

FANCL Corporation

Consolidated Financial Statements for the Interim Period of the Fiscal Year Ending March 31, 2017

April 1, 2016 to September 30, 2016

This document has been translated from the original Japanese as a guide for non-Japanese investors. It contains forward-looking statements based on a number of assumptions and beliefs made by management in light of information currently available. Actual financial results may differ materially depending on a number of factors, including changing economic conditions, legislative and regulatory developments, delay in new product launches, and pricing and product initiatives of competitors.

SUMMARY OF FINANCIAL STATEMENTS (consolidated)

Interim Period Results for the Fiscal Year Ending March 31, 2017

FANCL CORPORATION

October 28, 2016

www.fancl.jp/en/

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Scheduled date for submission of interim *hokokusho* (securities report): November 11, 2016

Scheduled date for distribution of dividends: December 5, 2016

Availability of supplementary explanatory material for interim results: Available

Presentation meeting for interim results: Scheduled (for institutional investors and analysts)

1) Consolidated results for the interim period (April 1, 2016 to September 30, 2016) of the fiscal year ending March 31, 2017

(1) Consolidated Operating Results

(Millions of yen, rounded down)

	Six months ended September 30, 2016		Six months ended September 30, 2015	
		% change		% change
Net sales	46,164	6.9	43,192	18.2
Operating income	(601)	--	116	(61.2)
Ordinary income	(541)	--	221	(47.3)
Net income attributable to owners of the parent company	3,873	--	127	(77.7)
Earnings per share (¥)	61.77	--	2.02	--
Earnings per share (diluted) (¥)	61.01	--	1.99	--

Notes: 1. The percentages shown above are a comparison with the same period in the previous fiscal year.

2. Comprehensive income: Six months ended September 30, 2016: ¥3,720 million (--%)

Six months ended September 30, 2015: ¥135 million (-76.3%)

(2) Consolidated Financial Position

(Millions of yen, rounded down)

	As of September 30, 2016	As of March 31, 2016
Total assets	85,835	83,767
Net assets	72,635	69,639
Shareholders' equity/total assets (%)	83.9	82.3

Shareholders' equity: As of September 30, 2016: ¥71,981 million

As of March 31, 2016: ¥68,909 million

2) Dividends per share

	FY ended March 31, 2016	FY ending March 31, 2017
Interim period	17.00	29.00
Year-end	17.00	29.00 (forecast)
Annual	34.00	58.00 (forecast)

Note: Changes to the dividend forecast during the period under review: None

Breakdown of interim dividend for the FY ending March 31, 2017: Ordinary dividend: ¥17.00; special dividend: ¥12.00

Breakdown of year-end dividend for the FY ending March 31, 2017 (forecast): Ordinary dividend: ¥17.00; special dividend: ¥12.00

3) Consolidated forecasts for the fiscal year ending March 31, 2017 (April 1, 2016 to March 31, 2017)

(Millions of yen)

	Fiscal year ending March 31, 2017	
		Change (%)
Net sales	99,000	9.0
Operating income	3,000	149.1
Ordinary income	3,100	118.0
Net income attributable to owners of the parent company	6,200	--
Earnings per share (¥)	99.00	--

Note: Changes to the Consolidated forecasts during the period under review: Yes

4) Other

(1) Transfer of important subsidiaries during the period: None

Note: Indicates transfers of specified subsidiaries resulting in changes in the scope of consolidation during the period under review.

(2) Use of simplified accounting methods or special accounting procedures: None

(3) Changes in accounting policy, changes in accounting estimates, and restatements:

1. Changes following revisions to accounting standards: Yes
2. Other changes: None
3. Changes in accounting estimates: None
4. Restatements: None

(4) Number of outstanding shares (common stock)

1. Number of shares outstanding (including treasury shares)	September 30, 2016	65,176,600 shares	March 31, 2016	65,176,600 shares
2. Number of treasury shares	September 30, 2016	2,236,097 shares	March 31, 2016	2,553,377 shares
3. Average number of shares during the interim period	Six months to September 30, 2016	62,699,532 shares	Six months to September 30, 2015	63,299,074 shares

Important Notice

Disclosure of status of quarterly report review procedures:

At time of disclosure of this quarterly financial report the review procedures for quarterly securities reports as stipulated under the Financial Instruments and Exchange Law was in progress.

