

**Business Results for the
First Quarter of the Fiscal Year Ending
December 31, 2019 (Unaudited)**

May 15, 2019

Kuraray Co., Ltd.

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Consolidated Earnings Report for the First Quarter of the Fiscal Year Ending December 31, 2019

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

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Preparation of supplementary documentation for the quarterly earnings report: Yes
Holding of quarterly earnings results briefing: Yes (for securities analysts and institutional investors)

(Millions of yen rounded down unless otherwise stated)

1. Consolidated Financial Results for the First Quarter of the Fiscal Year Ending December 31, 2019 (January 1, 2019 to March 31, 2019)

(1) Consolidated Operating Results

(Percentage changes displayed for net sales, operating income, ordinary income and net income attributable to owners of the parent 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	
		(%)		(%)		(%)		(%)
Fiscal 2019 1Q	141,646	(5.0)	14,632	(34.5)	12,794	(41.6)	6,085	(59.7)
Fiscal 2018 1Q	149,158	18.1	22,329	(2.0)	21,919	(0.7)	15,111	(1.1)

Note: Comprehensive income: For the fiscal 2019 first quarter: ¥4,543 million (—%)
For the fiscal 2018 first quarter: (¥5,192 million) (—%)

	Net Income per Share (Yen)	Fully Diluted Net Income per Share (Yen)
Fiscal 2019 1Q	17.48	17.45
Fiscal 2018 1Q	43.07	42.98

Note: In fiscal 2018, Kuraray determined the temporary accounting treatment related to a business combination, which the figures for the first quarter of fiscal 2018 reflect.

(2) Consolidated Financial Position

(Millions of yen)

	Total Assets	Net Assets	Equity Ratio (%)
As of March 31, 2019	990,654	562,060	55.5
As of December 31, 2018	947,095	567,033	58.6

[Reference] Equity attributable to owners of the parent: As of March 31, 2019: ¥550,297 million
As of December 31, 2018: ¥555,438 million

Note: Kuraray has adopted ASBJ Statement No. 28 Partial Amendments to Accounting Standard for Tax Effect Accounting (issued February 16, 2018) from January 1, 2019. These accounting standards have been retroactively applied to the numbers used for the consolidated financial position as of December 31, 2018.

2. Dividends

(Yen)

Record Date	Cash Dividends per Share				
	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Annual
Fiscal 2018	—	20.00	—	22.00	42.00
Fiscal 2019	—				
Fiscal 2019 (Forecast)		20.00	—	22.00	42.00

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

3. Forecasts of Consolidated Financial Results for the Fiscal Year Ending December 31, 2019 (January 1, 2019 to December 31, 2019)

(Percentage changes displayed for net sales, operating income, ordinary income and net income attributable to owners of the parent 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)
		(%)		(%)		(%)		(%)	
Interim Period	290,000	(3.8)	29,000	(20.0)	26,500	(23.3)	16,000	(29.2)	46.03
Full Fiscal Year	608,000	0.8	69,500	5.6	65,000	6.3	40,000	19.2	115.08

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

[Reference]

- (1) Changes in Important Subsidiaries during the Period (Changes in Special Subsidiaries Involving Changes in the Scope of Consolidation)
Added: No companies Excluded: No companies
- (2) Adoption of Special Accounting Practices in the Preparation of Quarterly Consolidated Financial Statements
No
- (3) Changes in Accounting Principles, Procedures and Presentation Methods 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 in accounting estimates: No
 4. Restatement: No

Note: For further details, please refer to “Changes in Accounting Principles” under “Notes regarding Quarterly Consolidated Financial Statements” on page 10 of the Attachment.

(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 March 31, 2019	354,863,603 shares
As of December 31, 2018	354,863,603 shares
2. Number of treasury shares as of the period-end:

As of March 31, 2019	7,288,033 shares
As of December 31, 2018	6,179,578 shares
3. Average number of shares for the period (cumulative):

As of March 31, 2019	348,198,564 shares
As of March 31, 2018	350,842,306 shares

Note: It is not required that this type of earnings report be audited.

