

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

August 12, 2020

Kuraray Co., Ltd.

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Consolidated Earnings Report for the Second 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 Second Quarter of the Fiscal Year Ending December 31, 2020 (January 1, 2020 to June 30, 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 2Q	262,006	(8.8)	19,611	(29.8)	17,638	(28.5)	9,160	(30.9)
Fiscal 2019 2Q	287,419	(4.6)	27,921	(23.0)	24,685	(28.6)	13,254	(41.3)

Note: Comprehensive income: For the fiscal 2020 second quarter: (¥504 million) (—%)
For the fiscal 2019 second quarter: ¥1,256 million (87.1%)

	Net Income per Share (Yen)	Fully Diluted Net Income per Share (Yen)
Fiscal 2020 2Q	26.64	26.62
Fiscal 2019 2Q	38.16	38.10

(2) Consolidated Financial Position

(Millions of yen)

	Total Assets	Net Assets	Equity Ratio (%)
As of June 30, 2020	1,083,789	532,282	47.7
As of December 31, 2019	991,149	538,545	53.0

[Reference] Equity attributable to owners of the parent: As of June 30, 2020: ¥517,189 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	—	21.00			
Fiscal 2020 (Forecast)			—	19.00	40.00

Note: Revisions to cash dividend forecast during this period: Yes

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)
		(%)		(%)		(%)		(%)	
Full Fiscal Year	510,000	(11.4)	33,000	(39.1)	29,000	(39.9)	13,000	—	37.80

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, 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 June 30, 2020	10,939,263 shares
As of December 31, 2019	11,130,834 shares
 3. Average number of shares for the period (cumulative):

As of June 30, 2020	343,835,380 shares
As of June 30, 2019	347,356,017 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 “(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 second quarter of fiscal 2020 (January 1, 2020–June 30, 2020), the world economy saw a much clearer retraction as efforts to contain the spread of COVID-19 have failed to gain traction. Even amid this kind of environment, our Group maintained its business activities while thoroughly ensuring safety and working to prevent infection with the aim of supporting industrial supply chains. Consequently, consolidated operating results for the second quarter of fiscal 2020 are as follows: net sales fell ¥25,412 million, or 8.8%, compared with the previous fiscal year to ¥262,006 million; operating income decreased ¥8,310 million, or 29.8%, to ¥19,611 million; ordinary income decreased ¥7,047 million, or 28.5%, to ¥17,638 million; and net income attributable to owners of the parent fell ¥4,093 million, or 30.9%, to ¥9,160 million.

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 9.6% year on year to ¥121,809 million, and segment income fell 26.7% year on year to ¥16,924 million.

- (1) The volume of PVA resin declined due to stagnant global demand. Although LCD panel manufacturers reduced inventory adjustments, shipments of optical-use poval film stayed level with the previous year due to effects from COVID-19 crisis. The sales of PVB film were weak for construction and automotive applications. However, sales of water-soluble PVA film continued to expand for use in unit dose detergent packets.
- (2) The sales volume of EVAL™ ethylene vinyl alcohol copolymer (EVOH resin) increased for food packaging applications but sales for gas tank applications were heavily impacted by a decline in the number of vehicles produced.

Isoprene

Sales in this segment decreased 9.9% year on year to ¥24,720 million, and segment income fell 38.6% year on year to ¥2,116 million.

- (1) Sales of isoprene chemicals and SEPTON™ thermoplastic elastomer were affected by slowing demand, mainly in China and the rest of Asia.
- (2) Although sales of GENESTAR™ heat-resistant polyamide resin remained steady for electric and electronic device applications, sales for automotive applications were affected by the decline in vehicle production.

Functional Materials

Sales in this segment decreased 5.5% year on year to ¥59,143 million, and segment income fell 52.4% year on year to ¥1,054 million.

- (1) The overall methacrylate business was affected by worsening market conditions despite

an increase in demand for spatter-blocking barrier panels.

- (2) In the medical business, the dental materials business struggled, especially in the United States and Europe, as a result of an increase in dental clinic closures in response to spreading infections.
- (3) As for Calgon Carbon, sales were steady even during COVID-19 crisis, this business's products underpin people's daily lives. In addition, in the Carbon Materials business, sales of high value-added products increased. Moreover, with expanding demand for high-performance activated carbon, we decided in this second quarter to expand the facilities at the U.S. plant of Calgon Carbon Corporation.