Appropriate use of financial forecasts:

Forecasts, etc., recorded in this document include forward-looking statements that are based on management's estimates, assumptions and projections at the time of publication. A number of factors could cause actual results to differ materially from expectations. For further detail, please see Page 7: 1. Operating Results, Section 3, Forecasts for the fiscal year ending March 31, 2017.

Contents

1. Operating Results

(1) Summary of business performance.....	5
(2) Summary of consolidated financial position.....	7
(3) Forecasts for the fiscal year ending March 31, 2017.....	7

2. Other

(1) Changes to subsidiaries during the period.....	8
(2) Use of special accounting procedures.....	8
(3) Changes in accounting policy, changes in accounting estimates, and restatements.....	8
(4) Additional information.....	8

3. Consolidated financial statements

(1) Consolidated balance sheets.....	9
(2) Consolidated statement of income and Consolidated statement of comprehensive income.....	11
Consolidated statement of income.....	11
Consolidated statement of comprehensive income.....	12
(3) Consolidated statement of cash flows	13
(4) Notes to the consolidated financial statements.....	15
Items related to going concern.....	15
Note on significant change in shareholders' equity.....	15
Segment information.....	15

1. Operating Results

(1) Summary of business performance (consolidated)

(All comparisons are with the first half of the previous fiscal year, unless stated otherwise.)

During the interim period under review, a strong sense of overall stagnation continued for the Japanese economy, due to factors such as weak personal consumption and a downward trend in consumer prices, despite an ongoing improvement in the employment and income environment. Looking ahead, while a modest recovery is expected as various government policies take effect, the situation requires caution due to the prominent risk of economic downturn posed by increased global economic uncertainty and the rise of the yen.

During the interim period under review, consolidated sales increased 6.9% to ¥46,164 million following growth in earnings across all businesses, mainly due to strategic investment in advertising continued from the previous period based on policies in the Medium-term Management Plan (FY2016 to FY2018). Although gross profit increased due to growth in earnings, an operating loss of ¥601 million was recorded (compared to operating income of ¥116 million in the previous period), largely due to an increase in selling, general and administrative expenses resulting from proactive investment in advertising aimed at increasing the customer base. This also resulted in an ordinary loss of ¥541 million (compared to ordinary income of ¥221 million in the previous period). Net income attributable to owners of the parent company was ¥3,873 million (compared to net income attributable to owners of the parent company of ¥127 million in the previous period), reflecting the recording of extraordinary income for a gain on sales of investment securities.

Segment results are as follows:

1) Cosmetics Business

Sales

Sales from the Cosmetics business increased 4.4% to ¥27,132 million. (Millions of yen, rounded down)

	Six months ended September 30, 2016		Six months ended September 30, 2015		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
FANCL Cosmetics	21,538	79.4	21,192	81.5	1.6
ATTENIR Cosmetics	4,167	15.4	3,419	13.2	21.9
boscia	986	3.6	893	3.4	10.4
Others	441	1.6	484	1.9	(9.0)
Totals	27,132	100.0	25,990	100.0	4.4

	Six months ended September 30, 2016		Six months ended September 30, 2015		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Mail order sales	11,651	42.9	10,885	41.9	7.0
Retail store sales	9,706	35.8	9,839	37.8	(1.3)
Wholesales and others	2,622	9.7	2,053	7.9	27.7
Overseas Sales	3,151	11.6	3,212	12.4	(1.9)
Totals	27,132	100.0	25,990	100.0	4.4

Sales of **FANCL Cosmetics** increased 1.6% to ¥21,538 million, due to the renewal of *Aging Care Washing Cream and Facial Washing Powder*, along with the effects of core product promotions and growth in wholesale sales to drugstores.

Sales of **ATTENIR Cosmetics** increased 21.9% to ¥4,167 million due the effects of new products such as *SkinClear Cleanse Oil*, as well as an expansion of the customer base reflecting favorable results in new customer acquisition.

Results by sales channels: mail order sales increased 7.0% year on year to ¥11,651 million, retail store sales decreased 1.3% to ¥9,706 million, wholesale sales through other sales channels increased 27.7% to ¥2,622 million, and overseas sales decreased 1.9% to ¥3,151 million.

