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

May 15, 2018

Kuraray Co., Ltd.

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Consolidated Earnings Report for the First 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
Name:	Masaaki Ito

Contact:

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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, 2018 (January 1, 2018 to March 31, 2018)

(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 2018 1Q	149,158	18.1	23,300	2.3	22,891	3.7	15,725	3.0
Fiscal 2017 1Q	126,342	—	22,783	—	22,078	—	15,273	—

Note: Comprehensive income: For the fiscal 2018 first quarter: (¥4,578 million) (—%)
For the fiscal 2017 first quarter: (¥8,386 million) (—%)

	Net Income per Share (Yen)	Fully Diluted Net Income per Share (Yen)
Fiscal 2018 1Q	44.82	44.72
Fiscal 2017 1Q	43.44	43.32

Note: Percent change in comparison with the first quarter of the previous fiscal year is not stated because changes to accounting principles were applied retroactively in 2017.

(2) Consolidated Financial Position

(Millions of yen)

	Total Assets	Net Assets	Equity Ratio (%)
As of March 31, 2018	924,866	554,576	59.0
As of December 31, 2017	776,735	565,487	71.7

[Reference] Equity attributable to owners of the parent: As of March 31, 2018: ¥545,962 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	—				
Fiscal 2018 (Forecast)		20.00	—	22.00	42.00

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

3. Forecasts of Consolidated Financial Results for the Fiscal Year Ending December 31, 2018 (January 1, 2018 to December 31, 2018)

(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)
		(%)		(%)		(%)		(%)	
Interim Period	300,000	19.4	36,000	(4.7)	35,000	(4.2)	23,000	(5.0)	65.55
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: Yes

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

Note: For further details, please refer to "Changes in Accounting Principles" under "Notes regarding Quarterly Consolidated Financial Statements" on page 9 of the Attachment.

(4) Number of Shares Issued and Outstanding (Common Shares)

1. Number of shares issued and outstanding (including treasury stock) as of the period-end:
   - As of March 31, 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 March 31, 2018 4,008,100 shares
   - As of December 31, 2017 4,040,182 shares

3. Average number of shares for the period (cumulative):
   - As of March 31, 2018 350,842,306 shares
   - As of December 31, 2017 351,614,654 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 first quarter of fiscal 2018 (January 1, 2018–March 31, 2018), consumption, investment, and trade continued to expand, and the world economy remained strong. However, the outlook remains murky amid confrontation between countries over protectionist trade policies and rising international tensions, especially in the Middle East and East Asia.

In the chemicals industry, demand continued to expand amid the favorable world economy, but a rise in manufacturing costs owing to recent increases in raw material and fuel prices put downward pressure on corporate earnings.

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 first quarter of fiscal 2018 are as follows: net sales rose ¥22,815 million, or 18.1%, compared with the previous fiscal year to ¥149,158 million; operating income grew ¥516 million, or 2.3%, to ¥23,300 million; ordinary income increased ¥812 million, or 3.7%, to ¥22,891 million; and net income attributable to owners of the parent rose ¥451 million, or 3.0%, to ¥15,725 million.

Furthermore, in 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 first 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 8.3% year on year to ¥69,184 million, and segment income fell 1.8% year on year to ¥15,738 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 although sales increased in the North American market, increases in raw material and fuel prices had a negative impact on performance. At the same time, sales of optical-use poval film rose. In addition, to respond to the growing display market and needs for larger panels, we decided to invest in new facilities at the Kurashiki Plant with operations expected to begin at the end of 2019. The sales volume of water-soluble PVA film continued to increase. 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) were brisk, growing for both automotive gas tank and food packaging applications.

Isoprene

Sales in this segment increased 3.4% year on year to ¥14,626 million, and segment income fell 7.5% year on year to ¥4,313 million.

(1) In isoprene chemicals, although sales of fine chemicals and liquid rubber expanded and remained firm, the sales volume of *SEPTON* thermoplastic elastomer declined.
(2) The sales volume of *GENESTAR* heat-resistant polyamide resin for automotive, connector and LED reflector applications expanded.

Functional Materials

Sales in this segment jumped 120.1% year on year to ¥31,237 million, and segment income climbed 14.9% year on year to ¥2,502 million. From this fiscal period forward, Calgon Carbon results are included in consolidation.

