

FY2019 Earnings Presentation (Overview)

KURARAY CO., LTD.

Overview of FY2019 Results

(Billion yen)

	FY2019	FY2018	Difference
Net Sales	575.8	603.0	-27.2 (-4.5%)
Operating Income	54.2	65.8	-11.6(-17.7%)
Ordinary Income	48.3	61.2	-12.9(-21.1%)
Net Income※	(2.0)	33.6	-35.5 (-%)

Reference

JPY/USD	109	110
JPY/EUR	122	130
Domestic naphtha (JPY 1,000/kl)	43	51

*Net Income Attributable to Owners of the Parent

Factors Affecting the Change in Net Income*

(Billion yen)

FY2018

33.6

Operating Income

(11.6)

U.S. Litigation-related loss

(50.6)

U.S. Insurance income

+10.4

Others

+4.7

Total income taxes

+11.6

(35.5)

FY2019

(2.0)

Domestic naphtha
(JPY1,000/kl)

FY2018

¥51

FY2019

¥43

USD (average)

¥110

¥109

EUR (average)

¥130

¥122

*Net Income Attributable to Owners of the Parent

Outcomes of Main FY2019 Initiatives

Pursue competitive superiority

- ◆ Optical-use poval film: Finished expansion of wide-width film lines at Kurashiki Plant
- ◆ Water-soluble PVA film
 - New production lines at existing US plant went into operation
 - A new US plant is expected to go into operation in the first half of 2020
- ◆ Ionomer interlayer for glass lamination SentryGlas™ production started in Czech plant in July
- ◆ Decided to increase production capacity in Kuraray Kuraflex Okayama Plant for melt-blown nonwoven fabric
- ◆ Strengthened quality improvement and production efficiency using IoT

Expand new business fields

- ◆ Install production equipment for Flexible Copper Clad Laminates VECSTAR™ FCCL in Kashima Plant
- ◆ Business expansion of PLANTIC™ biomass-based gas barrier material
 - Participated in the “G20 Innovation Exhibition” hosted by the Ministry of Economy, Trade and Industry and the Ministry of the Environment
- ◆ Corporate Marketing Group: Promoted organization-wide cross-divisional activities to develop new applications

Enhance comprehensive strengths of the Kuraray Group

- ◆ Promoted integration and synergy with the Calgon Carbon business
- ◆ Promoted work-style reforms
 - Introduced full-scale No Overtime Week system
 - Introduced teleworking and flexible working

Forecast for FY2020

(Billion yen)

	FY2020	FY2019	Difference
Net Sales	590.0	575.8	14.2
Operating Income	60.0	54.2	5.8
Ordinary Income	56.0	48.3	7.7
Net Income*	35.0	(2.0)	37.0

Domestic naphtha
(JPY1,000/kl)

¥43

¥43

USD (average)

¥105

¥109

EUR (average)

¥120

¥122

*Net Income Attributable to Owners of the Parent

Key Initiatives for FY2020

Pursue competitive superiority

- ◆ Water-soluble POVAL Film: Decided to build a new plant in Poland
- ◆ EVAL™: Establish a new plant
- ◆ Calgon Carbon: Consider building a new plant in US
- ◆ Isoprene chemicals: Steadily proceed with the project in Thailand
- ◆ Promote digitalization for production efficiency and improving product quality

