Business Results for the
Second Quarter of the Fiscal Year Ending
December 31, 2018 (Unaudited)

August 9, 2018

Kuraray Co., Ltd.

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Consolidated Earnings Report for the Second Quarter of the Fiscal Year Ending December 31, 2018

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

Representative:
Title: Representative Director and President
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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, 2018 (January 1, 2018 to June 30, 2018)

(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 2018 2Q	301,382	19.9	38,188	1.1	36,490	(0.1)	23,822	(1.6)
Fiscal 2017 2Q	251,340	—	37,781	—	36,538	—	24,209	—

Note: Comprehensive income: For the fiscal 2018 second quarter: ¥10,978 million (−51.1%)
For the fiscal 2017 second quarter: ¥22,435 million (—%)

	Net Income per Share (Yen)	Fully Diluted Net Income per Share (Yen)
Fiscal 2018 2Q	68.03	67.89
Fiscal 2017 2Q	68.84	68.65

Note: Percentage change in comparison with the second quarter of the previous fiscal year is not stated because changes to accounting principles were applied retroactively.

(2) Consolidated Financial Position

(Millions of yen)

	Total Assets	Net Assets	Equity Ratio (%)
As of June 30, 2018	933,286	566,449	59.7
As of December 31, 2017	776,735	565,487	71.7

[Reference] Equity attributable to owners of the parent: As of June 30, 2018: ¥557,616 million
As of December 31, 2017: ¥556,966 million

2. Dividends

(Yen)

	Cash Dividends per Share				
Record Date	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Annual
Fiscal 2017	—	20.00	—	22.00	42.00
Fiscal 2018	—	20.00			
Fiscal 2018 (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, 2018 (January 1, 2018 to December 31, 2018)

(Percentage changes 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	610,000	17.7	77,000	0.8	75,000	1.0	49,000	(10.0)	139.66

Notes: 1. Revisions to forecasts of consolidated financial results during this period: No

2. The percentage changes in comparison with the previous interim period and the previous full fiscal year have been restated to reflect the retroactive application of changes in accounting principles.

[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: Yes
3. Changes in accounting estimates: Yes
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, 2018 354,863,603 shares
   As of December 31, 2017 354,863,603 shares

2. Number of treasury stock as of the period-end:
   As of June 30, 2018 6,194,177 shares
   As of December 31, 2017 4,040,182 shares

3. Average number of shares for the period (cumulative):
   As of June 30, 2018 350,171,666 shares
   As of June 30, 2017 351,699,062 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.

Index of the Attachment

1. Qualitative Information regarding Business Results

(1) Overview of Consolidated Business Results

In the second quarter of fiscal 2018 (January 1, 2018–June 30, 2018), the world economy grew favorably overall, especially in Europe and the United States. However, the outlook remains murky because of the Trump administration's sanctions and tariffs under its America-first policy and the retaliatory measures of affected countries.

In the chemicals industry, although demand continued to expand, buoyed by favorable economic conditions in developed and emerging countries, corporate profits were held down, partly due to higher raw material and fuel costs.

The Kuraray Group launched the medium-term management plan "PROUD 2020" from fiscal 2018. It 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.

Consequently, cumulative consolidated operating results for the second quarter of fiscal 2018 are as follows: net sales rose ¥50,042 million, or 19.9%, compared with the previous fiscal year to ¥301,382 million; operating income grew ¥407 million, or 1.1%, to ¥38,188 million; ordinary income decreased ¥48 million, or 0.1%, to ¥36,490 million; and net income attributable to owners of the parent fell ¥387 million, or 1.6%, to ¥23,822 million.

Furthermore, from the first quarter of fiscal 2018, we unified our method of evaluating products, raw materials, and work in process accounted for under inventories to the first-in, first-out method. Retroactively applying the new method, we have recalculated the previous year's results to facilitate comparisons with the previous year's business performance. In addition, we changed the depreciation method and estimated useful lives used for tangible fixed assets as well as the method of allocating corporate costs to each segment.