Fibers and Textiles

Sales in this segment fell 14.7% year on year to ¥28,224 million while segment income decreased 44.1% year on year to ¥1,656 million.

- (1) The sales volume of CLARINO™ man-made leather decreased due to receding 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 the number of vehicles produced.
- (3) In consumer goods and materials, sales of KURAFLEX™ were weak as demand for cosmetic and automotive applications stagnated despite an increase in the sales for mask-related applications.

Trading

In fiber-related businesses, sales of sewn products remained steady. However, sales of resins and chemicals were affected by lower demand in Japan and Asia. As a result, segment sales decreased 7.3% year on year to ¥60,037 million, and segment income rose 1.2% to ¥2,078 million.

Others

In other business, due to weak sales of domestic affiliates, segment sales declined 14.9% year on year to ¥22,155 million, and segment income fell 44.0% to ¥206 million.

(2) Overview of Financial Position

Total assets increased ¥92,640 million from the end of the previous fiscal year to ¥1,083,789 million mainly because of a ¥117,450 million increase in cash and cash deposits (due to an increase in liquidity undertaken in response to COVID-19 pandemic), a ¥10,686 million decrease in notes and accounts receivable—trade, and a ¥15,413 million decrease in short-term investment securities. Total liabilities increased ¥98,903 million to ¥551,507 million due to factors that included the issuance of bonds payable totaling ¥30,000 million, a ¥36,000 million increase in commercial paper, and a ¥79,099 million increase in long-term loans payable, despite a ¥30,157 million decrease in accrued expenses.

Net assets fell ¥6,262 million to ¥532,282 million. Equity attributable to owners of the parent amounted to ¥517,189 million, for an equity ratio of 47.7%.

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

The economy has receded significantly due to COVID-19 pandemic, and we assume that the effects will last into 2021 and beyond. We expect that demand will continue to stagnate for our operations in the third quarter onward accompanied by production adjustments.

The forecast of consolidated operating results for the fiscal year ending December 31, 2020 (January 1, 2020 to December 31, 2020) is as shown below.

Revised Consolidated Operating Results Forecast for Fiscal 2020

	(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)	—	—	—	—	—
Revised Forecast (B)	510,000	33,000	29,000	13,000	37.80
Amount Adjusted (B - A)	—	—	—	—	—
Percent Adjusted	—	—	—	—	—
Ref: FY2019 Results	575,807	54,173	48,271	(1,956)	(5.66)

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	June 30, 2020
ASSETS		
Current Assets		
Cash and cash deposits	72,014	189,464
Notes and accounts receivable—trade	121,166	110,479
Short-term investment securities	33,341	17,927
Merchandise and finished goods	101,628	99,639
Work in process	15,679	14,833
Raw materials and supplies	34,696	35,528
Other	16,661	20,261
Allowance for doubtful accounts	(455)	(371)
Total current assets	<u>394,732</u>	<u>487,762</u>
Noncurrent Assets		
Tangible fixed assets		
Buildings and structures, net	79,629	82,502
Machinery, equipment and vehicles, net	205,974	204,108
Land	22,062	22,114
Construction in progress	82,071	89,531
Other, net	25,055	24,760
Total tangible fixed assets	<u>414,793</u>	<u>423,016</u>
Intangible fixed assets		
Goodwill	61,357	58,414
Customer-related assets	33,062	31,208
Other	35,514	33,829
Total intangible fixed assets	<u>129,934</u>	<u>123,452</u>
Investments and other assets		
Investment securities	28,770	25,609
Long-term loans receivable	189	165
Net defined benefit assets	1,977	2,090
Deferred tax assets	13,506	14,551
Others	7,272	7,168
Allowance for doubtful accounts	(28)	(28)
Total investments and other assets	<u>51,688</u>	<u>49,557</u>
Total noncurrent assets	<u>596,416</u>	<u>596,026</u>
Total Assets	<u>991,149</u>	<u>1,083,789</u>