Expand new business fields

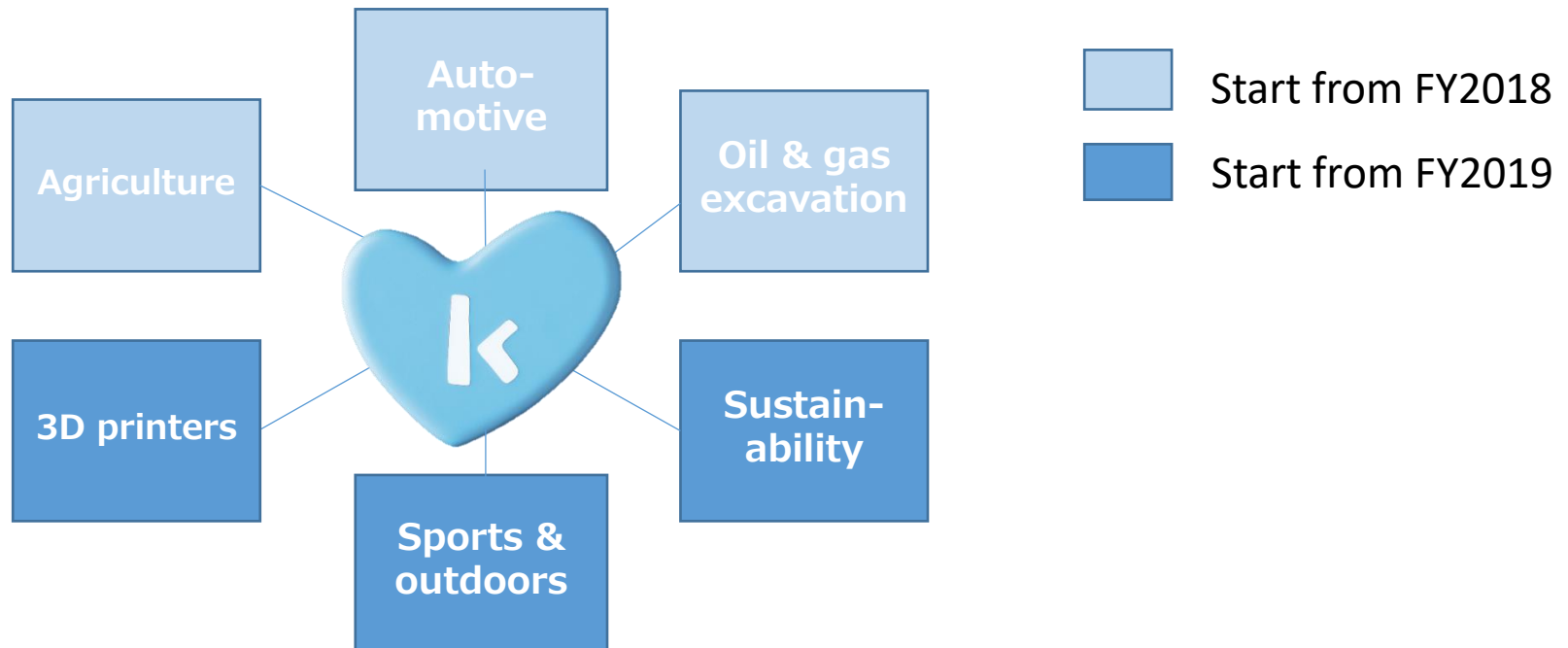
- ◆ LCP film VECSTAR™: Consider accelerating sales and introducing mass production facilities in anticipation of the popularization of 5G
- ◆ PLANTIC™: Begin resin production and supply in the US

Enhance comprehensive strengths of the Kuraray Group

- ◆ Realize further synergy effects through integration with the Calgon Carbon business
- ◆ Prepare to establish the new training institute for improving human resources development and passing on skills
- ◆ Promote work-style reforms