In the previous fiscal year, the Clarino business was included in the Functional Materials segment. However, due to the organizational reforms carried out on January 1, 2018, the Company decided to move this business to the Fibers and Textiles segment. Comparisons and analyses for the second quarter of fiscal 2018 are based on the segmentation following this change.

In addition, the acquisition of Calgon Carbon Corporation was completed on March 9, 2018, and said company has been included in the scope of consolidation from the first quarter of fiscal 2018.

<u>Results by Business Segment</u>

Vinyl Acetate

Sales in this segment increased 7.2% year on year to ¥137,835 million, and segment income fell 5.4% year on year to ¥28,968 million. In addition, while sales for each business have grown favorably, the aforementioned changes to the depreciation method and estimated useful lives used for tangible fixed assets as well as the method for allocating corporate costs negatively impacted segment income.

(1) As for PVA resin, the U.S. plant, which began regular operations from last year, contributed to results, and the North American market was favorable. At the same time, sales of optical-use poval film rose due to a steady expansion in demand. In addition, to respond to the growing display market and needs for larger panels, in the consolidated first quarter we decided to invest in new facility at the Kurashiki Plant with operations expected to begin at the end of 2019. The sales volume of water-soluble PVA film increased, especially for unit dose detergent applications. Sales of PVB film expanded but were impacted by the higher raw material and fuel prices.
(2) Sales of *EVAL* ethylene vinyl alcohol copolymer (EVOH resin) grew for both automotive gas tank and food packaging applications. In addition, we performed shutdown maintenance and undertook construction to expand capacity at the U.S. plant in the consolidated second quarter.

Isoprene

Sales in this segment increased 3.3% year on year to ¥28,921 million, and segment income grew 0.9% year on year to ¥4,828 million. In addition, with joint funding from PTT Global Chemical Public Company Limited and Sumitomo Corporation, Kuraray established a joint venture company in the second quarter to manufacture and market butadiene derivatives in Thailand.

(1) In isoprene chemicals, the sales volume of fine chemicals, *SEPTON* thermoplastic elastomer, and liquid rubber expanded and remained favorable.
(2) The sales volume of *GENESTAR* heat-resistant polyamide resin expanded, especially for automotive and connector applications, but higher raw material and fuel costs affected results.

Functional Materials

Sales in this segment jumped 140.7% year on year to ¥65,290 million, and segment income climbed 29.7% year on year to ¥3,793 million. From the first quarter of fiscal 2018 forward, Calgon Carbon results are included in consolidation.

(1) In the methacrylic resin business, market conditions remained healthy. In addition, sales of high-value added products expanded.
(2) In the medical business, an expansion in sales of zirconia-based dental material products contributed to sales.
(3) Calgon Carbon’s sales volumes increased, mainly in the United States. In the Carbon Materials business the sales volume of general purpose applications decreased.

Fibers and Textiles

Sales of *CLARINO* man-made leather continued to expand for luxury item applications. In consumer goods and materials, sales of high-value-added *KURAFLEX* products expanded. However, sales of *KURALON* were negatively affected by higher raw material and fuel costs. As a result, sales in this segment fell 1.4% year on year to ¥33,450 million while segment income decreased 14.8% year on year to ¥3,289 million.

Trading

In fiber-related businesses, clothing sales remained firm for sportswear. Sales of overseas sewn products also expanded. In addition, sales of resins and chemicals, particularly exports, were favorable. As a result, segment sales increased 6.6% year on year to ¥68,445 million, and segment income climbed 6.4% to ¥2,069 million.

Others

In other businesses, segment sales grew 31.6% year on year to ¥29,192 million, and segment income fell 40.5% to ¥710 million due to increased R&D and other costs.

