

**Business Results for the
Second Quarter of the Fiscal Year Ending
December 31, 2023 (Unaudited)**

**August 9, 2023
Kuraray Co., Ltd.**

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Consolidated Earnings Report for the Second Quarter of the Fiscal Year Ending December 31, 2023

Name of listed company: Kuraray Co., Ltd.
Stock code: 3405
Stock exchange listing: Tokyo Stock Exchange, Prime Market
URL: <https://www.kuraray.com/>

Representative:
Title: Representative Director and President
Name: Hitoshi Kawahara

Contact:
Title: Senior Manager, Corporate Communications Department, Corporate Management Planning Office
Name: Shinichi Takizawa
Tel: +81-3-6701-1070

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, 2023 (January 1, 2023 to June 30, 2023)

(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 2023 2Q	380,998	6.4%	40,970	7.6%	38,538	1.7%	21,842	(9.8%)
Fiscal 2022 2Q	358,040	—	38,089	—	37,896	—	24,207	—

Note: Comprehensive income: For the fiscal 2023 second quarter: ¥73,371 million (−23.2%)
For the fiscal 2022 second quarter: ¥95,477 million (—)

	Net Income per Share (Yen)	Fully Diluted Net Income per Share (Yen)
Fiscal 2023 2Q	65.26	65.21
Fiscal 2022 2Q	71.32	71.26

Note: The Company adopted the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29; March 31, 2020) from January 1, 2022. Therefore, year-on-year percent changes from the figures for the second quarter of fiscal 2021, which predates the adoption of the standard, are not presented.

(2) Consolidated Financial Position

(Millions of yen)

	Total Assets	Net Assets	Equity Ratio (%)
As of June 30, 2023	1,257,258	733,765	56.6
As of December 31, 2022	1,221,533	668,534	52.9

[Reference] Equity attributable to owners of the parent:

As of June 30, 2023: ¥711,617 million
As of December 31, 2022: ¥646,750 million

2. Dividends

(Yen)

Record Date	Cash Dividends per Share				
	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Annual
Fiscal 2022	—	21.00	—	23.00	44.00
Fiscal 2023	—	25.00			
Fiscal 2023 (Forecast)			—	25.00	50.00

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

3. Forecasts of Consolidated Financial Results for the Fiscal Year Ending December 31, 2023 (January 1, 2023 to December 31, 2023)

(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	810,000	7.1	84,000	(3.6)	79,000	(6.0)	47,000	(13.5)	140.43

Note: Revisions to forecasts of consolidated financial results during this period: No

[Reference]

(1) Changes in Important Subsidiaries during the Period (Changes in Special Subsidiaries Involving Changes in the Scope of Consolidation)

No

(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, 2023	354,863,603 shares
As of December 31, 2022	354,863,603 shares
2. Number of treasury shares as of the period-end:

As of June 30, 2023	20,105,485 shares
As of December 31, 2022	20,171,061 shares
3. Average number of shares for the period (cumulative):

As of June 30, 2023	334,725,385 shares
As of June 30, 2022	339,408,563 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 6 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 2023 (January 1, 2023–June 30, 2023), except in some regions, the world economy gradually recovered, reflecting the resolution of supply chain disruptions and the easing of supply limitations that had been caused by a semiconductor shortage. However, the outlook remained unclear due in part to continued financial tightening in various countries to control inflation, a lack of vitality in the Chinese economy despite an anticipated recovery, and the Russia-Ukraine situation, for which there seems to be no offramp.

Amid these circumstances, consolidated operating results for the second quarter of fiscal 2023 are as follows: net sales increased ¥22,957 million (6.4%) year on year to ¥380,998 million; operating income increased ¥2,880 million (7.6%) year on year to ¥40,970 million; ordinary income increased ¥642 million (1.7%) year on year to ¥38,538 million; and net income attributable to owners of the parent decreased ¥2,364 million (9.8%) year on year to ¥21,842 million.

