estimates and Restatement in Connection with the Preparation of Quarterly Consolidated Financial Statements

1. Changes following revision of accounting standards: Yes

2. Changes besides 1. above: No

3. Changes of accounting estimates: No

4. Restatement: No

Note: For details, refer to page 5 of the Attached Materials under the heading, "Items Regarding Summary

Data (and Notes): Changes in Accounting Policies, Accounting Estimates and Restatement.”

(4) Number of Shares Issued and Outstanding (Common Shares)

1. Number of shares issued and outstanding (including treasury stock) as of the period-end:

As of June 30, 2016	354,863,603 shares
As of December 31, 2015	354,863,603 shares
2. Number of treasury stock as of the period-end:

As of June 30, 2016	3,498,791 shares
As of December 31, 2015	3,658,647 shares
3. Average number of shares for the period (cumulative):

As of June 30, 2016	351,303,259 shares
As of June 30, 2015	350,883,360 shares

Indication of quarterly review procedure implementation status

This quarterly earnings report is exempt from the quarterly review procedure based upon the Financial Instruments and Exchange Act. Furthermore, this report was undergoing the review procedure process at the time of this release.

Cautionary Statement with Respect to Forecasts of Consolidated Business Results

(Cautionary note regarding forward-looking statements)

The results forecasts presented in this document are based upon currently available information and assumptions deemed rational. A variety of factors could cause actual results to differ materially from forecasts. Please refer to “Basis for the Revision in Forecasts, Including Consolidated Operating Results Forecasts” on page 4 of the Attachment for the assumptions used.

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1. Qualitative Information and Financial Statements

(1) Qualitative Information and Overview of Consolidated Business Results

In the second quarter of fiscal 2016 (January 1, 2016–June 30, 2016), recovery in the Japanese economy slowed as personal consumption stagnated and corporate profits deteriorated due to appreciating yen since the beginning of the period. In the global economy, although conditions in the United States were favorable despite worries regarding employment conditions, the economy in Europe continued to gradually improve even though there were temporary disruptions in foreign exchange and stock markets due to the United Kingdom’s decision to leave the European Union at the end of the period. However, this did not impact business performance for the second cumulative consolidated quarter. Meanwhile, the economies in China and emerging nations continued to slow.

Under these circumstances, the Kuraray Group has been successively implementing the business strategies outlined in GS-STEP, its medium-term management plan that started in fiscal 2015, to realize “a high-profit specialty chemical company with a global presence.”

Consequently, cumulative consolidated operating results for the second quarter of fiscal 2016 are as follows: net sales fell ¥18,777 million, or 7.1%, compared with the corresponding period of the previous fiscal year to ¥244,099 million; operating income grew ¥3,036 million, or 9.6%, to ¥34,641 million; ordinary income increased ¥1,521 million, or 4.7%, to ¥33,681 million; and net income attributable to owners of the parent rose ¥1,445 million, or 6.9%, to ¥22,376 million.

Results by Business Segment

Vinyl Acetate

Sales in this segment fell 7.1% year on year to ¥128,624 million, and segment income grew 10.8% year on year to ¥29,394 million.

- (1) Sales of PVA resins were not able to offset the depreciation of the new U.S. plant, which began operation in the second quarter (April 1, 2016–June 30, 2016). Sales of optical-use poval film decreased due to adjustments in the production of LCD panels. Sales of water-soluble PVA film remained firm. Sales of PVB film remained brisk mainly due to a recovery in demand in China.
- (2) Sales of *EVVAL* ethylene vinyl alcohol copolymer (EVOH resin) were healthy for both automotive gas tank and food packaging applications.

Isoprene

Sales in this segment declined 8.8% year on year to ¥25,953 million, and segment income grew 18.2% year on year to ¥3,990 million.

- (1) In isoprene chemicals, sales of fine chemicals, *SEPTON* thermoplastic elastomer and liquid rubber

remained brisk as signs of recovery appeared in Chinese demand for certain applications and the product lineups shifted toward high-added value products.

- (2) Sales of *GENESTAR* heat-resistant polyamide resin continued to expand for automotive applications and signs of recovery emerged for connector applications, but sales for LED reflector applications were still affected by stagnant Chinese demand.

