

**Business Results for the
First Quarter of the Fiscal Year Ending
December 31, 2020 (Unaudited)**

May 14, 2020

Kuraray Co., Ltd.

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Consolidated Earnings Report for the First Quarter of the Fiscal Year Ending December 31, 2020

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, 2020 (January 1, 2020 to March 31, 2020)

(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 2020 1Q	136,927	(3.3)	11,971	(18.2)	11,306	(11.6)	6,705	10.2
Fiscal 2019 1Q	141,646	(5.0)	14,632	(34.5)	12,794	(41.6)	6,085	(59.7)

Note: Comprehensive income: For the fiscal 2020 first quarter: (¥2,205 million) (—%)
For the fiscal 2019 first quarter: ¥4,543 million (—%)

	Net Income per Share (Yen)	Fully Diluted Net Income per Share (Yen)
Fiscal 2020 1Q	19.50	19.48
Fiscal 2019 1Q	17.48	17.45

(2) Consolidated Financial Position

(Millions of yen)

	Total Assets	Net Assets	Equity Ratio (%)
As of March 31, 2020	993,099	529,802	51.9
As of December 31, 2019	991,149	538,545	53.0

[Reference] Equity attributable to owners of the parent: As of March 31, 2020: ¥515,406 million
As of December 31, 2019: ¥525,151 million

2. Dividends

(Yen)

Record Date	Cash Dividends per Share				
	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Annual
Fiscal 2019	—	20.00	—	22.00	42.00
Fiscal 2020	—				
Fiscal 2020 (Forecast)		21.00	—	21.00	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, 2020 (January 1, 2020 to December 31, 2020)

(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	260,000	(9.5)	15,000	(46.3)	13,000	(47.3)	7,000	(47.2)	20.36
Full Fiscal Year	—	—	—	—	—	—	—	—	—

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

Regarding the full-year forecasts of consolidated financial results, due to the difficulty of reasonably calculating the impact of COVID-19 pandemic on the Group's results from the third quarter onward, we have temporarily withdrawn the forecasts released on February 13, 2020 and it is to be determined. We will swiftly release a forecast once calculations become possible.

[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 March 31, 2020	354,863,603 shares
As of December 31, 2019	354,863,603 shares
 2. Number of treasury shares as of the period-end:

As of March 31, 2020	11,005,846 shares
As of December 31, 2019	11,130,834 shares
 3. Average number of shares for the period (cumulative):

As of March 31, 2020	343,781,244 shares
As of March 31, 2019	348,198,564 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 “1. Qualitative Information regarding Business Results (3) 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 2020 (January 1, 2020–March 31, 2020), the world economy dramatically decelerated due to the serious impacts on consumption and production of the restrictions on economic activity to counter the global spread of COVID-19. Consequently, consolidated operating results for the first quarter of fiscal 2020 are as follows: net sales fell ¥4,719 million, or 3.3%, compared with the previous fiscal year to ¥136,927 million; operating income decreased ¥2,660 million, or 18.2%, to ¥11,971 million; ordinary income decreased ¥1,488 million, or 11.6%, to ¥11,306 million; and net income attributable to owners of the parent increased ¥619 million, or 10.2%, to ¥6,705 million.

The global spread of COVID-19 remains a serious issue with no end in sight regarding containment. In addition, it is expected to take a long time for economic activity to return to normal.

Even amid this kind of environment, we will continue to supply needed products around the world. We realize the importance of the role that has been given to us, and we will maintain our business activities while thoroughly ensuring safety and working to prevent infection. The Group's long-term vision, Kuraray Vision 2026, is to become a "Specialty Chemical Company, growing sustainably by incorporating new foundational platforms into its own technologies." As we continue working to realize this vision, we will steadily take specific measures in line with the key management strategies underlined in the medium-term management plan "PROUD 2020" from a medium- to long-term perspective. Through these efforts, we will also continue working to establish a new business portfolio.