*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 regarding Business Results

(1) Overview of Consolidated Business Results

In the first quarter of fiscal 2019 (January 1, 2019–March 31, 2019), the world economy decelerated. In the United States, the effects of financial policies gradually wore off and the growth forecast began to dim. In addition, the Chinese economy slowed due to the trade war with the United States, political turmoil expanded in Europe, and credit instability affected emerging countries. Consequently, consolidated operating results for the first quarter of fiscal 2019 are as follows: net sales fell ¥7,511 million, or 5.0%, compared with the previous fiscal year to ¥141,646 million; operating income decreased ¥7,697 million, or 34.5%, to ¥14,632 million; ordinary income decreased ¥9,125 million, or 41.6%, to ¥12,794 million; and net income attributable to owners of the parent dropped ¥9,025 million, or 59.7%, to ¥6,085 million.

The Kuraray Group launched the medium-term management plan “PROUD 2020” from fiscal 2018. In fiscal 2019, the second year of the plan, the Group aims to achieve its long-term vision of becoming a “Specialty Chemical Company, growing sustainably by incorporating new foundational platforms into its own technologies.” We will steadily take specific measures related to the key management strategies underlined in the plan. We will also continue working to establish a new business portfolio from a medium- to long-term perspective.

Furthermore, regarding the business combination with Calgon Carbon Corporation conducted on March 9, 2018, which resulted from the acquisition of shares, Kuraray used temporary accounting treatment for the first quarter of the previous fiscal year. However, the treatment was determined at the end of the previous fiscal year. As a result, for the comparison and analysis with the corresponding period of the previous fiscal year, the figures used have been revised to reflect the determination of the treatment.

In addition, Kuraray has adopted ASBJ Statement No. 28 Partial Amendments to Accounting Standard for Tax Effect Accounting (issued February 16, 2018) from January 1, 2019. Regarding the Company’s financial position, these accounting standards have been retroactively applied to the numbers used for comparison and analysis with the previous fiscal year.

Results by Business Segment

Vinyl Acetate

Sales in this segment decreased 4.3% year on year to ¥66,224 million, and segment income fell 31.3% year on year to ¥10,809 million.

- (1) The sales volume of PVA resin declined for commodity use. Due to declined operations on one of the production lines, shipments of optical-use poval film stayed level with the previous year. In addition, sales of PVB film struggled for automotive and architectural applications due to the economic slowdown. However, sales of water-soluble PVA film continued to expand.
- (2) Sales of *EV_{AL}* ethylene vinyl alcohol copolymer (EVOH resin) decreased for food packaging applications due to the lingering effects of the incident at the U.S. plant last year. In addition, sales for automotive gas tank applications became weak as the

production number of vehicles declined.

Isoprene

Sales in this segment decreased 6.9% year on year to ¥13,618 million, and segment income fell 13.3% year on year to ¥3,739 million.

- (1) Although raw material prices, which had been rising until last year, began falling, the sales volume of *SEPTON* thermoplastic elastomer declined due mainly to contracting demand, especially in China. However, sales of fine chemicals remained firm.
- (2) The falling raw material prices contributed, while shipments of *GENESTAR* heat-resistant polyamide resin for connector applications fell due to lower demand for electric and electronic devices.

Functional Materials

Sales in this segment decreased 2.5% year on year to ¥30,456 million, and segment income dropped 26.4% year on year to ¥1,127 million.

- (1) In the methacrylate business, despite a decline in sales volume, results remained stable due to falling raw material prices in addition to a continued shift toward high value-added products.
- (2) In the medical business, sales were steady, especially for cosmetic and restorative dentistry products.
- (3) As for Calgon Carbon, demand remained firm, but the business was impacted by declined operations due to issues with utility facility at the U.S. plant. However, in the Carbon Materials business, sales of high value-added products increased.

Fibers and Textiles

Sales in this segment edged down 0.8% year on year to ¥16,537 million while segment income rose 19.6% year on year to ¥1,118 million.

- (1) Sales of *CLARINO* man-made leather sales for luxury product applications remained stable. However, sales declined for use in sports shoes.
- (2) In fibers and industrial materials, the sales volume of *KURALON* increased for use in reinforcing rubber.
- (3) In consumer goods and materials, sales of *KURAFLEX* remained stable as sales of high value-added products expanded, despite a fall in the sales figures of commodity products.

Trading

In fiber-related businesses, clothing sales remained firm, especially for sportswear, but exports of resins and chemicals fell, mainly those to China. As a result, segment sales decreased 3.3% year on year to ¥31,380 million, and segment income fell 22.4% to ¥874 million.

Others

In other businesses, segment sales grew 11.3% year on year to ¥14,219 million, and segment income fell 55.4% to ¥131 million due to increased R&D and other costs.