(1) In the methacrylic resin business, market conditions remained healthy, but sales of resins were weak for some applications.
(2) In the medical business, an expansion in sales of zirconia-based dental material products contributed to overall brisk sales.
(3) Although Calgon Carbon's sales remained favorable, in the Carbon Materials business the sales volume of general purpose applications decreased.

Fibers and Textiles

Sales of *CLARINO* man-made leather remained weak as shipments related to sports shoes declined. The sales volume of *KURALON* decreased due to shipment delays for some applications, with higher raw material and fuel costs affecting sales. Sales of consumer goods and materials were favorable overall. As a result, sales in this segment fell 5.6% year on year to ¥16,665 million while segment income decreased 49.7% year on year to ¥934 million.

Trading

In fiber-related businesses, clothing sales remained firm for sportswear and uniforms, and the overseas sewn products business expanded. In addition, sales of resins and chemicals, particularly exports, were favorable. As a result, segment sales increased 2.0% year on year to ¥32,454 million, and segment income climbed 11.6% to ¥1,126 million.

Others

In other businesses, segment sales grew 9.3% year on year to ¥12,776 million, and segment income fell 68.1% to ¥295 million due in part to increased development costs for new businesses.

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

As shown in the table below, Kuraray has revised its cumulative consolidated operating results forecasts for the second quarter of the fiscal year ending December 31, 2018 and the full fiscal year as shown below in the table to reflect the current impact on net sales of the completed acquisition of Calgon Carbon.

Going forward, we will announce any changes to the forecast in the event that losses are generated as we allocate costs associated with the purchase to assets and liabilities.

The revised cumulative consolidated operating results forecast for the second quarter of the fiscal year ending December 31, 2018 (January 1, 2018 to June 30, 2018) 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 14, 2018)	267,000	36,000	35,000	23,000	65.56
Revised Forecast (B)	300,000	36,000	35,000	23,000	65.55
Amount Adjusted (B − A)	33,000	—	—	—	
Percent Adjusted	12.4	—	—	—	

The revised cumulative consolidated operating results forecast for the fiscal year ending December 31, 2018 (January 1, 2018 to December 31, 2018) 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 14, 2018)	540,000	77,000	75,000	49,000	139.67
Revised Forecast (B)	610,000	77,000	75,000	49,000	139.66
Amount Adjusted (B − A)	70,000	—	—	—	
Percent Adjusted	13.0	—	—	—	

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, 2017	March 31, 2018
ASSETS		
Current Assets		
Cash and cash deposits	60,904	53,937
Notes and accounts receivable–trade	113,876	124,703
Short-term investment securities	38,296	38,684
Merchandise and finished goods	86,041	105,551
Work in process	14,699	14,132
Raw materials and supplies	28,235	32,035
Deferred tax assets	7,198	8,073
Other	11,652	15,909
Allowance for doubtful accounts	(436)	(570)
Total current assets	360,468	392,457
Noncurrent Assets		
Tangible fixed assets		
Buildings and structures, net	59,267	66,980
Machinery, equipment and vehicles, net	164,803	185,477
Land	19,671	21,270
Construction in progress	38,187	41,877
Other, net	5,266	5,663
Total tangible fixed assets	287,196	321,269
Intangible fixed assets		
Goodwill	24,567	102,164
Customer-related assets	26,070	25,847
Other	26,387	30,469
Total intangible fixed assets	77,024	158,482
Investments and other assets		
Investment securities	35,420	35,989
Long-term loans receivable	229	208
Net defined benefit assets	1,963	1,769
Deferred tax assets	6,739	7,152
Others	7,734	7,580
Allowance for doubtful accounts	(42)	(41)
Total investments and other assets	52,045	52,657
Total noncurrent assets	416,266	532,409
Total assets	776,735	924,866

(Millions of yen)