Results by Business Segment

Vinyl Acetate

Sales in this segment decreased 3.6% year on year to ¥63,866 million, and segment income fell 22.4% year on year to ¥8,387 million.

- (1) The volume of PVA resin declined due to stagnant global demand. Due to the effect of an LCD panel inventory adjustment continuing from the second half of the previous fiscal year, shipments of optical-use poval film stayed level with the previous year. In addition, sales of PVB film remained weak, mainly for automotive applications. However, sales of water-soluble PVA film steadily expanded for use in unit dose detergent packets.
- (2) The sales volume of EVALTM ethylene vinyl alcohol copolymer (EVOH resin) increased for food packaging applications but sales for gas tank applications were weak due to a decline in the number of vehicles produced.

Isoprene

Sales in this segment decreased 3.4% year on year to ¥13,162 million, and segment income fell 16.0% year on year to ¥3,140 million.

- (1) Shipments of isoprene chemicals declined, especially those to China. Sales of SEPTONTM thermoplastic elastomer struggled in Asia, but U.S. demand remained firm.

- (2) The sales volume of GENESTAR™ heat-resistant polyamide resin increased due to anticipatory demand in China for electric and electronic device applications. Demand for connectors for automotive devices remained favorable.

Functional Materials

Sales in this segment increased 1.0% year on year to ¥30,766 million, and segment income grew 12.5% year on year to ¥1,268 million.

- (1) Although the sales volume of methacrylic resins and sheets increased, the methacrylate business was affected by worsening market conditions.
- (2) In the medical business, sales were steady in the first quarter due to anticipatory demand for dental materials, especially exports, but there are concerns about decelerating demand as many dental clinics have closed, mainly across the United States and Europe.
- (3) As for Calgon Carbon, demand remained steady in North America, especially for drinking water applications while demand was sluggish in Europe. In the Carbon Materials business, sales of high value-added products increased.

Fibers and Textiles

Sales in this segment fell 12.5% year on year to ¥14,467 million while segment income decreased 18.1% year on year to ¥916 million.

- (1) The sales volume of CLARINO™ man-made leather decreased due to stagnant demand in Asia and Europe.
- (2) In fibers and industrial materials, the performance of KURALON™ for cement reinforcement use remained weak. Sales of products used in reinforcing rubber were negatively affected by a decline in vehicle production. However, sales results for VECTRAN™ were firm.
- (3) In consumer goods and materials, sales of KURAFLEX™ were weak as demand for cosmetic and automotive applications fell despite an increase in sales for mask-related applications.

Trading

In fiber-related businesses, sales of sportswear-use products remained steady, but sales of resins and chemicals targeting Japanese and Chinese markets struggled. As a result, segment sales decreased 5.1% year on year to ¥29,771 million, and segment income rose 9.9% to ¥961 million.

Others

In other business, due to weak sales of domestic affiliates, segment sales declined 18.0% year on year to ¥11,661 million, and segment income fell 67.2% to ¥43 million.

(2) Overview of Financial Position

Total assets increased ¥1,950 million from the end of the previous fiscal year to ¥993,099 million mainly because of a ¥4,757 million increase in cash and cash deposits and a ¥4,515 million increase in inventory assets that offset a ¥3,716 million decrease in intangible fixed assets and a ¥4,204 million decrease in investment securities. Total liabilities increased ¥10,693 million to ¥463,297 million due to factors that included the issuance of commercial paper totaling ¥26,000 million and a ¥23,364 million increase in long-term loans payable, despite a ¥29,392 million decrease in accrued expenses.

Net assets fell ¥8,742 million to ¥529,802 million. Equity attributable to owners of the parent amounted to ¥515,406 million, for an equity ratio of 51.9%.

