

**Business Results for the
Second Quarter of the Fiscal Year Ending
December 31, 2017 (Unaudited)**

August 9, 2017

Kuraray Co., Ltd.

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Consolidated Earnings Report for the Second Quarter of the Fiscal Year Ending December 31, 2017

Name of listed company: Kuraray Co., Ltd.
Stock code: 3405
Stock exchange listing: Tokyo, first section
URL: <http://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 Second Quarter of the Fiscal Year Ending December 31, 2017 (January 1, 2017 to June 30, 2017)

(1) Consolidated Operating Results

(Percentages 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	
		(Change)		(Change)		(Change)		(Change)
Fiscal 2017 2Q	251,340	3.0%	37,505	8.3%	36,264	7.7%	23,988	7.2%
Fiscal 2016 2Q	244,099	(7.1)%	34,641	9.6%	33,681	4.7%	22,376	6.9%

Note: Comprehensive income: For the fiscal 2017 second quarter: ¥22,225 million —
For the fiscal 2016 second quarter: (¥13,084 million) —

	Net Income per Share (Yen)	Fully Diluted Net Income per Share (Yen)
Fiscal 2017 2Q	68.21	68.02
Fiscal 2016 2Q	63.70	63.57

(2) Consolidated Financial Position

(Millions of yen)

	Total Assets	Net Assets	Equity Ratio (%)
As of June 30, 2017	737,876	536,453	71.6
As of December 31, 2016	725,433	520,978	70.7

[Reference] Equity attributable to owners of the parent: As of June 30, 2017: ¥528,361 million
As of December 31, 2016: ¥512,959 million

2. Dividends

(Yen)

Record Date	Cash Dividends per Share				
	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Annual
Fiscal 2016	—	20.00	—	21.00	41.00
Fiscal 2017	—	20.00			
Fiscal 2017 (Forecast)			—	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, 2017 (January 1, 2017 to December 31, 2017)

(Percentages displayed for net sales, operating income, ordinary income and net income attributable to owners of the parent are comparisons with 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	530,000	9.2	75,000	10.6	73,000	10.3	46,000	13.9	130.71

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: No
 2. Changes besides 1. above: No
 3. Changes in accounting estimates: No
 4. Restatement: No
- (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, 2017	354,863,603 shares
As of December 31, 2016	354,863,603 shares
 2. Number of treasury stock as of the period-end:

As of June 30, 2017	2,931,596 shares
As of December 31, 2016	3,363,405 shares
 3. Average number of shares for the period (cumulative):

As of June 30, 2017	351,699,062 shares
As of March 31, 2016	351,303,259 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.

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 2017 (January 1, 2017–June 30, 2017), exchange rates and the price of crude oil held relatively steady despite lingering political instability, and the world economy remained favorable overall. The Japanese economy gradually trended upward as corporate profits expanded and signs of recovery in personal consumption appeared due to improving employment and income levels. The U.S. economy remained healthy as personal consumption grew amid strong employment figures. In Europe, the economy remained favorable for now despite a high number of worrying factors since the United Kingdom decided to leave the European Union. In China, the economy continued to gradually strengthen as various government-led measures showed results and personal consumption began to improve. Economies in emerging countries are recovering due to the effects of the favorable world economy.

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 2017 are as follows: net sales rose ¥7,240 million, or 3.0%, compared with the corresponding period of the previous fiscal year to ¥251,340 million; operating income grew ¥2,863 million, or 8.3%, to ¥37,505 million; ordinary income increased ¥2,582 million, or 7.7%, to ¥36,264 million; and net income attributable to owners of the parent rose ¥1,611 million, or 7.2%, to ¥23,988 million.

In the previous fiscal year, the activated carbon business and energy materials business were included in the Other Business segment. However, due to the absorption-type merger of Kuraray Chemical Co., Ltd. on January 1, 2017, the Company decided to merge these businesses into the carbon materials business and move said business to the Functional Materials segment in fiscal 2017. Comparisons and analyses for the second quarter of fiscal 2017 are based on the segmentation following this change.

Results by Business Segment

Vinyl Acetate

Sales in this segment edged down 0.1% year on year to ¥128,519 million, and segment income grew 6.6% year on year to ¥31,346 million. The decline in net sales is due to the decision to reduce external sales of vinyl acetate monomer (VAM), which has a low profit margin, and begin using it in raw materials consumed internally.

- (1) Sales of PVA resin were favorable, increasing mainly in the U.S. market. Sales of optical-use poval film rose. In addition, newly installed equipment at the Saijo Plant commenced operations from the second quarter. Sales of water-soluble PVA film were healthy due mainly to continued robust demand for unit dose detergent applications. In PVB film, sales of high added-value products expanded.
- (2) The sales volume of *EV*AL ethylene vinyl alcohol copolymer (EVOH resin) grew for both automotive gas tank and food packaging applications.