(2) Overview of Financial Position

Total assets increased ¥43,559 million from the end of the previous fiscal year to ¥990,654 million mainly because of an increase in short-term investment securities and tangible fixed assets. Total liabilities increased ¥48,532 million to ¥428,594 million due to factors that included the issuance of commercial paper and an increase in other noncurrent liabilities. The main reason for the increases in tangible fixed assets and other noncurrent liabilities is the application of IFRS 16 for leases of some overseas affiliates from the first quarter of the fiscal year ending December 31, 2019, which led to increases in right-of-use assets and lease liabilities respectively.

Net assets fell ¥4,972 million to ¥562,060 million. Equity attributable to owners of the parent amounted to ¥550,297 million, for an equity ratio of 55.5%.

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

The revised cumulative consolidated operating results forecast for the second quarter of the fiscal year ending December 31, 2019 (January 1, 2019 to June 30, 2019) is as follows.

	(Millions of yen)				(Yen)
	Net Sales	Operating Income	Ordinary Income	Net Income Attributable to Owners of the Parent	Net Income Per Share
Original Forecast (A) (Announced February 13, 2019)	312,000	38,500	36,500	23,000	65.96
Revised Forecast (B)	290,000	29,000	26,500	16,000	46.03
Amount Adjusted (B – A)	(22,000)	(9,500)	(10,000)	(7,000)	
Percent Adjusted	(7.1)	(24.7)	(27.4)	(30.4)	

The revised cumulative consolidated operating results forecast for the fiscal year ending December 31, 2019 (January 1, 2019 to December 31, 2019) is as follows.

	(Millions of yen)				(Yen)
	Net Sales	Operating Income	Ordinary Income	Net Income Attributable to Owners of the Parent	Net Income Per Share
Original Forecast (A) (Announced February 13, 2019)	630,000	79,000	75,000	47,000	134.79
Revised Forecast (B)	608,000	69,500	65,000	40,000	115.08
Amount Adjusted (B – A)	(22,000)	(9,500)	(10,000)	(7,000)	
Percent Adjusted	(3.5)	(12.0)	(13.3)	(14.9)	

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

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

(Millions of yen)

	December 31, 2018	March 31, 2019
ASSETS		
Current Assets		
Cash and cash deposits	67,022	68,808
Notes and accounts receivable–trade	128,107	121,746
Short-term investment securities	32,921	49,683
Merchandise and finished goods	101,081	106,633
Work in process	15,221	16,854
Raw materials and supplies	36,667	36,473
Other	14,315	16,549
Allowance for doubtful accounts	(426)	(414)
Total current assets	394,910	416,335
Noncurrent Assets		
Tangible fixed assets		
Buildings and structures, net	74,182	74,904
Machinery, equipment and vehicles, net	204,215	205,657
Land	22,707	22,425
Construction in progress	49,468	55,288
Other, net	6,837	26,547
Total tangible fixed assets	357,411	384,823
Intangible fixed assets		
Goodwill	66,485	65,324
Customer-related assets	36,263	35,627
Other	41,400	38,287
Total intangible fixed assets	144,150	139,239
Investments and other assets		
Investment securities	29,509	28,399
Long-term loans receivable	218	217
Net defined benefit assets	1,101	1,173
Deferred tax assets	12,993	14,002
Others	6,840	6,495
Allowance for doubtful accounts	(40)	(32)
Total investments and other assets	50,622	50,255
Total noncurrent assets	552,184	574,319
Total assets	947,095	990,654

(Millions of yen)

	December 31, 2018	March 31, 2019
LIABILITIES		
Current Liabilities		
Notes and accounts payable—trade	45,408	40,905
Short-term loans payable	46,540	47,099
Commercial paper	—	30,000
Accrued expenses	12,201	11,466
Income taxes payable	8,474	5,448
Provision for bonuses	6,681	8,451
Other provision	266	311
Other	25,212	29,151
Total current liabilities	144,785	172,835
Noncurrent liabilities		
Bonds payable	50,000	50,000
Long-term loans payable	120,049	122,126
Deferred tax liabilities	24,951	24,675
Provision for directors' retirement benefits	237	219
Provision for environmental measures	5,716	5,174
Net defined benefit liabilities	18,065	18,816
Asset retirement obligations	5,070	5,002
Other	11,185	29,744
Total noncurrent liabilities	235,276	255,758
Total liabilities	380,062	428,594
NET ASSETS		
Shareholders' equity		
Capital stock	88,955	88,955
Capital surplus	87,207	87,204
Retained earnings	364,841	363,255
Treasury stock	(9,746)	(11,378)
Total shareholders' equity	531,257	528,037
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	7,822	7,318
Deferred gain or losses on hedges	1	27
Foreign currency translation adjustments	20,382	19,048
Remeasurements of defined benefit plans	(4,025)	(4,134)
Total accumulated other comprehensive income	24,181	22,260
Subscription rights to shares	587	676
Noncontrolling interests	11,007	11,086
Total net assets	567,033	562,060
Total liabilities and net assets	947,095	990,654