Operating income

Despite growth in earnings, operating income decreased 36.6% to ¥1,642 million, mainly due to an increase in marketing costs compared to the previous period.

2) Nutritional Supplements Business

Sales

Nutritional supplement sales increased 12.1% to ¥15,431 million.

(Millions of yen, rounded down)

	Six months ended September 30, 2016		Six months ended September 30, 2015		Change (%)
	Amount in ¥ million	Percent of total	Amount in ¥ million	Percent of total	
Mail order sales	6,105	39.5	5,177	37.6	17.9
Retail store sales	3,744	24.3	3,537	25.7	5.8
Wholesales and others	4,827	31.3	4,385	31.9	10.1
Overseas Sales	754	4.9	667	4.8	12.9
Totals	15,431	100.0	13,769	100.0	12.1

Revenues from **product sales** increased due to strong trending sales following promotions of *Enkin*, a food with functional claims labelling, as well as growth in sales of *Age Bracket-Based Supplements*.

Results by **sales channels**: mail order sales increased 17.9% to ¥6,105 million, retail store sales increased 5.8% to ¥3,744 million, wholesale sales through other sales channels increased 10.1% to ¥4,827 million and overseas sales increased 12.9% to ¥754 million.

Operating income

Despite growth in earnings, an operating loss of ¥1,026 million was recorded, a ¥646 million expansion on the previous period, mainly due to an increase in marketing costs compared to the previous period.

3) Other Businesses

Sales

Other businesses increased 4.9% year on year to ¥3,600 million

(Millions of yen, rounded down)

	Six months ended September 30, 2016	Six months ended September 30, 2015	Change (%)
Hatsuga genmai	1,251	1,254	(0.2)
Kale juice	1,367	1,363	0.3
Other	980	814	20.3
Totals	3,600	3,432	4.9

Operating income

An operating loss of ¥392 million was recorded, a ¥883 million improvement on the previous period, due to growth in earnings and the results of efforts to streamline marketing costs.

(2) Summary of consolidated financial position

(All comparisons are with the end of the previous fiscal year, unless stated otherwise.)

Assets increased ¥2,067 million to ¥85,835 million. The primary contributing factors were an increase of ¥6,648 million in current assets and a decrease of ¥4,580 million in fixed assets. Contributing to the increase in current assets were a ¥14,834 million increase in cash and deposits, and a ¥8,006 million decrease in marketable securities. The decrease in fixed assets was primarily a result of a ¥1,206 million increase in tangible fixed assets due to an increase in buildings and structures, and a ¥5,528 million decrease in investment securities.

Liabilities decreased ¥927 million from the end of the previous fiscal year to ¥13,200 million. The primary contributing factor was a decrease of ¥917 million in current liabilities. Factors contributing to the decrease in current liabilities include a ¥305 million decrease in notes and accounts payable, a ¥168 million decrease in income taxes payable, and a ¥540 million decrease in "Other" current liabilities due to a decrease in accounts payable.

Net assets increased ¥2,995 million to ¥72,635 million. The main contributing factor was an increase of ¥3,873 million in retained earnings due to the recording of net income attributable to owners of the parent company, and a decrease of ¥1,064 million in retained earnings for dividend payments.

As a result, the shareholders' equity ratio rose 1.6 percentage points from the end of the previous fiscal year to 83.9%.

Cash flow

Cash and cash equivalents as of September 30, 2016 were ¥32,869 million, ¥6,828 million higher than at the end of the previous fiscal year. The main contributing factors are detailed below.

Cash flows from operating activities

Cash flow used in operating activities during the interim period under review was ¥159 million compared to an inflow of ¥595 million in the interim period of the previous fiscal year. Factors increasing operating cash flow included income before income taxes of ¥3,832 million and depreciation expenses of ¥1,482 million. Factors reducing operating cash flow included a gain on the sale of investment securities of ¥4,440 million, and ¥1,233 million in income taxes paid.

Cash flows from investing activities

Cash gained in investing activities during the interim period under review was ¥7,845 million, compared to an outflow of ¥1,538 million in the interim period of the previous fiscal year. Factors increasing investment cash flow included inflows of ¥9,785 million from the sale and redemption of investment securities. Factors reducing investment cash flow included outlays of ¥2,020 million for acquisitions of tangible fixed assets.