Functional Materials

Sales in this segment decreased 8.1% year on year to ¥26,055 million, and segment income tumbled 21.4% year on year to ¥2,001 million.

- (1) For methacrylic resins, the Company was forced to lower prices of certain resin applications and monomers due to worsened market conditions.
- (2) In the medical business, sales of dental materials remained favorable due to an expanded range of new product offerings and greater synergies through business integration on the sales front.
- (3) For *CLARINO* man-made leather, sales of products made with both the conventional and the new production process remained firm.

Fibers and Textiles

In addition to brisk sales of *KURALON*, consumer goods and materials remained firm. As a result, sales in this segment increased 0.5% year on year to ¥23,864 million while segment income grew 41.2% year on year to ¥2,994 million.

Trading

Chemical-related businesses were impacted by the slowdown in Chinese demand, while sales of certain applications in fiber-related businesses bore the effects of weak domestic demand. As a result, segment sales decreased 1.8% year on year to ¥59,097 million, and segment income fell 4.6% to ¥1,895 million.

Others

In other businesses, development costs rose due to the addition of the energy materials business in the first consolidated quarter. As a result, segment sales fell 8.1% year on year to ¥30,860 million, and segment income declined 26.7% to ¥938 million.

(2) Basis for the Revision in Forecasts, Including Consolidated Operating Results Forecasts

Kuraray has revised its full-year net sales forecast for the fiscal year ending December 31, 2016 as shown below in the table to reflect the effects of the continued appreciation of the yen.

The revised cumulative consolidated operating results forecast for the full fiscal year ending December 31, 2016 (January 1, 2016 to December 31, 2016) is as follows.

(Millions of yen)

	Net Sales	Operating Income	Net Income Attributable to Owners of the Parent	Net Income	Net Income Per Share
Original Forecast (A) (Announced February 9, 2016)	540,000	70,000	68,000	40,000	¥113.89
Revised Forecast (B)	500,000	70,000	68,000	40,000	¥113.84
Amount Adjusted (B – A)	(40,000)	—	—	—	
Percent Adjusted	(7.4)	—	—	—	

For the third quarter of fiscal 2016 onward, we assume average exchange rates of ¥105 to the U.S. dollar and ¥115 to the euro, as well as a domestic naphtha price of ¥33,000 per kiloliter.

[Reference] Forecast Results by Segment for the Fiscal Year Ending December 31, 2016

(Billions of yen, rounded to the nearest hundred million)

	Net Sales		Operating Income	
	Fiscal 2016 2Q Results	Fiscal 2016	Fiscal 2016 2Q Results	Fiscal 2016
Vinyl Acetate	128.6	260.0	29.4	61.0
Isoprene	26.0	52.0	4.0	7.5
Functional Materials	26.1	54.0	2.0	4.5
Fibers and Textiles	23.9	48.0	3.0	5.0
Trading	59.1	121.0	1.9	4.0
Others	30.9	66.0	0.9	2.0
Elimination & Corporate	(50.4)	(101.0)	(6.6)	(14.0)
Total	244.1	500.0	34.6	70.0

Note: The above forecasts are based on the best information currently available. Actual operating results may vary significantly due to various factors.

2. Items Regarding Summary Data (and Notes)

Changes in Accounting Policies, Accounting Estimates and Restatement

(Changes in Accounting Policies)

1. Adoption of Accounting Standard for Business Combinations

The Accounting Standards Board of Japan (ASBJ) issued ASBJ Statement No. 21 “Revised Accounting Standard for Business Combinations,” ASBJ Statement No. 22 “Revised Accounting Standard for Consolidated Financial Statements,” and ASBJ Statement No. 7 “Revised Accounting Standard for Business Divestitures.” These revised accounting standards are applied from the first quarter of the fiscal year ending December 31, 2016. Accordingly, differences resulting from changes in ownership interest in a subsidiary when control over the subsidiary is retained are recorded under capital surplus, and costs related to acquisition of increased ownership interest are recognized in the period in which they arise. Also, transitional accounting is applied to business combinations performed on or after the beginning of the first quarter of the fiscal year ending December 31, 2016, with revision of purchase price allocation applied to the quarterly consolidated financial statements during the quarter in which the date of the business combination occurs. The presentation method of net income was amended, and “minority interests” were changed to “noncontrolling interests.” For comparison purposes, information for the second quarter of the fiscal year ended December 31, 2015, and for the fiscal year ended December 31, 2015, is shown in accordance with the new standards in the accompanying consolidated financial statements.