(Millions of yen)

	December 31, 2019	June 30, 2020
LIABILITIES		
Current Liabilities		
Notes and accounts payable—trade	39,883	31,701
Short-term loans payable	34,864	35,197
Commercial paper	24,000	60,000
Current portion of bonds payable	—	10,000
Accrued expenses	50,491	20,334
Income taxes payable	4,307	5,695
Provision for bonuses	6,578	5,300
Other provision	226	232
Other	41,317	33,707
Total current liabilities	201,670	202,170
Noncurrent Liabilities		
Bonds payable	50,000	70,000
Long-term loans payable	128,001	207,101
Deferred tax liabilities	13,743	13,365
Provision for directors' retirement benefits	347	354
Provision for environmental measures	3,692	3,526
Net defined benefit liabilities	22,203	23,075
Asset retirement obligations	4,671	4,524
Other	28,273	27,389
Total noncurrent liabilities	250,933	349,336
Total Liabilities	452,604	551,507
NET ASSETS		
Shareholders' Equity		
Capital stock	88,955	88,955
Capital surplus	87,197	87,178
Retained earnings	348,289	349,863
Treasury stock	(16,286)	(16,005)
Total shareholders' equity	508,156	509,991
Accumulated Other Comprehensive Income		
Valuation difference on available-for-sale securities	7,922	5,908
Deferred gain or losses on hedges	(263)	(380)
Foreign currency translation adjustments	14,575	6,578
Remeasurements of defined benefit plans	(5,238)	(4,909)
Total accumulated other comprehensive income	16,995	7,197
Subscription Rights to Shares	663	328
Noncontrolling Interests	12,729	14,765
Total Net Assets	538,545	532,282
Total Liabilities and Net Assets	991,149	1,083,789

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

Quarterly Consolidated Statements of Income

(Millions of yen)

	Fiscal 2019 2Q (January 1, 2019 – June 30, 2019)	Fiscal 2020 2Q (January 1, 2020 – June 30, 2020)
Net sales	287,419	262,006
Cost of sales	195,784	182,449
Gross profit	91,634	79,557
Selling, general and administrative expenses		
Selling expenses	16,824	15,457
General and administrative expenses	46,888	44,488
Total selling, general and administrative expenses	63,713	59,946
Operating income	27,921	19,611
Non-operating income		
Interest income	166	156
Dividend income	331	325
Equity in earnings of affiliates	128	58
Other	424	598
Total non-operating income	1,050	1,138
Non-operating expenses		
Interest expenses	726	651
Foreign exchange loss	1,362	194
Other	2,197	2,265
Total non-operating expenses	4,286	3,111
Ordinary income	24,685	17,638
Extraordinary income		
Insurance income	337	393
Gain on reversal of share acquisition rights	—	285
Gain on sale of investment securities	1,568	—
Total extraordinary income	1,906	679
Extraordinary loss		
Loss on litigation	706	2,422
Costs related to the suspension of operations	516	2,122
Loss on disposal of tangible fixed assets	1,016	508
Impairment loss	3,387	—
Disaster loss	624	—
Total extraordinary loss	6,252	5,053
Income before income taxes and noncontrolling interests	20,339	13,264
Income taxes—current	7,731	5,478
Income taxes—deferred	(1,190)	(1,796)
Total income taxes	6,541	3,681
Net income	13,797	9,582

	Fiscal 2019 2Q (January 1, 2019 – June 30, 2019)	Fiscal 2020 2Q (January 1, 2020 – June 30, 2020)
Net income attributable to noncontrolling interests	543	422
Net income attributable to owners of the parent	13,254	9,160

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	Fiscal 2019 2Q (January 1, 2019 – June 30, 2019)	Fiscal 2020 2Q (January 1, 2020 – June 30, 2020)
Net income	13,797	9,582
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,402)	(2,014)
Deferred gains or losses on hedges	63	(275)
Foreign currency translation adjustment	(11,125)	(8,127)
Remeasurements of defined benefit plans	(76)	329
Total other comprehensive income	(12,540)	(10,087)
Quarterly comprehensive income	1,256	(504)
Comprehensive income attributable to:		
Owners of the parent	653	(637)
Noncontrolling interests	603	132