Cash flows from financing activities

Cash flow used in financing activities during the interim period under review was ¥736 million, compared to an outflow of ¥3,570 million in the interim period of the previous fiscal year, and was primarily due to inflows of ¥375 million for the disposal of treasury stock, and ¥1,062 million for dividend payments.

(3) Forecasts for the fiscal year ending March 31, 2017

Revisions have been made to the consolidated full-year results forecast for the fiscal year ending March 31, 2017 that were announced with the quarterly earnings report on July 27, 2016. Details are as follows.

(Consolidated full-year period)

	Revised forecasts		Previously announced forecasts	
		Change (%)		Change (%)
Net sales	99,000	9.0	102,500	12.8
Operating income	3,000	149.1	3,000	149.1
Ordinary income	3,100	118.0	3,100	118.0
Net income attributable to owners of the parent company	6,200	--	6,200	--
Earnings per share (¥).....	99.00	--	99.00	--

Net sales forecasts have been reduced by ¥3,500 million from the previous forecast, based on trends in the consolidated interim period, along with revisions to the store opening plan for the second half of the fiscal year.

Although impacted by the downward revision in net sales forecasts, income forecasts remain unchanged due to the streamlining of marketing costs, as well as a reduction in fixed costs reflecting revisions to the store opening plan, and efforts to streamline overall costs.

Additionally, a partial revision has been made to the Medium Term Management Plan strategy to reflect changes in the external environment and trends in business results. Any further information subject to disclosure that arises will be announced promptly.

2. Other

(1) Changes to subsidiaries during the period: None

(2) Use of special accounting procedures: None

(3) Changes in accounting policy, changes in accounting estimates, and restatements:

Change in accounting policy

In accordance with changes to the Corporation Tax Act, the *Practical Solution on a change in depreciation method due to Tax Reform 2016* (Accounting Standards Board of Japan (ASBJ) PITF No. 32) issued on June 17, 2016, has been applied from the first quarter period, and the depreciation method for buildings and accompanying facilities, and structures acquired on or after April 1, 2016, will be changed from the declining balance method to the straight line method.

The effect of this change on the interim period under review are minimal.

(4) Additional information

The *Implementation Guidance on Recoverability of Deferred Tax Assets* (ASBJ Guidance No. 26) issued on March 28, 2016, has been applied from the first quarter period.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

<i>Millions of yen, rounded down</i>		
	As of September 30, 2016	As of March 31, 2016
ASSETS		
I. Current assets:		
Cash and cash equivalents	32,869	18,034
Notes and accounts receivable	9,310	9,997
Marketable securities	--	8,006
Merchandise and products	3,732	3,548
Work in progress	15	26
Raw materials and supplies	3,566	3,787
Others	3,529	2,969
Allowance for doubtful accounts	(58)	(51)
Total current assets	52,966	46,317
II. Fixed assets:		
Tangible fixed assets		
Buildings and structures	26,576	25,355
Accumulated depreciation and accumulated impairment loss	(14,271)	(14,513)
Buildings and structures (net)	12,305	10,841
Machinery and transport equipment	7,386	7,552
Accumulated depreciation and accumulated impairment loss	(6,187)	(6,282)
Machinery and transport equipment (net)	1,198	1,270
Furniture, tools and fixtures	7,909	7,600
Accumulated depreciation and accumulated impairment loss	(6,575)	(6,490)
Furniture, tools and fixtures (net)	1,333	1,109
Land	11,904	11,951
Lease assets	380	386
Accumulated depreciation and accumulated impairment loss	(247)	(227)
Lease assets (net)	132	158
Others	894	1,230
Total tangible fixed assets	27,769	26,562
Intangible fixed assets		
Others	2,277	2,639
Total intangible fixed assets	2,277	2,639
Investments and other assets		
Investment securities	128	5,656
Others	2,694	2,591
Total investments and other assets	2,822	8,248
Total fixed assets	32,869	37,449
Total Assets	85,835	83,767