Regarding the civil lawsuits related to the fire that occurred at a U.S. subsidiary in May 2018, we reached settlements with the remaining plaintiffs in April 2023, except for one for which a motion to dismiss was expected to be granted. Accordingly, in the second quarter, we recorded an extraordinary loss of ¥7,520 million as loss on litigation related to the lawsuits, etc. The motion to dismiss the individual's lawsuit was granted in July 2023. The lawsuits have therefore been resolved.

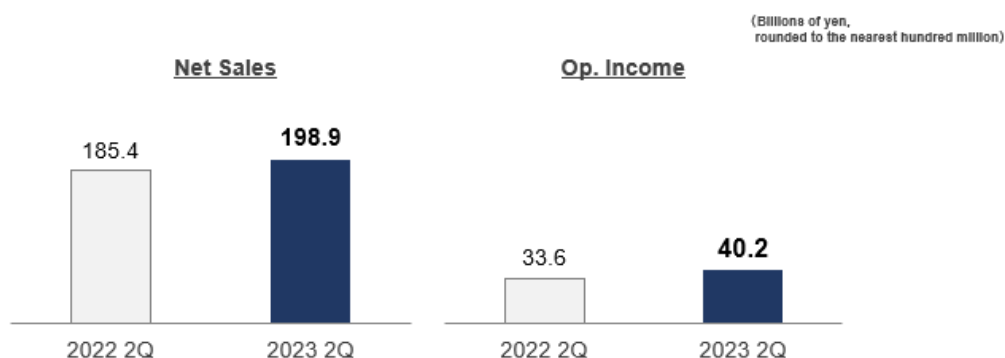
(Millions of yen)

	FY2022 2Q Consolidated Period		FY2023 2Q Consolidated Period		Change	
	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income
Vinyl Acetate	185,440	33,617	198,919	40,247	13,479	6,630
Isoprene	31,905	2,477	31,795	(2,703)	(110)	(5,181)
Functional Materials	77,791	3,311	93,371	5,749	15,580	2,437
Fibers and Textiles	31,795	3,795	30,163	665	(1,632)	(3,130)
Trading	29,705	2,776	28,970	2,302	(734)	(474)
Others	23,668	1,221	22,864	575	(803)	(646)
Elimination & Corporate	(22,266)	(9,110)	(25,087)	(5,865)	(2,820)	3,244
Total	358,040	38,089	380,998	40,970	22,957	2,880

Results by Business Segment

Vinyl Acetate

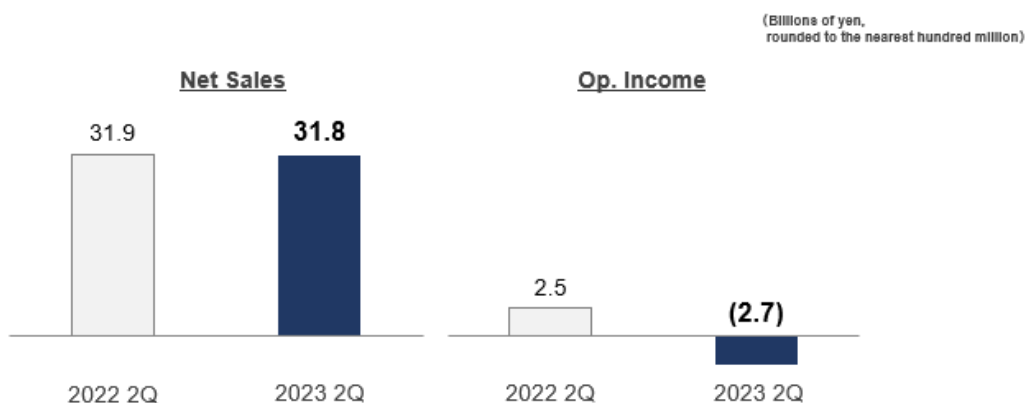
Sales in this segment were ¥198,919 million (up 7.3% year on year), and segment income was ¥40,247 million (up 19.7%).



- (1) The sales volume of PVOH resin decreased due to receding global demand, but we further promoted a shift to high value-added products. Shipments of optical-use poval film decreased due to a delay in recovery for demand for large LCD displays despite inventory adjustments for LCD panels returning to normal. As for Advanced Interlayer Solutions, sales of PVB film remained steady for construction applications in addition to a recovery in demand for automotive applications. Shipments of water-soluble PVOH film decreased mainly for use in unit dose detergent packets in Europe due to inflation-driven belt tightening and other effects.
- (2) As for EVAL™ ethylene vinyl alcohol copolymer (EVOH resin), sales for food packaging applications remained firm, and demand for automotive applications showed signs of recovery.