In the consolidated cash flow statements, cash flows from the purchase or sale of investments in subsidiaries not resulting in a change in scope of consolidation are listed under cash flows from financing activities while cash flows resulting from expenses incurred in the purchase of investments in subsidiaries resulting in a change in scope of consolidation and from expenses incurred in the purchase or sale of investments in subsidiaries not resulting in a change in scope of consolidation are listed under cash flows from operating activities.

Transitional accounting in accordance with Article 58, Paragraph 2, Item 4, of ASBJ Statement No. 21, Article 44, Paragraph 5, Item 4, of ASBJ Statement No. 22, and Article 57, Paragraph 4, Item 4, of ASBJ Statement No. 7 is applied from the beginning of the first quarter of the fiscal year ending December 31, 2016.

These changes have no effect on the consolidated financial statements for the second quarter of the fiscal year ending December 31, 2016.

2. Change in depreciation method due to tax reforms

The ASBJ issued PITF No. 32 “Practical Solution on a change in depreciation method due to Tax Reform 2016” on June 17, 2016. This revised accounting standard is applied from the second quarter of the fiscal year ending December 31, 2016. The Company has switched the method of depreciation for buildings purchased on or after April 1, 2016, from the declining-balance method to the straight-line method.

This change has minimal effect on the operating income, ordinary income and net income before taxes for the second quarter of the fiscal year ending December 31, 2016.

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	December 31, 2015	June 30, 2016
ASSETS		
Current Assets		
Cash and cash deposits	36,996	37,126
Notes and accounts receivable–trade	102,079	99,048
Short-term investment securities	18,805	23,000
Merchandise and finished goods	77,582	71,404
Work in process	11,293	11,380
Raw materials and supplies	23,310	22,926
Deferred tax assets	7,598	6,753
Other	19,430	15,234
Allowance for doubtful accounts	(611)	(449)
Total current assets	<u>296,486</u>	<u>286,425</u>
Noncurrent Assets		
Tangible fixed assets		
Buildings and structures, net	53,959	52,957
Machinery, equipment and vehicles, net	127,962	145,603
Land	18,508	18,286
Construction in progress	56,609	28,253
Other, net	4,978	4,763
Total tangible fixed assets	<u>262,019</u>	<u>249,863</u>
Intangible fixed assets		
Goodwill	28,564	24,519
Customer relation assets	32,244	26,568
Other	23,167	21,120
Total intangible fixed assets	<u>83,976</u>	<u>72,208</u>
Investments and other assets		
Investment securities	46,057	37,803
Long-term loans receivable	239	305
Net defined benefit assets	791	939
Deferred tax assets	6,361	7,011
Others	5,887	5,687
Allowance for doubtful accounts	(50)	(44)
Total investments and other assets	<u>59,287</u>	<u>51,702</u>
Total noncurrent assets	<u>405,284</u>	<u>373,774</u>
Total assets	<u>701,770</u>	<u>660,200</u>

(Millions of yen)