Actions to create customer-centric business and culture

1. Organization-wide activities across divisions (6 main topics)



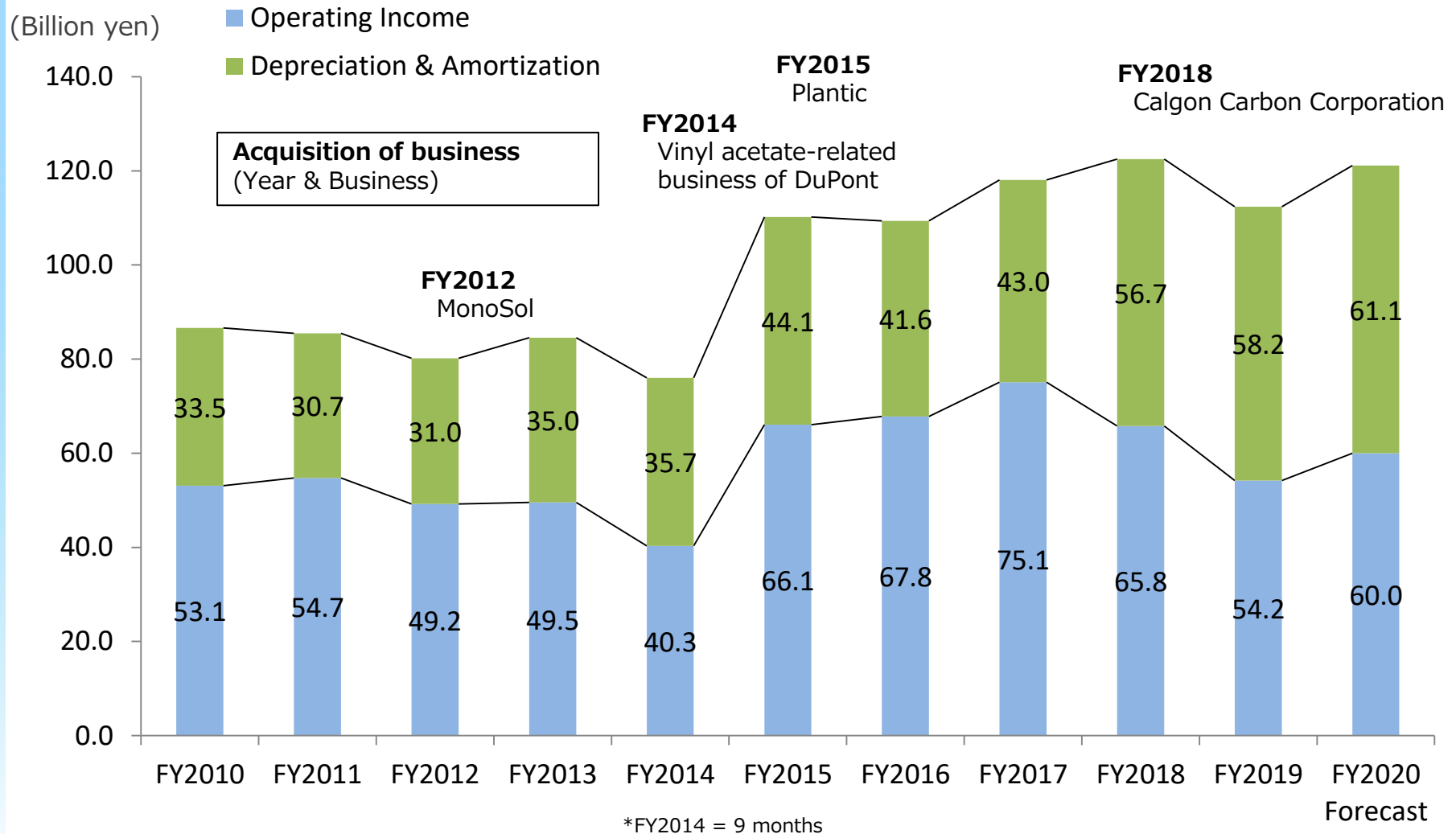
- Comprehensive presentations to potential customers Matching (100+ times in 2019)
- Exhibitions organized by Corporate Marketing Group (5 times in 2019)

2. Launch projects to strengthen our global brand

3. Promote “Kuraray PRIDE” training system for business creation

4. Build shared company-wide global CRM system infrastructure

EBITDA Trend



Medium-Term Management Plan “PROUD 2020”

Total payout ratio: 35% or higher
Annual dividends per share: ¥40 or higher

**FY2019: ¥42 per share scheduled
(interim: ¥20, year-end: ¥22)**

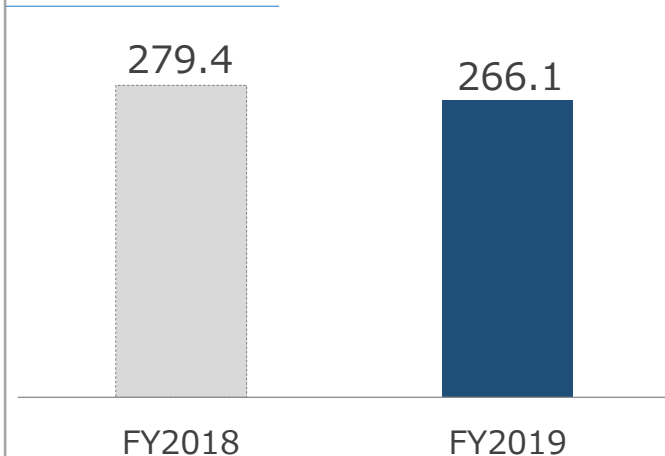
- Share Buyback
 - Fiscal 2019 results (February 14, 2019 to September 20, 2019)
 - Total shares acquired: 5,000,000;
Total value of shares acquired: ¥6,613,929,553