Isoprene

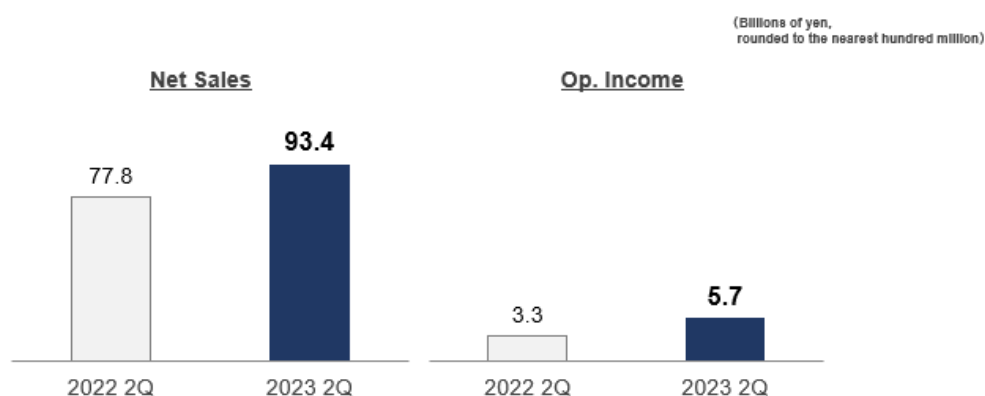
Sales in this segment were ¥31,795 million (down 0.3% year on year), and segment loss was ¥2,703 million (operating income in the same period of previous fiscal year was ¥2,477 million). In addition, a new plant in Thailand began operations in stages from February.



- (1) Results for isoprene chemicals and elastomer were affected by deteriorating market conditions in addition to a decrease in sales volume due to the ongoing effects of lower demand, which began in the latter half of the previous year.
- (2) The sales volume of GENESTAR™ heat-resistant polyamide resin decreased due to inventory adjustments for electric and electronic devices despite signs of recovery in demand for automobile applications.

Functional Materials

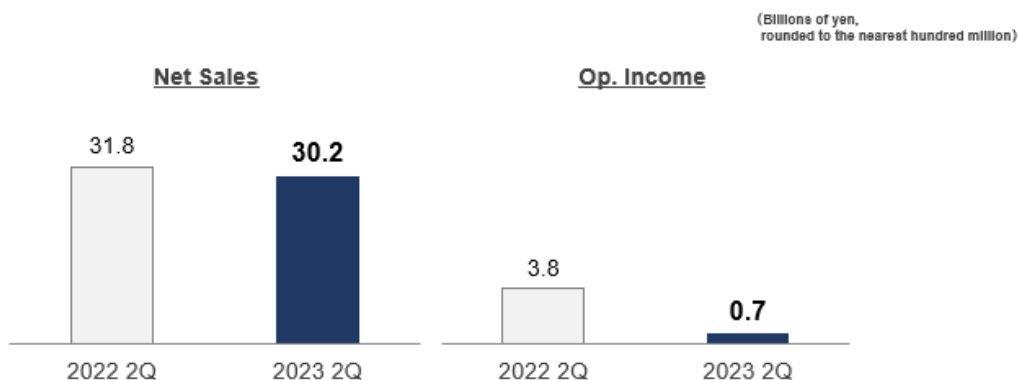
Sales in this segment were ¥93,371 million (up 20.0% year on year), and segment income was ¥5,749 million (up 73.6%).



- (1) In the methacrylate business, results were affected by higher raw material and fuel prices in addition to a decrease in sales volume due in part to inventory adjustments for electric and electronic devices.
- (2) In the medical business, sales of cosmetic dental materials remained favorable in Japan and overseas.
- (3) In the environmental solutions business, demand increased for drinking water applications in North America, and sales of activated carbon remained steady.