Isoprene

Sales in this segment increased 7.9% year on year to ¥28,009 million, and segment income rose 2.3% year on year to ¥4,080 million.

- (1) In isoprene chemicals, sales of fine chemicals, *SEPTON* thermoplastic elastomer and liquid rubber remained stable despite the effects of fluctuations in raw material and fuel costs.
- (2) The sales volume of *GENESTAR* heat-resistant polyamide resin for automotive, connector and LED reflector applications expanded and was favorable.

Functional Materials

Sales in this segment climbed 2.1% year on year to ¥34,606 million, and segment income jumped 70.4% year on year to ¥3,399 million.

- (1) Sales of methacrylic were healthy mainly due to growth in the sales volume of resin as well as improvement in earnings backed by healthy market conditions.
- (2) In the medical business, sales remained favorable with contributions from the sales volume of new zirconia-based dental materials.
- (3) For *CLARINO* man-made leather, sales of products made with both the conventional and the new production process remained favorable.
- (4) In the carbon materials business, sales were favorable with an increase in exports of value-added activated carbon products. products increased.

Fibers and Textiles

Although sales of *KURALON* continued to expand, the effects of higher raw material and fuel costs were felt. Sales of consumer goods and materials were firm. As a result, sales in this segment rose 10.7% year on year to ¥26,424 million while segment income fell 3.1% year on year to ¥2,903 million.

Trading

Domestic clothing sales were firm for uniforms, but those of sportswear and formalwear struggled. Sales in China were favorable, especially for sewn Japanese sports apparel products, and the sewn products business expanded in Vietnam due to the effects of increased investment in the previous year. In addition, sales of materials were steady overall, and sales of resins and chemicals were favorable, particularly for exports. As a result, segment sales increased 6.0% year on year to ¥62,661 million, and segment income climbed 2.1% to ¥1,935 million.

Others

In other businesses, overall performance remained healthy. As a result, segment sales grew 6.8% year on year to ¥23,698 million, and segment income rose 139.2% to ¥1,438 million.

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

Kuraray has revised its consolidated operating results forecasts for the full fiscal year ending December 31, 2017 as shown below in the table to reflect the continued favorable performance of many businesses despite an expected rise in costs owing to raw material and fuel costs remaining higher than original projections.

The revised cumulative consolidated operating results forecasts for the full fiscal year ending December 31, 2017 (January 1, 2017 to December 31, 2017) are 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 8, 2017)	530,000	70,000	68,000	42,000	119.49
Revised Forecast (B)	530,000	75,000	73,000	46,000	130.71
Amount Adjusted (B – A)	—	5,000	5,000	4,000	
Percent Adjusted	—	7.1	7.4	9.5	

For the third quarter of fiscal 2017 onward, we assume average exchange rates of ¥110 to the U.S. dollar and ¥120 to the euro, as well as a domestic naphtha price of ¥43,000 per kiloliter.

[Reference] Results Forecasts by Segment for the Fiscal Year Ending December 31, 2017

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

	Net Sales		Operating Income	
	Fiscal 2017 2Q Results	Fiscal 2017	Fiscal 2017 2Q Results	Fiscal 2017
Vinyl Acetate	1,285	2,720	313	635
Isoprene	280	570	41	85
Functional Materials	346	730	34	65
Fibers and Textiles	264	520	29	55
Trading	627	1,280	19	40
Other Business	237	540	14	25
Elimination & Corporate	(526)	(1,060)	(76)	(155)
Total	2,513	5,300	375	750

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, 2016	June 30, 2017
ASSETS		
Current Assets		
Cash and cash deposits	51,437	45,424
Notes and accounts receivable—trade	105,010	105,715
Short-term investment securities	39,064	47,546
Merchandise and finished goods	73,504	81,236
Work in process	12,260	12,200
Raw materials and supplies	25,504	26,478
Deferred tax assets	5,974	5,822
Other	12,669	10,186
Allowance for doubtful accounts	(451)	(431)
Total current assets	324,974	334,179
Noncurrent Assets		
Tangible fixed assets		
Buildings and structures, net	54,343	58,912
Machinery, equipment and vehicles, net	162,963	165,649
Land	19,526	19,521
Construction in progress	29,904	28,697
Other, net	5,090	5,200
Total tangible fixed assets	271,827	277,980
Intangible fixed assets		
Goodwill	26,256	25,009
Customer-related assets	28,880	26,823
Other	24,401	24,847
Total intangible fixed assets	79,537	76,680
Investments and other assets		
Investment securities	34,023	32,569
Long-term loans receivable	260	255
Net defined benefit assets	827	969
Deferred tax assets	7,097	7,789
Others	6,929	7,497
Allowance for doubtful accounts	(43)	(45)
Total investments and other assets	49,093	49,035
Total noncurrent assets	400,458	403,697
Total assets	725,433	737,876