	December 31, 2015	June 30, 2016
LIABILITIES		
Current Liabilities		
Notes and accounts payable–trade	38,331	31,455
Short-term loans payable	7,187	8,014
Accrued expenses	10,468	9,349
Income taxes payable	14,692	10,541
Provision for bonuses	5,259	4,488
Other provision	31	8
Other	19,480	16,243
Total current liabilities	95,450	80,101
Long-term liabilities		
Bonds payable	10,000	10,000
Long-term loans payable	42,257	42,209
Deferred tax liabilities	24,102	21,017
Provision for directors' retirement benefits	185	192
Provision for environmental measures	353	351
Net defined benefit liabilities	11,247	10,266
Asset retirement obligations	3,615	3,252
Other	10,966	10,467
Total noncurrent liabilities	102,729	97,757
Total liabilities	198,180	177,859
NET ASSETS		
Shareholders' equity		
Capital stock	88,955	88,955
Capital surplus	87,147	87,158
Retained earnings	278,899	293,281
Treasury stock	(4,319)	(4,131)
Total shareholders' equity	450,682	465,264
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	10,808	7,191
Deferred gain or losses on hedges	(4)	40
Foreign currency translation adjustments	39,377	6,459
Remeasurements of defined benefit plans	(4,801)	(4,328)
Total accumulated other comprehensive income	45,380	9,363
Subscription rights to shares	831	755
Noncontrolling interests	6,695	6,957
Total net assets	503,589	482,341
Total liabilities and net assets	701,770	660,200

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

(Millions of yen)

	Fiscal 2015 2Q (January 1, 2015 – June 30, 2015)	Fiscal 2016 2Q (January 1, 2016 – June 30, 2016)
Net sales	262,877	244,099
Cost of sales	181,544	159,919
Gross profit	81,333	84,180
Selling, general and administrative expenses		
Selling expenses	13,491	13,342
General and administrative expenses	36,237	36,196
Total selling, general and administrative expenses	49,728	49,538
Operating income	31,605	34,641
Non-operating income		
Interest income	129	111
Dividends income	2,347	1,983
Other, net	560	1,027
Total non-operating income	3,037	3,122
Non-operating expenses		
Interest expenses	357	358
Other expenses	2,125	3,723
Total non-operating expenses	2,482	4,082
Ordinary income	32,160	33,681
Extraordinary income		
Gain on sales of tangible fixed assets	278	—
Total extraordinary income	278	—
Extraordinary loss		
Loss on valuation of investment securities	195	—
Loss on disposal of tangible fixed assets	154	—
Total extraordinary loss	349	—
Income before income taxes and minority interests	32,088	33,681
Income taxes—current	10,848	10,035
Income taxes—deferred	(36)	814
Total income taxes	10,811	10,849
Net income	21,277	22,832
Net income attributable to noncontrolling interests	345	455
Net income attributable to owners of the parent	20,931	22,376

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	Fiscal 2015 2Q (January 1, 2015 – June 30, 2015)	Fiscal 2016 2Q (January 1, 2016 – June 30, 2016)
Net income	21,277	22,832
Other comprehensive income		
Valuation difference on available-for-sale securities	3,466	(3,617)
Deferred gain or losses on hedges	(57)	44
Foreign currency translation adjustments	(1,449)	(32,815)
Pension liability adjustments	165	473
Total other comprehensive income	2,125	(35,916)
Quarterly comprehensive income	23,402	(13,084)
Comprehensive income attributable to:		
Owners of the parent	23,056	(13,538)
Noncontrolling interests	346	454

(3) Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	Fiscal 2015 2Q (January 1, 2015 – June 30, 2015)	Fiscal 2016 2Q (January 1, 2016 – June 30, 2016)
Cash Flows from Operating Activities		
Income before income taxes and minority interests in net income of consolidated subsidiaries	32,088	33,681
Depreciation and amortization	21,636	20,042
Loss (gain) on foreign exchange	285	2,654
Loss (gain) on valuation of investment securities	195	—
Loss on abandonment of non-current assets	154	—
Loss (gain) on disposal of fixed assets	(278)	—
Decrease (increase) in notes and accounts receivable–trade	(748)	(2,308)
Decrease (increase) in inventories	(213)	(1,992)
Increase (decrease) in notes and accounts payable–trade	(8,324)	(5,627)
Other, net	(1,182)	2,649
Subtotal	43,613	49,100
Income taxes paid	980	(10,991)
Other	2,137	1,740
Net Cash Provided by Operating Activities	46,731	39,848
Cash Flows from Investing Activities		
Net decrease in time deposits	(193)	—
Purchase of tangible fixed assets and intangible assets	(21,232)	(24,402)
Purchase of investment securities	(1,985)	(907)
Proceeds from sales and redemption of marketable securities	4,234	3
Purchase of investments in subsidiaries resulting in charge in scope of consolidation	(5,564)	—
Proceeds from sale of business	1,134	—
Purchase of investment securities	(120)	—
Other, net	(1,762)	(81)
Net Cash Used in Investing Activities	(25,489)	(25,387)
Cash Flows from Financing Activities		
Net increase (decrease) in short-term loans payable	(4,950)	937
Net increase (decrease) in commercial papers	(10,000)	—
Repayment of long-term loans payable	(69)	(66)
Cash dividends paid	(3,155)	(7,726)
Other, net	232	(297)
Net Cash Used in Financing Activities	(17,943)	(7,153)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(285)	(3,207)
Net Increase (decrease) in Cash and Cash Equivalents	3,013	4,100