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

Consolidated operating results forecasts released on May 15, 2018, Kuraray had decided not to make any revisions.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	December 31, 2017	June 30, 2018
ASSETS		
Current Assets		
Cash and cash deposits	60,904	44,029
Notes and accounts receivable—trade	113,876	134,071
Short-term investment securities	38,296	45,181
Merchandise and finished goods	86,041	98,784
Work in process	14,699	13,107
Raw materials and supplies	28,235	34,176
Deferred tax assets	7,198	6,949
Other	11,652	14,409
Allowance for doubtful accounts	(436)	(563)
Total current assets	360,468	390,145
Noncurrent Assets		
Tangible fixed assets		
Buildings and structures, net	59,267	67,844
Machinery, equipment and vehicles, net	164,803	187,422
Land	19,671	21,303
Construction in progress	38,187	46,602
Other, net	5,266	5,979
Total tangible fixed assets	287,196	329,152
Intangible fixed assets		
Goodwill	24,567	104,465
Customer-related assets	26,070	26,162
Other	26,387	31,038
Total intangible fixed assets	77,024	161,666
Investments and other assets		
Investment securities	35,420	35,798
Long-term loans receivable	229	192
Net defined benefit assets	1,963	1,825
Deferred tax assets	6,739	7,216
Others	7,734	7,331
Allowance for doubtful accounts	(42)	(41)
Total investments and other assets	52,045	52,323
Total noncurrent assets	416,266	543,141
Total assets	776,735	933,286

(Millions of yen)

	December 31, 2017	June 30, 2018
LIABILITIES		
Current Liabilities		
Notes and accounts payable—trade	39,864	46,725
Short-term loans payable	7,864	45,838
Accrued expenses	13,090	12,314
Income taxes payable	13,594	10,506
Provision for bonuses	6,000	5,312
Other provision	8	218
Other	27,631	26,703
Total current liabilities	108,053	147,620
Noncurrent Liabilities		
Bonds payable	10,000	50,000
Long-term loans payable	42,099	111,066
Deferred tax liabilities	15,251	16,179
Provision for directors' retirement benefits	224	217
Provision for environmental measures	6,184	5,953
Net defined benefit liabilities	14,597	19,631
Asset retirement obligations	4,469	4,869
Other	10,367	11,299
Total noncurrent liabilities	103,193	219,216
Total liabilities	211,247	366,836
NET ASSETS		
Shareholders' Equity		
Capital stock	88,955	88,955
Capital surplus	87,219	87,211
Retained earnings	344,653	362,065
Treasury stock	(6,110)	(9,769)
Total shareholders' equity	514,718	528,463
Accumulated Other Comprehensive Income		
Valuation difference on available-for-sale securities	13,007	12,087
Deferred gain or losses on hedges	(603)	23
Foreign currency translation adjustments	33,681	20,822
Remeasurements of defined benefit plans	(3,836)	(3,780)
Total accumulated other comprehensive income	42,248	29,153
Subscription Rights to Shares	539	593
Noncontrolling Interests	7,980	8,239
Total Net Assets	565,487	566,449
Total liabilities and net assets	776,735	933,286

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

Quarterly Consolidated Statements of Income

(Millions of yen)

	Fiscal 2017 2Q (January 1, 2017 – June 30, 2017)	Fiscal 2018 2Q (January 1, 2018 – June 30, 2018)
Net sales	251,340	301,382
Cost of sales	162,605	200,849
Gross profit	88,735	100,533
Selling, general and administrative expenses		
Selling expenses	13,843	17,153
General and administrative expenses	37,110	45,191
Total selling, general and administrative expenses	50,953	62,344
Operating income	37,781	38,188
Non-operating income		
Interest income	158	247
Dividend income	825	1,222
Equity in earnings of affiliates	—	174
Other	807	905
Total non-operating income	1,790	2,550
Non-operating expenses		
Interest expenses	354	661
Equity in losses of affiliates	0	—
Foreign exchange loss	880	1,390
Other	1,798	2,196
Total non-operating expenses	3,033	4,248
Ordinary income	36,538	36,490
Extraordinary income		
Compensation income	—	336
Gain on transfer of know-how	2,500	—
Total extraordinary income	2,500	336
Extraordinary loss		
Acquisition expenses	—	906
Disaster loss	—	699
Loss on disposal of tangible fixed assets	—	492
Loss on provision for environmental measures	3,146	—
Loss on valuation of investment securities	556	—
Total extraordinary loss	3,702	2,097
Income before income taxes and noncontrolling interests	35,335	34,728
Income taxes—current	11,853	10,758
Income taxes—deferred	(1,136)	(350)
Total income taxes	10,716	10,407