Consolidated Balance Sheets, continued

			Millions of yen, rounded down
	As of September 30, 2016	As of March 31, 2016	
LIABILITIES			
I. Current liabilities:			
Notes and accounts payable	2,241	2,547	
Accrued income taxes	729	898	
Allowance for bonus	1,116	1,074	
Allowance for points.....	1,563	1,507	
Others.....	5,575	6,115	
Total current liabilities	11,226	12,143	
II. Long-term liabilities:			
Retirement benefit liabilities	1,316	1,324	
Asset retirement obligations.....	408	385	
Others.....	248	274	
Total long-term liabilities	1,974	1,984	
Total liabilities.....	13,200	14,128	
NET ASSETS			
Shareholders' equity			
Common stock.....	10,795	10,795	
Additional paid-in capital.....	11,706	11,706	
Retained earnings	52,899	50,134	
Treasury stock	(3,245)	(3,706)	
Total shareholders' equity	72,154	68,930	
Other comprehensive income			
Foreign currency translation adjustment.....	(5)	146	
Total adjustments related to retirement benefits	(167)	(166)	
Total other comprehensive income.....	(173)	(20)	
Warrants.....	653	729	
Total net assets.....	72,635	69,639	
Total Liabilities and Net Assets	85,835	83,767	

(2) Consolidated statement of income and Consolidated statement of comprehensive income
Consolidated statement of income

Millions of yen, rounded down

	April 1, 2016 to September 30, 2016	April 1, 2015 to September 30, 2015
Net sales	46,164	43,192
Cost of sales	13,817	12,808
Gross profit	32,347	30,384
Selling, general and administrative expenses	32,948	30,267
Operating income	(601)	116
Non-operating income		
Interest income	2	4
Dividend income	0	0
Rental income	52	52
Gain on foreign exchange	--	4
Other non-operating income	87	72
Total non-operating income	142	134
Non-operating expenses		
Rent expenses on fixed assets	17	17
Loss on foreign exchange	46	--
Provisions for allowance for bad debt	0	0
Other non-operating expenses	18	12
Total non-operating expenses	82	30
Ordinary income	(541)	221
Extraordinary income		
Income from sale of fixed assets	0	0
Gain on reversal of subscription rights to shares	34	1
Gain on sale of investment securities	4,440	--
Gain on investments in silent partnerships	--	36
Total extraordinary income	4,476	38
Extraordinary loss		
Loss on sale of fixed assets	0	--
Loss on disposal of fixed assets	22	10
Impairment loss	59	--
Loss on closure of stores	18	28
Other	1	8
Total extraordinary loss	102	46
Income before income taxes	3,832	212
Income and other taxes	594	440
Adjustments to income and other taxes	(634)	(355)
Total income and other taxes	(40)	85
Net income	3,873	127
Net income attributable to owners of the parent company	3,873	127

Consolidated statement of comprehensive income

Millions of yen, rounded down

	April 1, 2016 to September 30, 2016	April 1, 2015 to September 30, 2015
Income before minority interests.....	3,873	127
Other comprehensive income		
Foreign currency translation adjustment.....	(151)	14
Adjustments related to retirement benefits	(0)	(6)
Total other comprehensive income.....	(152)	7
Comprehensive income	3,720	135
(Breakdown)		
Comprehensive income attributable to owners of the parent company	3,720	135
Comprehensive income attributable to minor interests	--	--

(3)

Consolidated Statement of Cash Flows

Millions of yen, rounded down

	April 1, 2016 to September 30, 2016	April 1, 2015 to September 30, 2015
Cash flows from operating activities		
Income before income taxes	3,832	212
Depreciation	1,482	1,521
Impairment loss	59	--
Stock compensation expense	--	34
Increase (decrease) in allowance for doubtful accounts	6	(2)
Increase (decrease) in allowance for bonuses	41	130
Increase (decrease) in allowance for points	56	37
Increase (decrease) in retirement benefit related obligation	(9)	(18)
Increase (decrease) in allowance for directors' retirement bonuses	--	(88)
Interest and dividend income	(3)	(5)
Loss (gain) from foreign exchange	92	(3)
Loss (gain) on investments in silent partnerships	--	(36)
Loss (gain) on sale of investment securities	(4,440)	--
Loss (gain) from sale of fixed assets	(0)	(0)
Loss on disposal of fixed assets	22	10
Loss on store closures	18	28
Gain on reversal of subscription rights to shares	(34)	(1)
Decrease (increase) in accounts receivable	624	368
Decrease (increase) in inventories	(36)	(1,415)
Decrease (increase) in other current assets	141	172
Decrease (increase) in other fixed assets	5	0
Decrease (increase) in accounts payable	(281)	501
Increase (decrease) in other current liabilities	(652)	550
Increase (decrease) in other fixed liabilities	(11)	86
Others	(39)	(49)
Sub-total	873	2,032
Interest and dividends received	3	5
Income taxes paid	(1,233)	(1,443)
Refund of income taxes	197	--
Net cash provided by (used in) operating activities	(159)	595