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

Due to economic restrictions to combat the global spread of COVID-19, first quarter results for all segments were weak as demand for automobiles, electronic devices, displays and other mainstay Kuraray applications stagnated. Further deterioration in demand from the second quarter is unavoidable, and we need to respond accordingly with production adjustments and other measures. We expect this to have a large impact on our operating results. Based on these circumstances, the forecast of consolidated operating results for the second quarter of fiscal 2020 (January 1, 2020 to June 30, 2020) is as shown below. Furthermore, regarding the full-year forecasts of the consolidated financial results, due to the difficulty of reasonably calculating the impact of COVID-19 pandemic on the Group's results from the third quarter onward, we have temporarily withdrawn the forecasts released on February 13, 2020 and it is to be determined. We will swiftly release a forecast once calculations become possible.

In addition, although we recorded an extraordinary loss in fiscal 2019 related to the litigation over the fire at the U.S. subsidiary in May 2018, if it is determined that we need to revise our results forecasts in the course of future negotiations, we will make a swift announcement.

The revised cumulative consolidated operating results forecast for the second quarter of the fiscal year ending December 31, 2020 (January 1, 2020 to June 30, 2020) 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, 2020)	290,000	28,000	26,000	16,000	46.54
Revised Forecast (B)	260,000	15,000	13,000	7,000	20.36
Amount Adjusted (B - A)	(30,000)	(13,000)	(13,000)	(9,000)	
Percent Adjusted	(10.3)	(46.4)	(50.0)	(56.3)	

The revised consolidated operating results forecast for the fiscal year ending December 31, 2020 (January 1, 2020 to December 31, 2020) 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, 2020)	590,000	60,000	56,000	35,000	101.82
Revised Forecast (B)	—	—	—	—	—
Amount Adjusted (B - A)	—	—	—	—	
Percent Adjusted	—	—	—	—	

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, 2019	March 31, 2020
ASSETS		
Current Assets		
Cash and cash deposits	72,014	76,772
Notes and accounts receivable–trade	121,166	118,370
Short-term investment securities	33,341	34,421
Merchandise and finished goods	101,628	106,042
Work in process	15,679	16,808
Raw materials and supplies	34,696	33,669
Other	16,661	16,432
Allowance for doubtful accounts	(455)	(371)
Total current assets	394,732	402,145
Noncurrent Assets		
Tangible fixed assets		
Buildings and structures, net	79,629	82,383
Machinery, equipment and vehicles, net	205,974	208,249
Land	22,062	22,094
Construction in progress	82,071	77,500
Other, net	25,055	24,689
Total tangible fixed assets	414,793	414,918
Intangible fixed assets		
Goodwill	61,357	59,845
Customer-related assets	33,062	32,161
Other	35,514	34,210
Total intangible fixed assets	129,934	126,217
Investments and other assets		
Investment securities	28,770	24,565
Long-term loans receivable	189	179
Net defined benefit assets	1,977	2,021
Deferred tax assets	13,506	15,994
Others	7,272	7,085
Allowance for doubtful accounts	(28)	(28)
Total investments and other assets	51,688	49,818
Total noncurrent assets	596,416	590,954
Total Assets	991,149	993,099

(Millions of yen)

	December 31, 2019	March 31, 2020
LIABILITIES		
Current Liabilities		
Notes and accounts payable—trade	39,883	38,515
Short-term loans payable	34,864	35,231
Commercial paper	24,000	50,000
Accrued expenses	50,491	21,099
Income taxes payable	4,307	4,988
Provision for bonuses	6,578	8,700
Other provision	226	238
Other	41,317	31,873
Total current liabilities	201,670	190,647
Noncurrent Liabilities		
Bonds payable	50,000	50,000
Long-term loans payable	128,001	151,366
Deferred tax liabilities	13,743	13,241
Provision for directors' retirement benefits	347	337
Provision for environmental measures	3,692	3,608
Net defined benefit liabilities	22,203	22,456
Asset retirement obligations	4,671	4,525
Other	28,273	27,114
Total noncurrent liabilities	250,933	272,650
Total Liabilities	452,604	463,297
NET ASSETS		
Shareholders' Equity		
Capital stock	88,955	88,955
Capital surplus	87,197	87,187
Retained earnings	348,289	347,407
Treasury stock	(16,286)	(16,103)
Total shareholders' equity	508,156	507,448
Accumulated Other Comprehensive Income		
Valuation difference on available-for-sale securities	7,922	5,060
Deferred gain or losses on hedges	(263)	115
Foreign currency translation adjustments	14,575	7,686
Remeasurements of defined benefit plans	(5,238)	(4,903)
Total accumulated other comprehensive income	16,995	7,958
Subscription Rights to Shares	663	604
Noncontrolling Interests	12,729	13,790
Total Net Assets	538,545	529,802
Total Liabilities and Net Assets	991,149	993,099