**FY2020: ¥42 per share scheduled
(interim: ¥21, year-end: ¥21)**

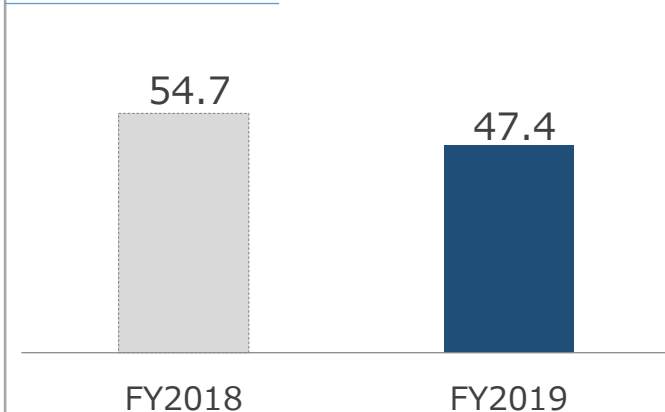
FY2019 Results (Details)

KURARAY CO., LTD.

Net Sales (Billion yen)



Operating Income (Billion yen)



■ PVA resin

Sales volume declined due to decelerating economic conditions.

■ Optical-use poval film

Shipments decreased due to a LCD panel inventory adjustment. We completed an expansion of facilities at Kurashiki Plant in the fourth quarter.

■ Water-soluble PVA film <MonoSol>

Sales expanded thanks to growing demand for products for use in unit dose detergent packets.

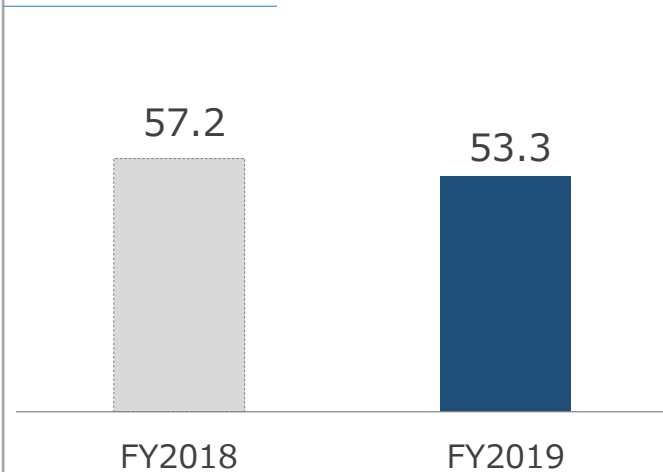
■ PVB film

Sales struggled in Auto market despite demand grew for Ionomer interlayer for glass lamination SentryGlas™.

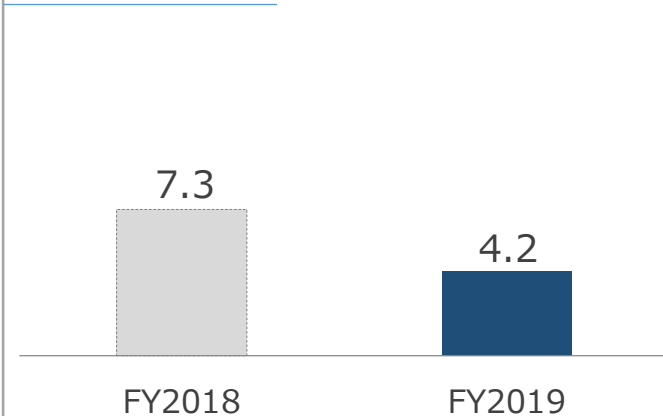
■ EVAL™

Gas tank applications was affected by decline in the production number of vehicles. Sales volume for food packaging applications declined despite a gradual recovery in sales from the third quarter onward.