	December 31, 2017	March 31, 2018
LIABILITIES		
Current Liabilities		
Notes and accounts payable–trade	39,864	50,325
Short-term loans payable	7,864	84,966
Commercial paper	—	46,000
Accrued expenses	13,090	11,605
Income taxes payable	13,594	11,224
Provision for bonuses	6,000	8,345
Other provision	8	208
Other	27,631	24,142
Total current liabilities	108,053	236,817
Noncurrent liabilities		
Bonds payable	10,000	10,000
Long-term loans payable	42,099	66,006
Deferred tax liabilities	15,251	15,680
Provision for directors' retirement benefits	224	219
Provision for environmental measures	6,184	6,136
Net defined benefit liabilities	14,597	19,130
Asset retirement obligations	4,469	4,897
Other	10,367	11,400
Total noncurrent liabilities	103,193	133,472
Total liabilities	211,247	370,289
NET ASSETS		
Shareholders' equity		
Capital stock	88,955	88,955
Capital surplus	87,219	87,215
Retained earnings	344,653	353,964
Treasury stock	(6,110)	(6,062)
Total shareholders' equity	514,718	524,072
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	13,007	12,219
Deferred gain or losses on hedges	(603)	(47)
Foreign currency translation adjustments	33,681	13,356
Remeasurements of defined benefit plans	(3,836)	(3,636)
Total accumulated other comprehensive income	42,248	21,890
Subscription rights to shares	539	598
Noncontrolling interests	7,980	8,015
Total net assets	565,487	554,576
Total liabilities and net assets	776,735	924,866

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

Quarterly Consolidated Statements of Income

(Millions of yen)

	Fiscal 2017 1Q (January 1, 2017 – March 31, 2017)	Fiscal 2018 1Q (January 1, 2018 – March 31, 2018)
Net sales	126,342	149,158
Cost of sales	77,962	94,564
Gross profit	48,380	54,593
Selling, general and administrative expenses		
Selling expenses	7,316	8,099
General and administrative expenses	18,279	23,193
Total selling, general and administrative expenses	25,596	31,293
Operating income	22,783	23,300
Non-operating income		
Interest income	107	170
Dividend income	365	808
Equity in earnings of affiliates	6	75
Other	575	444
Total non-operating income	1,055	1,499
Non-operating expenses		
Interest expenses	176	391
Foreign exchange loss	549	459
Other	1,035	1,058
Total non-operating expenses	1,761	1,909
Ordinary income	22,078	22,891
Extraordinary income		
Compensation income	—	336
Total extraordinary income	—	336
Extraordinary loss		
Acquisition expenses	—	700
Disaster loss	—	419
Total extraordinary loss	—	1,120
Income before income taxes and noncontrolling interests	22,078	22,106
Income taxes—current	7,263	7,635
Income taxes—deferred	(726)	(1,555)
Total income taxes	6,536	6,080
Net income	15,542	16,026
Net income attributable to noncontrolling interests	269	301
Net income attributable to owners of the parent	15,273	15,725

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	Fiscal 2017 1Q (January 1, 2017 – March 31, 2017)	Fiscal 2018 1Q (January 1, 2018 – March 31, 2018)
Net income	15,542	16,026
Other comprehensive income		
Valuation difference on available-for-sale securities	(366)	(789)
Deferred gains or losses on hedges	122	555
Foreign currency translation adjustment	(7,127)	(20,570)
Remeasurements of defined benefit plans	215	200
Total other comprehensive income	(7,156)	(20,604)
Quarterly comprehensive income	8,386	(4,578)
Comprehensive income attributable to:		
Owners of the parent	8,109	(4,878)
Noncontrolling interests	277	300

(3) Notes regarding Quarterly Consolidated Financial Statements

Notes regarding Going Concern Assumptions
None

Material Changes in Shareholders' Equity
None

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 first quarter of the previous fiscal year, operating income increased ¥1,010 million and ordinary income and net income before income taxes each increased ¥1,012 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.

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 first quarter of the previous fiscal year, operating income, ordinary income, and net income before income taxes each decreased ¥177 million compared with amounts calculated under the previous method.

Segment Information, etc.

● Segment Information

I. First Quarter of Fiscal 2017 (January 1, 2017 to March 31, 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	56,020	7,577	10,329	13,519	30,734	118,181	8,161	126,342	—	126,342
(2) Inter-segment sales and transfers	7,865	6,570	3,861	4,134	1,096	23,529	3,529	27,058	(27,058)	—
Total	63,886	14,147	14,191	17,654	31,830	141,710	11,690	153,401	(27,058)	126,342
Segment income (loss)	16,023	4,662	2,177	1,860	1,009	25,734	926	26,660	(3,876)	22,783

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 ¥3,876 million is the elimination of intersegment transactions of ¥162 million and corporate expenses of ¥4,039million. 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. First Quarter of Fiscal 2018 (January 1, 2018 to March 31, 2018)