(Millions of yen)

	Fiscal 2017 2Q (January 1, 2017 – June 30, 2017)	Fiscal 2018 2Q (January 1, 2018 – June 30, 2018)
Net income	24,619	24,320
Net income attributable to noncontrolling interests	409	498
Net income attributable to owners of the parent	24,209	23,822

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	Fiscal 2017 2Q (January 1, 2017 – June 30, 2017)	Fiscal 2018 2Q (January 1, 2018 – June 30, 2018)
Net income	24,619	24,320
Other comprehensive income (loss)		
Valuation difference on available-for-sale securities	460	(921)
Deferred gains or losses on hedges	122	625
Foreign currency translation adjustment	(3,079)	(13,104)
Remeasurements of defined benefit plans	313	56
Total other comprehensive income (loss)	(2,183)	(13,342)
Quarterly comprehensive income	22,435	10,978
Comprehensive income attributable to:		
Owners of the parent	22,017	10,481
Noncontrolling interests	417	496

(3) Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	Fiscal 2017 2Q (January 1, 2017 – June 30, 2017)	Fiscal 2018 2Q (January 1, 2018 – June 30, 2018)
Net cash provided by (used in) operating activities		
Income before income taxes and noncontrolling interests	35,335	34,728
Depreciation and amortization	20,309	25,682
Foreign exchange losses (gains)	84	(849)
Loss (gain) on valuation of investment securities	556	—
Loss on disposal of tangible fixed assets	—	492
Loss on provision for environmental measures	3,146	—
Decrease (increase) in notes and accounts receivable—trade	(541)	(6,978)
Decrease (increase) in inventories	(8,459)	(4,280)
Increase (decrease) in notes and accounts payable—trade	(521)	(485)
Other, net	(4,399)	(7,346)
Subtotal	45,510	40,963
Income taxes (paid) refunded	(6,427)	(11,236)
Other	666	1,061
Net cash provided by (used in) operating activities	39,749	30,788
Net cash provided by (used in) investing activities		
Net decrease (increase) in time deposits	(3,728)	851
Net decrease (increase) in short-term investment securities	(21,499)	5,856
Purchase of tangible fixed assets and intangible fixed assets	(27,914)	(30,188)
Purchase of investment securities	(67)	(99)
Proceeds from sale and redemption of investment securities	—	172
Purchase of investments in subsidiaries resulting in change in scope of consolidation	—	(119,814)
Other, net	(1,897)	(1,171)
Net cash provided by (used in) investing activities	(55,108)	(144,392)
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	—	26,990
Proceeds from long-term loans payable	—	80,000
Repayment of long-term loans payable	(47)	(25,412)
Proceeds from issuance of bonds	—	40,000
Purchase of treasury stock	(4)	(3,732)
Cash dividends paid	(7,381)	(7,718)
Other, net	(59)	(360)
Net cash provided by (used in) financing activities	(7,493)	109,767

(Millions of yen)

	Fiscal 2017 2Q (January 1, 2017 – June 30, 2017)	Fiscal 2018 2Q (January 1, 2018 – June 30, 2018)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(37)	557
Net Increase (Decrease) in Cash and Cash Equivalents	(22,890)	(3,279)
Cash and Cash Equivalents, Beginning of the Period	83,389	70,234
Increase in cash and cash equivalents from newly consolidated subsidiaries	193	—
Cash and Cash Equivalents, End of the Period	60,693	66,954

(4) Notes regarding Quarterly Consolidated Financial Statements

Notes regarding Going Concern Assumptions
None

Material Changes in Shareholders' Equity
On May 15, 2018, Kuraray's Board of Directors resolved to acquire treasury stock and, accordingly, the Company purchased 2,200,000 shares. As a result, in the cumulative consolidated second quarter, treasury stock increased ¥3,659 million, totaling ¥9,769 million as of June 30, 2018.