(Millions of yen)

	December 31, 2016	June 30, 2017
LIABILITIES		
Current Liabilities		
Notes and accounts payable–trade	36,424	36,041
Short-term loans payable	7,626	7,612
Accrued expenses	10,719	9,244
Income taxes payable	7,635	10,474
Provision for bonuses	5,296	4,864
Other provision	4	14
Other	28,430	22,239
Total current liabilities	96,136	90,491
Noncurrent liabilities		
Bonds payable	10,000	10,000
Long-term loans payable	42,172	42,134
Deferred tax liabilities	25,442	24,268
Provision for directors' retirement benefits	209	199
Provision for environmental measures	3,580	6,725
Net defined benefit liabilities	11,542	12,398
Asset retirement obligations	4,192	4,310
Other	11,178	10,893
Total noncurrent liabilities	108,318	110,931
Total liabilities	204,454	201,422
NET ASSETS		
Shareholders' equity		
Capital stock	88,955	88,955
Capital surplus	87,178	87,204
Retained earnings	304,277	321,085
Treasury stock	(3,972)	(3,463)
Total shareholders' equity	476,439	493,781
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	10,913	11,373
Deferred gain or losses on hedges	(110)	3
Foreign currency translation adjustments	30,054	27,226
Remeasurements of defined benefit plans	(4,336)	(4,023)
Total accumulated other comprehensive income	36,520	34,579
Subscription rights to shares	719	590
Noncontrolling interests	7,300	7,502
Total net assets	520,978	536,453
Total liabilities and net assets	725,433	737,876

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

Quarterly Consolidated Statements of Income

(Millions of yen)

	Fiscal 2016 2Q (January 1, 2016 – June 30, 2016)	Fiscal 2017 2Q (January 1, 2017 – June 30, 2017)
Net sales	244,099	251,340
Cost of sales	159,919	162,880
Gross profit	84,180	88,459
Selling, general and administrative expenses		
Selling expenses	13,342	13,843
General and administrative expenses	36,196	37,110
Total selling, general and administrative expenses	49,538	50,953
Operating income	34,641	37,505
Non-operating income		
Interest income	111	158
Dividend income	1,983	825
Equity in earnings of affiliates	0	1
Other	1,026	807
Total non-operating income	3,122	1,791
Non-operating expenses		
Interest expenses	358	354
Foreign exchange loss	459	880
Other	3,264	1,798
Total non-operating expenses	4,082	3,033
Ordinary income	33,681	36,264
Extraordinary income		
Gain on transfer of know-how	—	2,500
Total extraordinary income	—	2,500
Extraordinary loss		
Loss on provision for environmental measures	—	3,146
Loss on valuation of investment securities	—	556
Total extraordinary loss	—	3,702
Income before income taxes and noncontrolling interests	33,681	35,061
Income taxes—current	10,035	11,853
Income taxes—deferred	814	(1,201)
Total income taxes	10,849	10,652

	(Millions of yen)	
	Fiscal 2016 2Q (January 1, 2016 – June 30, 2016)	Fiscal 2017 2Q (January 1, 2017 – June 30, 2017)
Net income	22,832	24,409
Net income attributable to noncontrolling interests	455	421
Net income attributable to owners of the parent	22,376	23,988

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	Fiscal 2016 2Q (January 1, 2016 – June 30, 2016)	Fiscal 2017 2Q (January 1, 2017 – June 30, 2017)
Net income	22,832	24,409
Other comprehensive income		
Valuation difference on available-for-sale securities	(3,617)	460
Deferred gains or losses on hedges	44	122
Foreign currency translation adjustment	(32,815)	(3,079)
Remeasurements of defined benefit plans	473	313
Total other comprehensive income	(35,916)	(2,183)
Quarterly comprehensive income	(13,084)	22,225
Comprehensive income attributable to:		
Owners of the parent	(13,538)	21,795
Noncontrolling interests	454	429