Fibers and Textiles

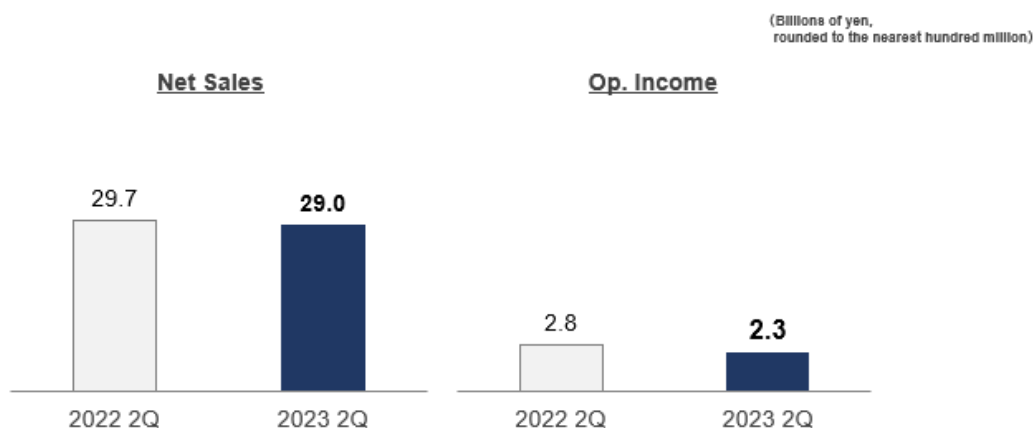
Sales in this segment were ¥30,163 million (down 5.1% year on year), and segment income was ¥665 million (down 82.5%).



- (1) Shipments of CLARINO™ man-made leather decreased due to the effects of lower demand for sports and other applications.
- (2) In fibers and industrial materials, sales of VECTRAN™ remained stable. Sales of KURALON™ was weak for construction applications in Europe despite signs of a recovery in automotive applications.
- (3) In consumer goods and materials, demand for KURAFLEX™ in the restaurant industry was weak.

Trading

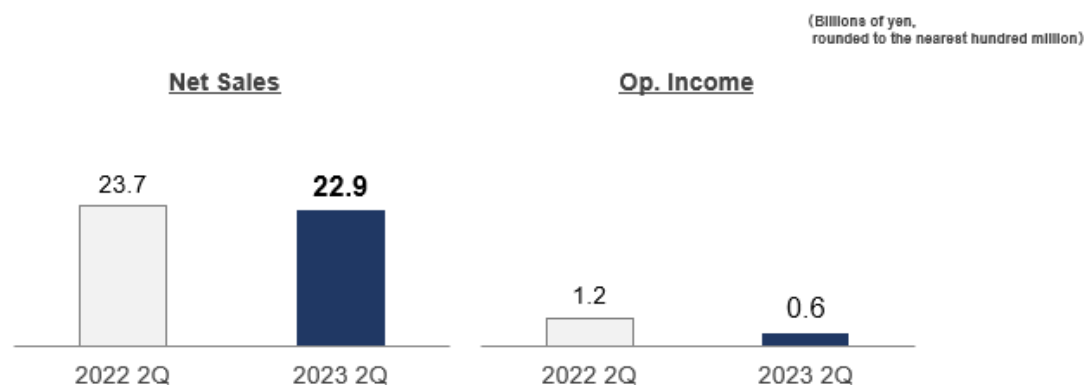
Sales in this segment were ¥28,970 million (down 2.5% year on year), and segment income was ¥2,302 million (down 17.1%).



- (1) In fiber-related businesses, sales of sportswear remained firm, but the materials business struggled.
- (2) Sales of resins and chemicals were weak in Asian markets.

Others

Sales in this segment were ¥22,864 million (down 3.4% year on year), and segment income was ¥575 million (down 52.9%).



(2) Overview of Financial Position

Total assets increased ¥35,725 million from the end of the previous fiscal year to ¥1,257,258 million despite a ¥18,105 million decrease in cash and deposits, which were offset by a ¥25,305 million increase in property, plant and equipment and a ¥15,402 million increase in inventories. Total liabilities decreased ¥29,505 million to ¥523,492 million due to factors that included a ¥38,510 million decrease in interest-bearing debt and a ¥10,863 decrease in notes and accounts payable-trade, which together outweighed a ¥18,286 million increase in other current liabilities reflecting an increase in accounts payable-other.