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

Quarterly Consolidated Statements of Income

(Millions of yen)

	Fiscal 2018 1Q (January 1, 2018 – March 31, 2018)	Fiscal 2019 1Q (January 1, 2019 – March 31, 2019)
Net sales	149,158	141,646
Cost of sales	95,571	96,061
Gross profit	53,586	45,585
Selling, general and administrative expenses		
Selling expenses	8,099	8,191
General and administrative expenses	23,156	22,760
Total selling, general and administrative expenses	31,256	30,952
Operating income	22,329	14,632
Non-operating income		
Interest income	170	70
Dividend income	808	45
Equity in earnings of affiliates	75	59
Insurance income	—	174
Other	444	335
Total non-operating income	1,499	686
Non-operating expenses		
Interest expenses	391	382
Foreign exchange loss	459	557
Other	1,058	1,583
Total non-operating expenses	1,909	2,523
Ordinary income	21,919	12,794
Extraordinary income		
Gain on sale of investment securities	—	1,568
Compensation income	336	—
Total extraordinary income	336	1,568
Extraordinary loss		
Impairment loss	—	3,392
Loss on disposal of tangible fixed assets	—	606
Acquisition related expenses	700	—
Disaster loss	419	—
Total extraordinary loss	1,120	3,999
Income before income taxes and noncontrolling interests	21,135	10,363
Income taxes—current	7,635	4,999
Income taxes—deferred	(1,912)	(1,047)
Total income taxes	5,722	3,952
Net income	15,412	6,411

	Fiscal 2018 1Q (January 1, 2018 – March 31, 2018)	Fiscal 2019 1Q (January 1, 2019 – March 31, 2019)
Net income attributable to noncontrolling interests	301	326
Net income attributable to owners of the parent	15,111	6,085

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	Fiscal 2018 1Q (January 1, 2018 – March 31, 2018)	Fiscal 2019 1Q (January 1, 2019 – March 31, 2019)
Net income	15,412	6,411
Other comprehensive income		
Valuation difference on available-for-sale securities	(789)	(503)
Deferred gains or losses on hedges	555	26
Foreign currency translation adjustment	(20,570)	(1,281)
Remeasurements of defined benefit plans	200	(109)
Total other comprehensive income	(20,604)	(1,868)
Quarterly comprehensive income	(5,192)	4,543
Comprehensive income attributable to:		
Owners of the parent	(5,492)	4,164
Noncontrolling interests	300	379

(3) Notes regarding Quarterly Consolidated Financial Statements

Notes regarding Going Concern Assumptions

None

Material Changes in Shareholders' Equity

Kuraray's Board of Directors resolved to purchase treasury stock at the meeting convened on February 13, 2019 and is subsequently proceeding with acquisitions with an upper limit of five million shares and ¥10,000 million. Due in part to subsequent acquisitions, in the first quarter of the fiscal year ending December 31, 2019, treasury stock increased ¥1,631 million and amounted to ¥11,378 million as of March 31, 2019.

Changes in Accounting Principles

● Changes in Accounting Principles Following the Revision of Accounting Standards

Kuraray has adopted IFRS 16 for leases of some overseas affiliates from the first quarter of the fiscal year ending December 31, 2019. As a result, regarding operating leases (as the borrower) under IAS 17, the Company recognizes right-of-use assets and lease liabilities on the start date of the application. With this application, the Group adopted the method of recognizing cumulative effects on the application start date, which is considered a transitional measure. Due to the adoption of this method, Kuraray has not restated its comparative information.

As a result, in the quarterly consolidated balance sheet for the first quarter of fiscal 2019, other tangible fixed assets increased ¥19,653 million, other intangible fixed assets increased ¥227 million, other current assets increased ¥1,333 million, and other noncurrent liabilities increased ¥18,609 million.