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

(Millions of yen)

	Fiscal 2019 1Q (January 1, 2019 – March 31, 2019)	Fiscal 2020 1Q (January 1, 2020 – March 31, 2020)
Net sales	141,646	136,927
Cost of sales	96,061	94,229
Gross profit	45,585	42,697
Selling, general and administrative expenses		
Selling expenses	8,191	7,824
General and administrative expenses	22,760	22,901
Total selling, general and administrative expenses	30,952	30,725
Operating income	14,632	11,971
Non-operating income		
Interest income	70	71
Dividend income	45	73
Equity in earnings of affiliates	59	42
Gain on extinguishment of debts	—	163
Insurance income	174	—
Other	335	311
Total non-operating income	686	661
Non-operating expenses		
Interest expenses	382	315
Foreign exchange loss	557	—
Other	1,583	1,012
Total non-operating expenses	2,523	1,327
Ordinary income	12,794	11,306
Extraordinary income		
Insurance income	—	334
Gain on sale of investment securities	1,568	—
Total extraordinary income	1,568	334
Extraordinary loss		
Costs related to the suspension of operations	—	489
Loss on disposal of tangible fixed assets	606	438
Loss on litigation	—	145
Impairment loss	3,392	—
Total extraordinary loss	3,999	1,073
Income before income taxes and noncontrolling interests	10,363	10,567
Income taxes—current	4,999	5,610
Income taxes—deferred	(1,047)	(2,062)
Total income taxes	3,952	3,547
Net income	6,411	7,019

	Fiscal 2019 1Q (January 1, 2019 – March 31, 2019)	Fiscal 2020 1Q (January 1, 2020 – March 31, 2020)
Net income attributable to noncontrolling interests	326	314
Net income attributable to owners of the parent	6,085	6,705

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	Fiscal 2019 1Q (January 1, 2019 – March 31, 2019)	Fiscal 2020 1Q (January 1, 2020 – March 31, 2020)
Net income	6,411	7,019
Other comprehensive income		
Valuation difference on available-for-sale securities	(503)	(2,863)
Deferred gains or losses on hedges	26	464
Foreign currency translation adjustment	(1,281)	(7,160)
Remeasurements of defined benefit plans	(109)	335
Total other comprehensive income	(1,868)	(9,224)
Quarterly comprehensive income	4,543	(2,205)
Comprehensive income attributable to:		
Owners of the parent	4,164	(2,331)
Noncontrolling interests	379	126

(3) Notes regarding Quarterly Consolidated Financial Statements

Notes regarding Going Concern Assumptions

None

Material Changes in Shareholders' Equity

None

Segment Information, etc.

● Segment Information

I. 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.

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.

II. First Quarter of Fiscal 2020 (January 1, 2020 to March 31, 2020)

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	54,212	7,293	26,141	11,177	29,084	127,910	9,017	136,927	—	136,927
(2) Intersegment sales and transfers	9,653	5,869	4,624	3,290	687	24,124	2,644	26,769	(26,769)	—
Total	63,866	13,162	30,766	14,467	29,771	152,034	11,661	163,696	(26,769)	136,927
Segment income (loss)	8,387	3,140	1,268	916	961	14,673	43	14,717	(2,745)	11,971

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 ¥2,745 million is the elimination of intersegment transactions of ¥574 million and corporate expenses of ¥3,319 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.