Net assets rose ¥65,231 million to ¥733,765 million due in part to an increase in foreign currency translation adjustment. Equity attributable to owners of the parent amounted to ¥711,617 million, for an equity ratio of 56.6%.

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

Although operating results outperformed forecasts in the second quarter, a recovery in demand has been delayed for some businesses. Given this situation, the full-year forecasts of consolidated operating results for fiscal 2023 (January 1, 2023 to December 31, 2023), which were announced on May 12, 2023, were left unchanged. However, we revised the average exchange rates used as assumptions for the forecasts as follows: ¥138 per USD, ¥148 per euro, and ¥66,000 per kl of domestic naphtha.

Moreover, on July 12, 2023, we concluded a share transfer agreement to transfer all of the shares of Kuraray's consolidated subsidiary Iruma Country Club to RESOL Co., Ltd., which is a group company of RESOL HOLDINGS Co., Ltd. The transfer of shares is slated for August 31, 2023. The impact of this transfer on the Company's consolidated results is expected to be minor.

Note: The above forecasts are based on the best information currently available. Actual operating results may vary significantly due to various factors.
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(4) Basic Policies Related to Profit Distribution and Dividends in Fiscal 2023

The Company positions the distribution of profits to all shareholders as a priority management issue. During the period of the medium-term management plan "PASSION 2026", our basic policy is to ensure a total return ratio of at least 35% as a proportion of net income attributable to owners of the parent, and an annual dividend of at least ¥40 per share. We strive to enhance shareholder returns through the expansion of profit.

For fiscal 2023, based on the aforementioned shareholder return policy and current business performance, we decided to increase the interim dividend and year-end dividend forecast ¥1 each to ¥25. As a result, the annual dividend forecast is ¥50, up ¥2 from the previous forecast and up ¥6 from the previous fiscal year.

2. Quarterly Consolidated Financial Statements and Notes
(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	December 31, 2022	June 30, 2023
ASSETS		
Current Assets		
Cash and deposits	123,724	105,618
Notes and accounts receivable—trade, and contract assets	157,016	163,223
Securities	4,852	5,686
Merchandise and finished goods	145,851	154,366
Work in process	19,078	18,564
Raw materials and supplies	60,104	67,505
Other	23,815	21,560
Allowance for doubtful accounts	(510)	(606)
Total current assets	533,933	535,920
Non-current Assets		
Property, plant and equipment		
Buildings and structures, net	94,745	112,065
Machinery, equipment and vehicles, net	219,200	286,117
Land	23,264	24,002
Construction in progress	137,424	71,881
Other, net	37,926	43,801
Total property, plant, and equipment	512,562	537,867
Intangible assets		
Goodwill	56,058	58,946
Customer-related assets	30,432	31,511
Other	34,993	37,618
Total intangible assets	121,484	128,076
Investments and other assets		
Investment securities	23,194	23,954
Long-term loans receivable	97	107
Retirement benefit asset	2,104	2,270
Deferred tax assets	16,718	17,265
Other	11,458	11,811
Allowance for doubtful accounts	(20)	(17)
Total investments and other assets	53,553	55,393
Total non-current assets	687,600	721,337
Total Assets	1,221,533	1,257,258

(Millions of yen)