Changes in Accounting Principles, etc.
1. Changes in Accounting Principles
● Changes in the Inventory Evaluation Method
Previously, Kuraray and some consolidated subsidiaries generally applied the total average method to evaluation products, raw materials and work in process within inventories. However, from the first quarter of fiscal 2018, this method was replaced for the most part with the first-in, first-out method. The change in the relevant accounting principle has been retroactively applied and the consolidated financial statements for the previous fiscal year have been restated accordingly.

Due to accelerating global business expansion, over the last few years Kuraray's overseas inventory and net sales ratios have been growing. Prompted by this trend, we reconsidered our inventory evaluation method, taking into account the need to ensure both proper evaluation procedures and Group-wide unity regarding accounting principles and income calculations. To facilitate the evaluation of inventories and more accurately calculate income, Kuraray and some of its consolidated subsidiaries therefore adopted the first-in, first-out method to better track the movement of inventory. We also determined that this method would more accurately reflect the Group's operating situation.

Because of this change, in the second quarter of the previous fiscal year, operating income increased ¥275 million and ordinary income and net income before income taxes increased ¥274 million compared to previous results calculated by applying the new method retroactively. In addition, due to the cumulative effect of changes to accounting principles on the book value of net assets at the beginning of the previous fiscal year, the balance of retained earnings at the beginning of the previous fiscal year after the retroactive application of these changes increased ¥129 million.

In the Quarterly Consolidated Statements of Cash Flows in the cumulative consolidated second quarter of the previous fiscal year, under net cash provided by (used in) operating activities, income before income taxes and noncontrolling interests increased ¥274 million, decrease (increase) in inventories decreased ¥275 million, and other increased ¥1 million.

2. Changes in Accounting Estimates and Changes in Accounting Principles That Are Difficult to Differentiate from Changes in Accounting Estimates
● Changes in the Depreciation Method and the Estimated Useful Lives of Tangible Fixed Assets
In principle, Kuraray and its domestic consolidated subsidiaries originally used the declining-balance method to depreciate tangible fixed assets, except for buildings, structures acquired after April 1, 2016, and leased assets. From the first quarter of fiscal 2018, however, the straight-line method is applied.

As a result of the accelerating global business expansion over the last few years, the ratio of production accounted for by overseas facilities has been growing. Prompted by this trend, we reconsidered the depreciation method used for tangible fixed assets, taking into account the need to both properly calculate income and unify the Group's accounting principles. Kuraray and its domestic consolidated subsidiaries therefore adopted the straight-line method for the depreciation of tangible fixed assets because said tangible fixed assets are stable, making the rate of depreciation also stable. We also determined that this method would more accurately reflect the Group's operating situation.

In addition, the Group has long depreciated machinery and equipment on the basis of estimated useful lives of between 4 and 20 years. However, from the first quarter of fiscal 2018, the Group switched to generally using 10 years.

This switch was prompted by the aforementioned changes in the operating environment, leading us to reconsider the estimated useful life of machinery and equipment in order to more accurately calculate income as well as unify the Group's accounting practices. The new estimate assumes an economically viable period for machinery and equipment that reflects actual usage based on the global supply structure. On this basis, a 10-year useful life is a logical period for depreciation when calculating income. We also determined that the change would more accurately reflect the Group's operating situation.

Because of the abovementioned changes, in the second quarter of the previous fiscal year, operating income, ordinary income, and net income before income taxes each increased ¥363 million compared with amounts calculated under the previous method.

Segment Information, etc.