(3) Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	Fiscal 2019 2Q (January 1, 2019 – June 30, 2019)	Fiscal 2020 2Q (January 1, 2020 – June 30, 2020)
Net cash provided by (used in) operating activities		
Income before income taxes and noncontrolling interests	20,339	13,264
Depreciation and amortization	28,440	31,026
Foreign exchange losses (gains)	537	275
Loss (gain) on redemption of investment securities	(1,568)	—
Loss on litigation	706	2,422
Impairment loss	3,387	—
Loss on disposal of tangible fixed assets	1,016	508
Decrease (increase) in notes and accounts receivable – trade	3,946	9,712
Decrease (increase) in inventories	(6,190)	378
Increase (decrease) in notes and accounts payable – trade	(7,449)	(7,911)
Other, net	2,327	(2,263)
Subtotal	45,495	47,414
Income taxes (paid) refund	(7,434)	(4,269)
Loss on litigation paid	(706)	(31,303)
Other, net	86	252
Net cash provided by (used in) operating activities	37,440	12,093
Net cash provided by (used in) investing activities		
Net decrease (increase) in time deposits	(907)	(2,360)
Net decrease (increase) in short-term investment securities	(7,728)	3,625
Purchase of tangible fixed assets and intangible fixed assets	(40,793)	(46,937)
Purchase of investment securities	(361)	(85)
Proceeds from sale and redemption of investment securities	2,208	156
Other, net	(1,880)	(1,372)
Net cash provided by (used in) investing activities	(49,463)	(46,973)
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	567	340
Net (decrease) increase in commercial paper	24,000	36,000
Proceeds from long-term loans payable	2,094	79,261
Repayment of long-term loans payable	(11,033)	(16)
Proceeds from issuance of bonds	—	30,000
Cash dividends paid	(7,671)	(7,562)
Proceeds from stock issuance to noncontrolling interests	—	2,211
Other, net	(4,481)	(1,153)
Net cash provided by (used in) financing activities	3,474	139,081
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(702)	(1,150)

	(Millions of yen)	
	Fiscal 2019 2Q (January 1, 2019 – June 30, 2019)	Fiscal 2020 2Q (January 1, 2020 – June 30, 2020)
Net Increase (Decrease) in Cash and Cash Equivalents	(9,250)	103,050
Cash and Cash Equivalents, Beginning of the Period	71,345	75,967
Increase in Cash and Cash Equivalents from Newly Consolidated Subsidiaries	1	228
Cash and Cash Equivalents, End of the Period	62,095	179,246

(4) Notes regarding Quarterly Consolidated Financial Statements

Notes regarding Going Concern Assumptions

None

Material Changes in Shareholders' Equity

None

Segment Information, etc.

● Segment Information

I. Second Quarter of Fiscal 2019 (January 1, 2019 to June 30, 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	113,522	15,146	53,068	25,189	63,438	270,365	17,054	287,419	—	287,419
(2) Intersegment sales and transfers	21,225	12,287	9,489	7,881	1,326	52,210	8,986	61,196	(61,196)	—
Total	134,747	27,433	62,558	33,071	64,765	322,575	26,040	348,615	(61,196)	287,419
Segment income (loss)	23,087	3,449	2,213	2,963	2,053	33,767	369	34,136	(6,214)	27,921

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 ¥6,214 million is the elimination of intersegment transactions of ¥776 million and corporate expenses of ¥6,991 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 ¥3,387 million in the second quarter of the fiscal year.

II. Second Quarter of Fiscal 2020 (January 1, 2020 to June 30, 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	102,466	13,387	50,466	21,299	58,593	246,212	15,793	262,006	—	262,006
(2) Intersegment sales and transfers	19,343	11,333	8,677	6,925	1,444	47,723	6,362	54,085	(54,085)	—
Total	121,809	24,720	59,143	28,224	60,037	293,936	22,155	316,091	(54,085)	262,006
Segment income (loss)	16,924	2,116	1,054	1,656	2,078	23,829	206	24,036	(4,425)	19,611

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 ¥4,425 million is the elimination of intersegment transactions of ¥1,044 million and corporate expenses of ¥5,470 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.