	December 31, 2022	June 30, 2023
LIABILITIES		
Current Liabilities		
Notes and accounts payable–trade	52,717	41,853
Short-term borrowings	34,480	36,515
Commercial papers	10,000	—
Current portion of bonds payable	10,000	—
Current portion of long-term borrowings	30,434	29,330
Accrued expenses	21,075	17,050
Income taxes payable	11,370	9,583
Accrued bonuses	9,132	7,319
Other	42,119	60,406
Total current liabilities	221,330	202,059
Non-current Liabilities		
Bonds payable	60,000	60,000
Long-term borrowings	179,491	160,049
Deferred tax liabilities	17,279	18,259
Retirement benefit liability	25,626	27,868
Asset retirement obligations	5,303	5,887
Other	43,968	49,368
Total non-current liabilities	331,668	321,433
Total Liabilities	552,998	523,492
NET ASSETS		
Shareholders' Equity		
Share capital	88,955	88,955
Capital surplus	87,152	87,146
Retained earnings	399,910	414,055
Treasury shares	(25,735)	(25,652)
Total shareholders' equity	550,282	564,505
Accumulated Other Comprehensive Income		
Valuation difference on available-for-sale securities	5,769	6,421
Deferred gain or losses on hedges	611	227
Foreign currency translation adjustment	90,555	140,737
Remeasurements of defined benefit plans	(468)	(274)
Total accumulated other comprehensive income	96,467	147,112
Share Acquisition Rights	341	341
Non-controlling Interests	21,443	21,806
Total Net Assets	668,534	733,765
Total Liabilities and Net Assets	1,221,533	1,257,258

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

(Millions of yen)

	Fiscal 2022 2Q (January 1, 2022 – June 30, 2022)	Fiscal 2023 2Q (January 1, 2023 – June 30, 2023)
Net sales	358,040	380,998
Cost of sales	247,326	261,167
Gross profit	110,713	119,830
Selling, general and administrative expenses		
Selling expenses	22,146	20,742
General and administrative expenses	50,477	58,117
Total selling, general and administrative expenses	72,623	78,860
Operating income	38,089	40,970
Non-operating income		
Interest income	115	644
Dividend income	320	360
Share of profit of entities accounted for using equity method	142	96
Other	1,962	703
Total non-operating income	2,540	1,805
Non-operating expenses		
Interest expenses	722	1,380
Foreign exchange loss	—	1,026
Other	2,011	1,830
Total non-operating expenses	2,734	4,237
Ordinary income	37,896	38,538
Extraordinary income		
Gain on sale of investment securities	2,260	676
Insurance claim income	1,089	—
Total extraordinary income	3,349	676
Extraordinary losses		
Loss on litigation	1,549	7,520
Loss on abandonment of non-current assets	135	351
Costs related to the suspension of operations	4,915	—
Total extraordinary losses	6,600	7,872
Income before income taxes and noncontrolling interests	34,645	31,342
Income taxes—current	10,322	10,099
Income taxes—deferred	(588)	(798)
Total income taxes	9,733	9,301
Net income	24,911	22,041
Net income attributable to noncontrolling interests	704	198
Net income attributable to owners of the parent	24,207	21,842

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	Fiscal 2022 2Q (January 1, 2022 – June 30, 2022)	Fiscal 2023 2Q (January 1, 2023 – June 30, 2023)
Net income	24,911	22,041
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,448)	652
Deferred gains or losses on hedges	1,317	(351)
Foreign currency translation adjustment	70,094	50,835
Remeasurements of defined benefit plans, net of tax	602	194
Total other comprehensive income	70,565	51,330
Quarterly comprehensive income	95,477	73,371
Comprehensive income attributable to:		
Owners of the parent	93,395	72,487
Noncontrolling interests	2,081	884