	(Millions of yen)	
	Fiscal 2015 2Q	Fiscal 2016 2Q
	(January 1, 2015 –	(January 1, 2016 –
	June 30, 2015)	June 30, 2016)
Cash and Cash Equivalents, Beginning of the Period	35,388	54,750
Increase in cash and cash equivalents from newly consolidated subsidiary	—	231
Cash and Cash Equivalents, End of the Period	38,401	59,082

(4) Notes Regarding Quarterly Consolidated Financial Statements

Notes Regarding Going Concern Assumptions

None

Material Changes in Shareholders' Equity

None

Segment and Other Information

Segment Information

I. Second Quarter of Fiscal 2015 (January 1, 2015 to June 30, 2015)

1. Net sales, income and loss by reporting segment

(Millions of yen)

	Reporting Segment						Others ¹	Total	Elimination on Consolidation and Corporate ²	Consolidated Statements of Income ³
	Vinyl Acetate	Isoprene	Functional Materials	Fibers and Textiles	Trading	Total				
Net Sales										
Outside customers	123,083	16,448	19,463	18,213	59,094	236,304	26,573	262,877	—	262,877
Inter-segment sales and transfers	15,325	12,023	8,875	5,537	1,112	42,874	7,000	49,874	(49,874)	—
Total	138,408	28,472	28,339	23,751	60,207	279,178	33,573	312,752	(49,874)	262,877
Segment Income	26,535	3,375	2,547	2,121	1,987	36,568	1,279	37,848	(6,243)	31,605

Notes:

1. The "Other Business" category incorporates operations not included in business segments reported, including activated carbon, environmental business and engineering.
2. Elimination on Consolidation and Corporate is as follows: Included within negative segment income of ¥6,243 million is the elimination of intersegment transactions of ¥554 million and corporate expenses of ¥6,797 million. Corporate expenses mainly comprise headquarters' general and administrative expenses and the submitting company's basic research expenses not usually attributed to segments.
3. Segment income is adjusted to agree with operating income in the consolidated statements of income.

II. Second Quarter of Fiscal 2016 (January 1, 2016 to June 30, 2016)

1. Net sales, income and loss by reporting segment

(Millions of yen)

	Reporting Segment						Others ¹	Total	Elimination on Consolidation and Corporate ²	Consolidated Statements of Income ³
	Vinyl Acetate	Isoprene	Functional Materials	Fibers and Textiles	Trading	Total				
Net Sales										
Outside customers	113,988	14,001	17,309	18,309	57,667	221,276	22,823	244,099	—	244,099
Inter-segment sales and transfers	14,636	11,951	8,746	5,555	1,430	42,320	8,037	50,357	(50,357)	—
Total	128,624	25,953	26,055	23,864	59,097	263,597	30,860	294,457	(50,357)	244,099
Segment Income	29,394	3,990	2,001	2,994	1,895	40,276	938	41,215	(6,573)	34,641

Notes:

1. The “Other Business” category incorporates operations not included in business segments reported, including activated carbon, environmental business and engineering.
2. Elimination on Consolidation and Corporate is as follows: Included within negative segment income of ¥6,573 million is the elimination of intersegment transactions of ¥707 million and corporate expenses of ¥7,280 million. Corporate expenses mainly comprise headquarters’ general and administrative expenses and the submitting company’s basic research expenses not usually attributed to segments.
3. Segment income is adjusted to agree with operating income in the consolidated statements of income.