Net Sales (Billion yen)



Operating Income (Billion yen)



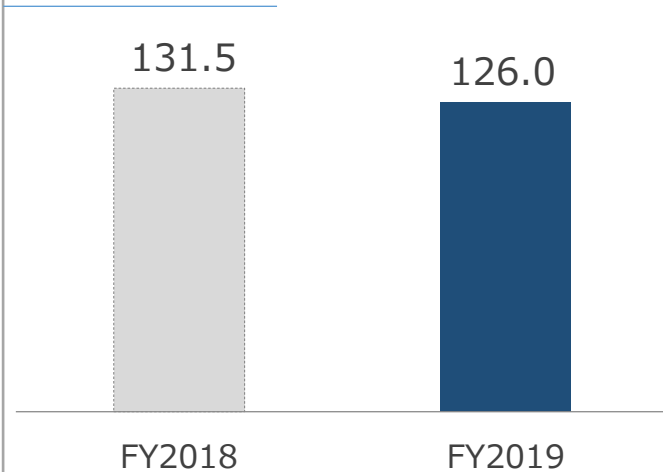
■ Isoprene

Sales volume of SEPTON™ thermoplastic elastomer declined due to economic deceleration.

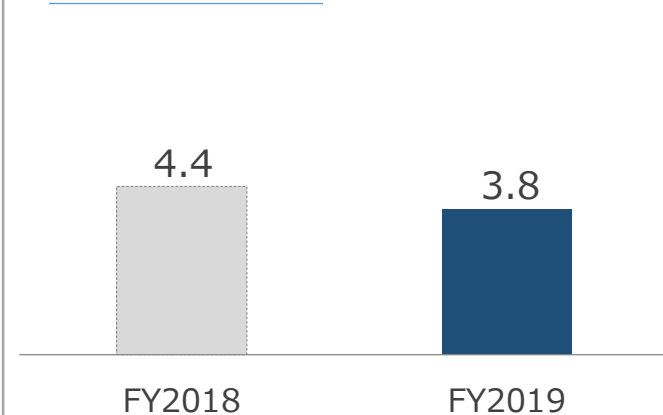
■ GENESTAR™

Demand for connectors for automotive devices grew though sales fell due to sluggish demand for electric and electronic devices.

Net Sales (Billion yen)



Operating Income (Billion yen)



■ Methacrylic Resin

Sales of methacrylic resin decreased and also affected by worsening market conditions.

■ Medical

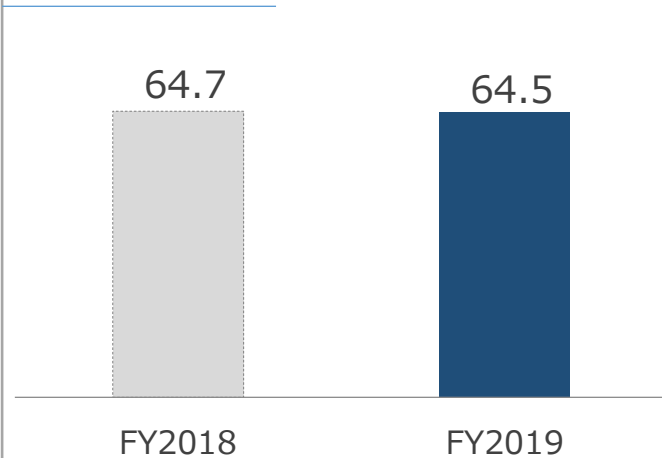
Sales were steady, especially for esthetic and restorative dentistry products.