(3) Quarterly Consolidated Statements of Cash Flows

	(Millions of yen)	
	Fiscal 2022 2Q (January 1, 2022 – June 30, 2022)	Fiscal 2023 2Q (January 1, 2023 – June 30, 2023)
Net cash provided by (used in) operating		
Income before income taxes and noncontrolling interests	34,645	31,342
Depreciation and amortization	31,201	36,731
Loss (gain) on sale of investment securities	(2,260)	(676)
Loss on litigation	1,549	7,520
Loss on disposal of tangible fixed assets	135	351
Decrease (increase) in notes and accounts receivable – trade	(4,708)	2,269
Decrease (increase) in inventories	(28,455)	(1,947)
Increase (decrease) in notes and accounts payable – trade	9,611	(12,498)
Other, net	(9,101)	6,600
Subtotal	32,617	69,693
Income taxes (paid) refund	(10,670)	(11,043)
Other, net	(583)	(1,033)
Net cash provided by (used in) operating	21,362	57,616
Net cash provided by (used in) investing		
Net decrease (increase) in time deposits	3,420	—
Purchase of tangible fixed assets and intangible fixed assets	(31,842)	(30,151)
Proceeds from sale and redemption of investment securities	2,749	1,254
Other, net	(1,668)	(1,287)
Net cash provided by (used in) investing	(27,340)	(30,184)
Net cash provided by (used in) financing		
Net increase (decrease) in short-term loans	100	1,894
Net (decrease) increase in commercial paper	20,000	(10,000)
Proceeds from long-term loans payable	11,828	—
Repayment of long-term loans payable	(55,007)	(22,938)
Proceeds from issuance of bonds	10,000	—
Redemption of bonds	—	(10,000)
Purchase of treasury shares	(10,001)	(1)
Cash dividends paid	(6,880)	(7,697)
Proceeds from stock issuance to noncontrolling interests	502	—
Other, net	(1,725)	(1,750)
Net cash provided by (used in) financing	(31,183)	(50,494)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	6,750	5,790
Net Increase (Decrease) in Cash and Cash Equivalents	(30,411)	(17,271)

Cash and Cash Equivalents, Beginning of the Period	151,487	127,616
Increase in Cash and Cash Equivalents from Newly Consolidated Subsidiaries	136	—
Cash and Cash Equivalents, End of the Period	121,212	110,345

(4) Notes regarding Quarterly Consolidated Financial Statements

Notes regarding Going Concern Assumptions

None

Material Changes in Shareholders' Equity

None

Additional Information

Regarding the civil lawsuits related to the fire that occurred at a U.S. subsidiary in May 2018, we reached settlements with the remaining plaintiffs in April 2023, except for one for which a motion to dismiss was expected to be granted. Accordingly, in the second quarter, we recorded an extraordinary loss of ¥7,520 million as loss on litigation related to the lawsuits, etc. The motion to dismiss the individual's lawsuit was granted in July 2023. The lawsuits have therefore been resolved.

Segment Information, etc.

● Segment Information

I. Second Quarter of Fiscal 2022 (January 1, 2022 to June 30, 2022)

1. Net sales, income and loss by reporting segment

(Millions of yen)

	Reporting Segment						Other Business ¹	Total	Adjustment ²	Consolidated Statements of Income
	Vinyl Acetate	Isoprene	Functional Materials	Fibers and Textiles	Trading	Total				
Net sales										
Outside customers	177,920	25,370	76,132	30,063	28,907	338,394	19,646	358,040	—	358,040
Intersegment sales and transfers	7,519	6,535	1,658	1,732	797	18,244	4,022	22,266	(22,266)	—
Total	185,440	31,905	77,791	31,795	29,705	356,638	23,668	380,307	(22,266)	358,040
Segment income (loss)	33,617	2,477	3,311	3,795	2,776	45,978	1,221	47,199	(9,110)	38,089

Notes:

1. The "Other Business" category incorporates operations not included in business segment reporting, including engineering business.
2. Adjustment is as follows: Included within segment loss of ¥9,110 million is the elimination of intersegment transactions of ¥1,208 million and corporate expenses of ¥7,901 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.

II. Second Quarter of Fiscal 2023 (January 1, 2023 to June 30, 2023)

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										
Outside customers	190,694	25,545	91,422	28,326	28,190	364,179	16,819	380,998	—	380,998
Intersegment sales and transfers	8,225	6,249	1,948	1,836	780	19,041	6,045	25,087	(25,087)	—
Total	198,919	31,795	93,371	30,163	28,970	383,220	22,864	406,085	(25,087)	380,998
Segment income (loss)	40,247	(2,703)	5,749	665	2,302	46,260	575	46,836	(5,865)	40,970

Notes:

1. The “Other Business” category incorporates operations not included in business segment reporting, including engineering business.
2. Adjustment is as follows: Included within segment loss of ¥5,865 million is the elimination of positive intersegment transactions of ¥2,002 million and corporate expenses of ¥7,868 million. Corporate expenses mainly comprise the submitting company’s basic research expenses.
3. Segment income or loss is adjusted to agree with operating income in the consolidated statements of income.