1. Net sales, income and loss by reporting segment

(Millions of yen)

	Reporting Segment						Other Business[1]	Total	Adjustment[2]	Consolidated Statements of Income[3]
	Vinyl Acetate	Isoprene	Functional Materials	Fibers and Textiles	Trading	Total				
Net sales (1) Outside customers	60,117	7,592	27,295	12,823	31,849	139,677	9,480	149,158	—	149,158
(2) Inter-segment sales and transfers	9,067	7,034	3,941	3,842	605	24,491	3,295	27,786	(27,786)	—
Total	69,184	14,626	31,237	16,665	32,454	164,168	12,776	176,945	(27,786)	149,158
Segment income (loss)	15,738	4,313	2,502	934	1,126	24,614	295	24,910	(1,609)	23,300

Notes:

1. The "Other Business" category incorporates operations not included in business segment reporting, including the environmental business and engineering business.
2. Adjustment is as follows: Included within segment loss of ¥1,609 million is the elimination of intersegment transactions of ¥569 million and corporate expenses of ¥2,179 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, ¥85,460 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 first 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 first quarter results of the previous fiscal year after the retroactive application of the new method shows that segment income for vinyl acetate decreased ¥1,372 million, segment income for isoprene increased ¥1,804 million, segment income for functional materials increased ¥249 million, segment income for fibers and textiles increased ¥10 million, and segment income for other increased ¥13 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 first quarter of fiscal 2018, segment income for vinyl acetate decreased ¥435 million, segment income for isoprene decreased ¥16 million, segment income for functional materials decreased ¥6 million, segment income for fibers and textiles increased ¥117 million, and segment income for other increased ¥4 million.

Business Combinations, etc.

Kuraray and Calgon Carbon Corporation (Headquarters: Pennsylvania, USA; listed on NYSE) signed an agreement on September 21, 2017, whereby Kuraray will acquire all the shares of Calgon Carbon ("the Purchase"), making it a wholly owned subsidiary. Furthermore, based on this agreement, Kuraray acquired all of Calgon Carbon's shares on March 9, 2018.

1. Summary of the business combination

(1) Company name and description of acquired business

Company name:	Calgon Carbon Corporation
Description of acquired business:	Manufacture and sale of activated carbon and water processing equipment

(2) Main reason for the business combination

Kuraray is developing its activated carbon business, focusing on high-performance activated carbon for such applications as energy, water resources, and air purification.

Calgon Carbon is a global leader in activated carbon with production bases in seven countries worldwide and sales bases in 16 countries, providing cutting-edge solutions for a wide variety of applications and industries.

After the Purchase, Kuraray will position the activated carbon business as one of its future core businesses and steadily implement a raft of strategic measures, including further expanding its business by leveraging Calgon Carbon's solid worldwide business base, accelerating the technological revolution by bringing together both companies' technical and developmental capabilities, and paring down costs by optimizing production systems. Through its supply of high-performance activated carbon materials, Kuraray will continue to contribute to people's health and comfort as well as the sustainability of the planet's environment and resources.

(3) Closing date

January 1, 2018 (effective date)

(4) Legal form of business combination

Cash purchase of shares

(5) Name of acquired company after business combination

Calgon Carbon Corporation

(6) Percentage of voting rights acquired
100%

(7) Structure of acquisition
A Kuraray-established merger subsidiary acquired 100% of the voting rights through the acquisition of shares in exchange for cash payment.

2. Period of the acquired company's results included in the quarterly consolidated statements of income
January 1, 2018 to March 31, 2018

3. Acquisition price of the acquired business and breakdown by type of consideration
Cash consideration: ¥123,497 million (US$1,093 million)
Acquisition price: ¥123,497 million (US$1,093 million)

4. Amount of goodwill generated, reason for the generation of goodwill, amortization method, and amortization period

(1) Amount of goodwill generated
¥85,460 million (US$756 million)
Because purchase price allocation has not been completed, the calculation of the amount of goodwill is tentative.
Note: The yen figure was converted using the exchange rate as of December 31, 2017.

(2) Reason for the generation of goodwill
Goodwill was generated due to expected future excess earnings power.

(3) Amortization method and amortization period
Goodwill will be amortized equally over 20 years.