Consolidated Statement of Cash Flows (continued)

Millions of yen, rounded down

	April 1, 2016 to September 30, 2016	April 1, 2015 to September 30, 2015
II. Cash flows from investing activities		
Payment for acquisition of tangible fixed assets	(2,020)	(1,641)
Income from sale of tangible fixed assets	78	0
Payment for acquisition of intangible fixed assets	(163)	(580)
Income from sale and redemption of investment securities	9,785	40
Income from repayment of investments in silent partnerships	--	620
Payments of loans receivable	(5)	--
Proceeds from liquidation of subsidiaries	183	--
Other payments	(70)	(123)
Other proceeds	58	146
Net cash used in investing activities	7,845	(1,538)
III. Cash flows from financing activities		
Proceeds from disposal of treasury stock	375	51
Payment for purchase of treasury stock	(0)	(2,488)
Cash dividends paid	(1,062)	(1,086)
Others	(47)	(46)
Net cash used in financing activities	(736)	(3,570)
IV. Effect of exchange rate changes on cash and cash equivalents	(121)	5
V. Net increase in cash and cash equivalents	6,828	(4,508)
VI. Cash and cash equivalents at the beginning of the period	26,040	30,659
VII. Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	--	301
VIII. Cash and cash equivalents at end of period	32,869	26,453

(4) Notes to the consolidated financial statements

Items related to going concern:

No applicable items

Note on significant change in shareholders' equity

No applicable items

Segment information

Business Segments

1. Six months ended September 30, 2016

(Millions of yen, rounded down)

	Business Segments			Total	Eliminations or Corporate ^{*2}	Consolidated ^{*3}
	Cosmetics Business	Nutritional Supplements Business	Other Businesses ^{*1}			
1. Sales and operating income:						
(1) Sales to external customers	27,132	15,431	3,600	46,164	--	46,164
(2) Inter-segment sales or transfers	--	--	--	--	--	--
Total sales	27,132	15,431	3,600	46,164	--	46,164
Operating income (loss)	1,642	(1,026)	(392)	223	(825)	(601)

Notes:

1. The Other Businesses segment consists of sundries, personnel effects, comfort undergarments, Hatsuga genmai (germinated brown rice), and kale juice
2. The adjustment amount on segment income (loss) of (¥825 million) includes total company expenses not distributed to each reportable segment and consist primarily of costs related to the General Affairs section of the parent company not included in the reportable segments.
3. Segment income (loss) is adjusted for operating income (loss) as recorded in the consolidated financial statements.

2. Six months ended September 30, 2015

(Millions of yen, rounded down)

	Business Segments			Total	Eliminations or Corporate ^{*2}	Consolidated ^{*3}
	Cosmetics Business	Nutritional Supplements Business	Other Businesses ^{*1}			
1. Sales and operating income:						
(1) Sales to external customers	25,990	13,769	3,432	43,192	--	43,192
(2) Inter-segment sales or transfers	--	--	--	--	--	--
Total sales	25,990	13,769	3,432	43,192	--	43,192
Operating income (loss)	2,588	(379)	(1,276)	933	(816)	116

Notes:

1. The Other Businesses segment consists of sundries, personnel effects, comfort undergarments, Hatsuga genmai (germinated brown rice), and kale juice
2. The adjustment amount on segment income (loss) of (¥816 million) includes total company expenses not distributed to each reportable segment and consist primarily of costs related to the General Affairs section of the parent company not included in the reportable segments.
3. Segment income (loss) is adjusted for operating income (loss) as recorded in the consolidated financial statements.