■ Carbon Materials & Calgon Carbon

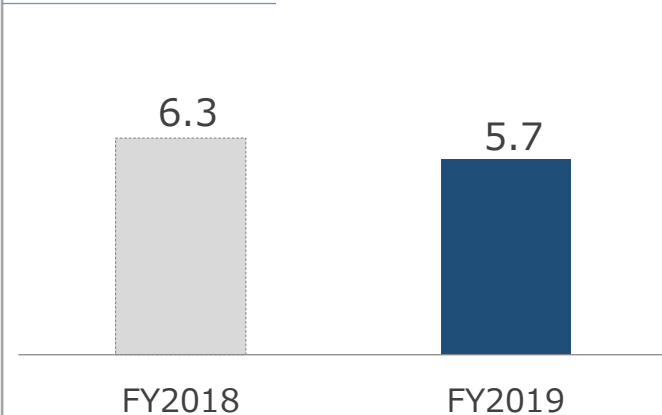
Demand held steady in North America, whereas sales in Europe were sluggish due to stagnant demand.

In the Carbon Materials business, sales of high value-added products increased.

Net Sales (Billion yen)



Operating Income (Billion yen)



■ CLARINO™

Sales for luxury product applications remained stable though sales struggled for use in shoes.

■ Fibers and Industrial Materials

KURALON™ for cement reinforcement use remained weak and sales for reinforcing rubber were negatively affected by a decline in vehicle production. However, VECTRAN™ were firm mainly in exports.

■ Consumer Goods and Materials

Sales for commodity use decreased though sales of high-value-added products increased.

Sales and Operating Income by Segment

(Billion yen)

	FY2019		FY2018		Difference	
	Net Sales	Operating Income	Net Sales	Operating Income	Net Sales	Operating Income
Vinyl Acetate	266.1	47.4	279.4	54.7	(13.3)	(7.4)
Isoprene	53.3	4.2	57.2	7.3	(3.9)	(3.0)
Functional Materials	126.0	3.8	131.5	4.4	(5.6)	(0.6)
Fibers & Textiles	64.5	5.7	64.7	6.3	(0.2)	(0.6)
Trading	130.9	4.2	138.8	4.2	(7.9)	0
Other Business	51.1	0.6	58.0	1.2	(6.9)	(0.5)
Elimination & Corporate	(116.1)	(11.8)	(126.7)	(12.3)	10.6	0.5
Total	575.8	54.2	603.0	65.8	(27.2)	(11.6)

Cash Flow for FY2019

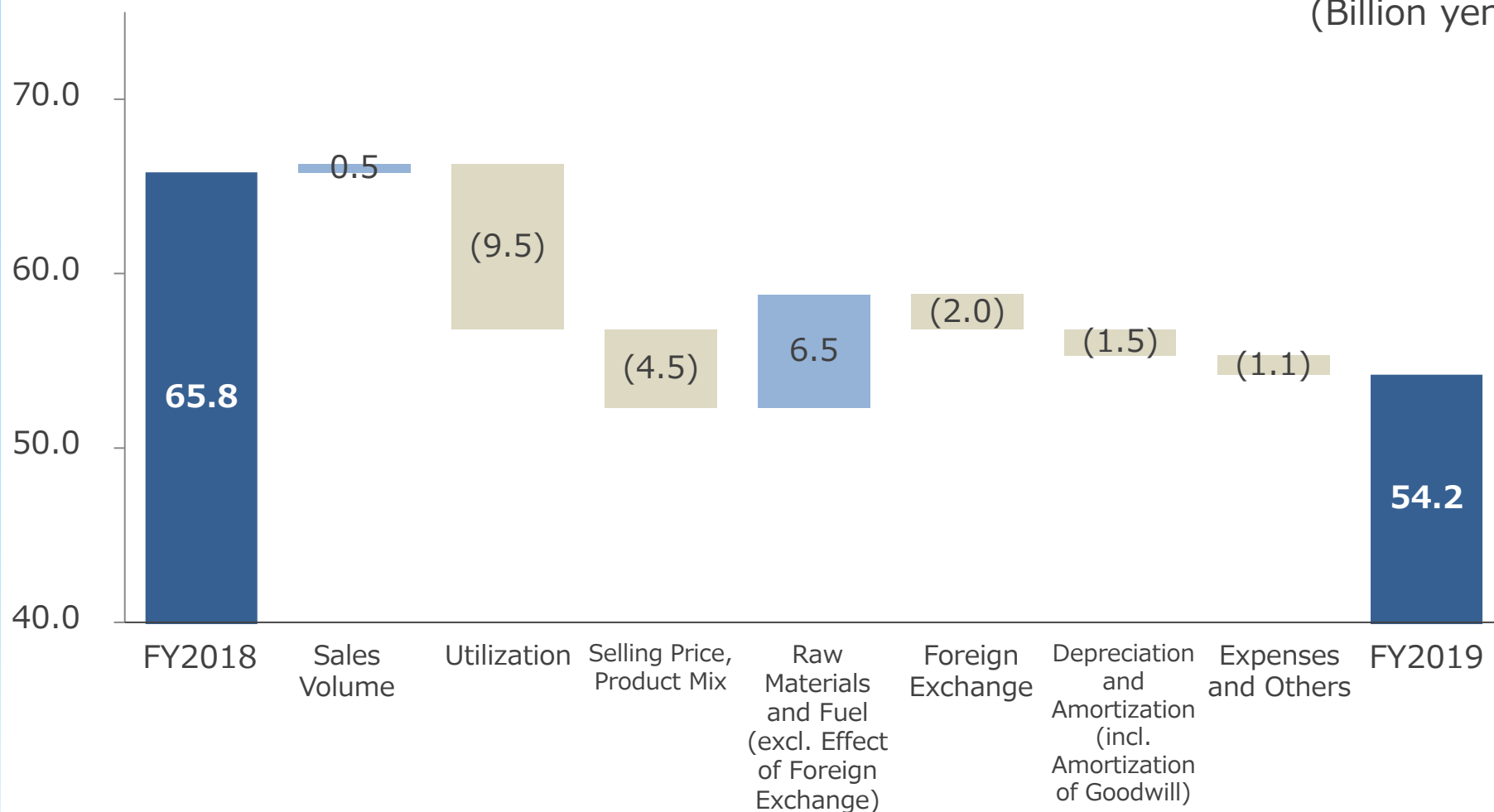
(Billion yen)