Furthermore, the impact of this change on profit and loss in the first quarter of the fiscal year ending December 31, 2019, is minor.

Additional Information

Kuraray applies ASBJ Statement No. 28 Partial Amendments to Accounting Standard for Tax Effect Accounting (issued February 16, 2018) from January 1, 2019. Deferred tax assets are stated under investments and other assets, and deferred tax liabilities are stated under noncurrent liabilities.

Business Combinations, etc.

● Important Revision of the Original Allocation of the Acquisition Price

Kuraray acquired all of the shares of Calgon Carbon Corporation on March 9, 2018. Although Kuraray used temporary accounting treatment for the first quarter of the previous fiscal year with January 1, 2018, as the recognized acquisition date, the treatment was determined at the end of the previous fiscal year.

With the determination of this temporary accounting treatment, in the comparative information included in the quarterly consolidated financial statements of the first quarter of the fiscal year ending December 31, 2019, the original allocation of the acquisition price now reflects an important revision, mainly ¥14,244 million was allocated to equipment and transport under tangible fixed assets, and, as a result, the temporarily calculated goodwill of ¥85,688 million decreased ¥35,177 million to ¥50,511 million.

As a result, in the quarterly consolidated statement of income for the first quarter of the previous fiscal year, operating income, ordinary income, and net income before taxes each decreased ¥971 million.

Segment Information, etc.

● Segment Information

I. First Quarter of Fiscal 2018 (January 1, 2018 to March 31, 2018)

1. Net sales, income and loss by reporting segment

(Millions of yen)

	Reporting Segment						Other Business ¹	Total	Adjustment ²	Consolidated Statements of Income ³
	Vinyl Acetate	Isoprene	Functional Materials	Fibers and Textiles	Trading	Total				
Net sales										
(1) Outside customers	60,117	7,592	27,295	12,823	31,849	139,677	9,480	149,158	—	149,158
(2) Intersegment sales and transfers	9,067	7,034	3,941	3,842	605	24,491	3,295	27,786	(27,786)	—
Total	69,184	14,626	31,237	16,665	32,454	164,168	12,776	176,945	(27,786)	149,158
Segment income (loss)	15,738	4,313	1,531	934	1,126	23,643	295	23,939	(1,609)	22,329

Notes:

1. The “Other Business” category incorporates operations not included in business segment reporting, including the environmental business and engineering business.
2. Adjustment is as follows: Included within segment loss of ¥1,609 million is the elimination of intersegment transactions of ¥569 million and corporate expenses of ¥2,179million. Corporate expenses mainly comprise the submitting company’s basic research expenses.
3. Segment income is adjusted to agree with operating income in the consolidated statements of income.

II. First Quarter of Fiscal 2019 (January 1, 2019 to March 31, 2019)

1. Net sales, income and loss by reporting segment

(Millions of yen)

	Reporting Segment						Other Business ¹	Total	Adjustment ²	Consolidated Statements ³ of Income
	Vinyl Acetate	Isoprene	Functional Materials	Fibers and Textiles	Trading	Total				
Net sales										
(1) Outside customers	55,444	7,731	25,479	13,098	30,740	132,494	9,152	141,646	—	141,646
(2) Intersegment sales and transfers	10,780	5,887	4,977	3,438	640	25,724	5,067	30,791	(30,791)	—
Total	66,224	13,618	30,456	16,537	31,380	158,218	14,219	172,438	(30,791)	141,646
Segment income (loss)	10,809	3,739	1,127	1,118	874	17,669	131	17,800	(3,168)	14,632

Notes:

1. The “Other Business” category incorporates operations not included in business segment reporting, including the environmental business and engineering business.
2. Adjustment is as follows: Included within segment loss of ¥3,168 million is the elimination of intersegment transactions of ¥463 million and corporate expenses of ¥3,631 million. Corporate expenses mainly comprise the submitting company’s basic research expenses.
3. Segment income is adjusted to agree with operating income in the consolidated statements of income.
4. At the end of the previous fiscal year, Kuraray determined the temporary accounting treatment for the business combination and reflected the change in the figures for the first quarter of the previous fiscal year.

2. Information related to goodwill or impairment loss of fixed assets for each reportable segment

● Important impairment losses related to fixed assets

In the vinyl acetate segment, Kuraray recorded an impairment loss. Furthermore, the amount recorded for said impairment loss was ¥3,392 million in the first quarter of the fiscal year.