(3) Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	Fiscal 2016 2Q (January 1, 2016 – June 30, 2016)	Fiscal 2017 2Q (January 1, 2017 – June 30, 2017)
Net cash provided by (used in) operating activities		
Income before income taxes and noncontrolling interests	33,681	35,061
Depreciation and amortization	20,042	20,309
Foreign exchange losses (gains)	2,654	84
Loss (gain) on valuation of investment securities	—	556
Loss on provision for environmental measures	—	3,146
Decrease (increase) in notes and accounts receivable–trade	(2,308)	(541)
Decrease (increase) in inventories	(1,992)	(8,183)
Increase (decrease) in notes and accounts payable–trade	(5,627)	(521)
Other, net	2,649	(4,400)
Subtotal	49,100	45,510
Income taxes (paid) refunded	(10,991)	(6,427)
Other	1,740	666
Net cash provided by (used in) operating activities	39,848	39,749
Net cash provided by (used in) investing activities		
Net decrease (increase) in time deposits	—	(3,728)
Net decrease (increase) in short-term investment securities	—	(21,499)
Purchase of tangible fixed assets and intangible fixed assets	(24,402)	(27,914)
Purchase of investment securities	(907)	(67)
Proceeds from sale and redemption of investment securities	3	—
Other, net	(81)	(1,897)
Net cash provided by (used in) investing activities	(25,387)	(55,108)
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	937	—
Repayment of long-term loans payable	(66)	(47)
Cash dividends paid	(7,726)	(7,381)
Other, net	(297)	(63)
Net cash provided by (used in) financing activities	(7,153)	(7,493)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(3,207)	(37)
Net Increase (decrease) in Cash and Cash Equivalents	4,100	(22,890)
Cash and Cash Equivalents, Beginning of the Period	54,750	83,389

	(Millions of yen)	
	Fiscal 2016 2Q (January 1, 2016 – June 30, 2016)	Fiscal 2017 2Q (January 1, 2017 – June 30, 2017)
Increase in cash and cash equivalents from newly consolidated subsidiaries	231	193
Cash and Cash Equivalents, End of the Period	59,082	60,693

(3) Notes regarding Quarterly Consolidated Financial Statements

Notes regarding Going Concern Assumptions

None

Material Changes in Shareholders' Equity

None

Additional Information

Application of the Guidance on Recoverability of Deferred Tax Assets

The Accounting Standards Board of Japan (ASBJ) issued ASBJ Guidance No. 26 “Guidance on Recoverability of Deferred Tax Assets” on March 28, 2016. This guidance is applied from the first quarter of the fiscal year ending December 31, 2017.

Provision for Environmental Measures

From the second quarter, Kuraray records within the provision for environmental measures the estimated costs associated with soil protection measure-related construction and the disposal of PCBs and other waste.

Furthermore, in the cumulative consolidated second quarter, Kuraray recorded an estimated ¥3,146 million for relevant construction as a loss on provision for environmental measures within extraordinary loss.

Segment Information, etc.
(Segment Information)

I. 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						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	113,988	14,001	24,626	18,309	57,667	228,593	15,506	244,099	—	244,099
(2) Inter-segment sales and transfers	14,636	11,951	9,270	5,555	1,430	42,844	6,686	49,531	(49,531)	—
Total	128,624	25,953	33,896	23,864	59,097	271,437	22,193	293,631	(49,531)	244,099
Segment income (loss)	29,394	3,990	1,995	2,994	1,895	40,270	601	40,871	(6,229)	34,641

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 ¥6,229 million is the elimination of intersegment transactions of ¥707 million and corporate expenses of ¥6,937million. Corporate expenses mainly comprise headquarters’ general and administrative expenses and the submitting company’s basic research expenses.
3. Segment income is adjusted to agree with operating income in the consolidated statements of income.

II. Second Quarter of Fiscal 2017 (January 1, 2017 to June 30, 2017)

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										
(3) Outside customers	113,108	15,106	24,704	20,453	60,806	234,180	17,159	251,340	—	251,340
(4) Inter-segment sales and transfers	15,410	12,903	9,901	5,970	1,854	46,039	6,538	52,578	(52,578)	—
Total	128,519	28,009	34,606	26,424	62,661	280,220	23,698	303,918	(52,578)	251,340
Segment income (loss)	31,346	4,080	3,399	2,903	1,935	43,665	1,438	45,103	(7,597)	37,505

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 ¥7,597 million is the elimination of intersegment transactions of ¥764 million and corporate expenses of ¥8,362 million. Corporate expenses mainly comprise headquarters’ general and administrative expenses and the submitting company’s basic research expenses.
3. Segment income is adjusted to agree with operating income in the consolidated statements of income.

2. Change in Reporting Segments

On January 1, 2017, Kuraray absorbed its consolidated subsidiary Kuraray Chemical Co., Ltd. Following this, the Company revised the organization of its business segments in the first quarter of fiscal 2017. The activated carbon business and energy materials business, which had been included in Other Business, were merged into the Carbon Materials Business. This business is now listed under Functional Materials.

Segment information for the second quarter of fiscal 2017 is based on the segmentation following the revision.