● Segment Information

I. 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 (1) Outside customers	113,108	15,106	19,771	25,386	62,030	235,404	15,935	251,340	—	251,340
(2) Inter-segment sales and transfers	15,410	12,903	7,350	8,521	2,176	46,362	6,251	52,613	(52,613)	—
Total	128,519	28,009	27,122	33,907	64,207	281,766	22,186	303,953	(52,613)	251,340
Segment income (loss)	30,631	4,783	2,925	3,859	1,946	44,145	1,193	45,339	(7,558)	37,781

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 ¥7,558 million is the elimination of intersegment transactions of ¥764 million and corporate expenses of ¥8,323 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.

II. Second Quarter of Fiscal 2018 (January 1, 2018 to June 30, 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	115,854	15,214	55,912	24,724	67,171	278,876	22,506	301,382	—	301,382
(2) Inter-segment sales and transfers	21,981	13,707	9,378	8,725	1,274	55,067	6,685	61,753	(61,753)	—
Total	137,835	28,921	65,290	33,450	68,445	333,943	29,192	363,135	(61,753)	301,382
Segment income (loss)	28,968	4,828	3,793	3,289	2,069	42,949	710	43,660	(5,471)	38,188

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 ¥5,471 million is the elimination of intersegment transactions of ¥877 million and corporate expenses of ¥6,348 million. Corporate expenses mainly comprise the submitting company's basic research expenses. Furthermore, although the headquarters' main general and administrative expenses are still recognized as corporate expenses, Kuraray has adopted the method of allocating them to each reporting segment from the first quarter of fiscal 2018.
3. Segment income is adjusted to agree with operating income in the consolidated statements of income.

2. Information regarding the Assets of Each Reporting Segment
In the first quarter of fiscal 2018, with the acquisition of all of Calgon Carbon Corporation's shares and the company's inclusion in the scope of consolidation, the Functional Materials segment's assets increased ¥175,053 million in comparison with December 31, 2017.

3. Information regarding Goodwill or Impairment Loss of Tangible Fixed Assets for Each Reporting Segment
Important Changes in the Amount of Goodwill
In the Functional Materials segment, with the acquisition of all of Calgon Carbon Corporation's shares and said company's inclusion in the scope of consolidation, ¥85,688 million in goodwill was generated in the first quarter of fiscal 2018. Please note, because purchase price allocation has not been completed, the calculation of the amount of goodwill remains tentative.

4. Matters related to changes in reporting segments
Changes in reporting segments
From the first quarter of fiscal 2018, the Clarino business was reclassified into the Fibers and Textiles segment from its original place in the Functional Materials segment following organizational revisions. The segment information for the second quarter of the previous fiscal year has been restated to reflect the change in classification.

Changes in the inventory evaluation method
As mentioned above in the Changes in Accounting Principles section, Kuraray and some of its consolidated subsidiaries originally applied the total average method to evaluate products, raw materials and works in process under inventories. However, from the first quarter of fiscal 2018, the Group switched to using the first-in, first-out method. A comparison with the second quarter results of the previous fiscal year after the retroactive application of the new method shows that segment income for vinyl acetate decreased ¥715 million, segment income for isoprene increased ¥703 million, segment income for functional materials increased ¥183 million, segment income for fibers and textiles increased ¥297 million, and segment income for other decreased ¥233 million.

Changes in the depreciation method of tangible fixed assets
In principle, the declining-balance depreciation method has been applied to tangible fixed assets, except for buildings, structures acquired after April 1, 2016, and leased assets. However, from the first quarter of fiscal 2018, the Group has switched to the straight-line method. In addition, the Group previously depreciated its machinery and equipment using estimated useful lives of between 4 and 20 years. However, from the first quarter of fiscal 2018, the Group has generally switched to using 10 years instead.

As a result, in the cumulative consolidated second quarter of fiscal 2018, segment income for vinyl acetate decreased ¥864 million, segment income for isoprene increased ¥117 million, segment income for functional materials increased ¥317 million, segment income for fibers and textiles increased ¥590 million, and segment income for other increased ¥28 million.