	FY2019	FY2018	Difference
Operating CF	95.6	75.2	20.4
Investing CF*	(88.6)	(67.6)	(21.0)
Free CF*	7.0	7.6	(0.6)
M&A	0	(119.8)	119.8
EPS	(¥5.66)	¥96.05	(¥101.71)
BPS	¥1,527.79	¥1,592.96	(¥65.17)
CAPEX(Decision basis)	51.4	146.0	(94.6)
CAPEX(Acceptance basis)	97.4	66.8	30.6
Depreciation and Amortization (incl. amortization of goodwill)	58.2	56.7	1.5
R&D Expenses	21.2	21.2	0

* Cash flows from investing activities and free cash flow exclude net cash used in fund management and M&A.

Factors Affecting the Change in Operating Income [1]

(Billion yen)



	FY2018	FY2019
Domestic naphtha(JPY1,000/kl)	¥51	¥43
USD (average)	¥110	¥109
EUR (average)	¥130	¥122

Balance Sheet [1]: Assets

(Billion yen)

	Dec. 31, 2019	Dec. 31, 2018	Difference
Current Assets	394.7	394.9	(0.2)
Noncurrent Assets	596.4	552.2	44.2
Total Assets	991.1	947.1	44.1

Reference: Exchange rates at end of period

	Dec. 31, 2019	Dec. 31, 2018
JPY/USD	110	111
JPY/EUR	123	127

Note: Kuraray has adopted the Partial Amendments to Accounting Standard for Tax Effect Accounting. The figures of previous fiscal years have been retroactively adjusted to reflect the change.

Balance Sheet [2]: Liabilities and Net Assets

(Billion yen)

	Dec. 31, 2019	Dec. 31, 2018	Difference
Current Liabilities	201.7	144.8	56.9
Noncurrent Liabilities	250.9	235.3	15.7
Total Liabilities	452.6	380.1	72.5
Net Assets	538.5	567.0	(28.5)
Total Liabilities and Net Assets	991.1	947.1	44.1
Equity Ratio	53.0%	58.6%	(5.7%)

Reference: Exchange rates at end of period

	Dec. 31, 2019	Dec. 31, 2018
JPY/USD	110	111
JPY/EUR	123	127

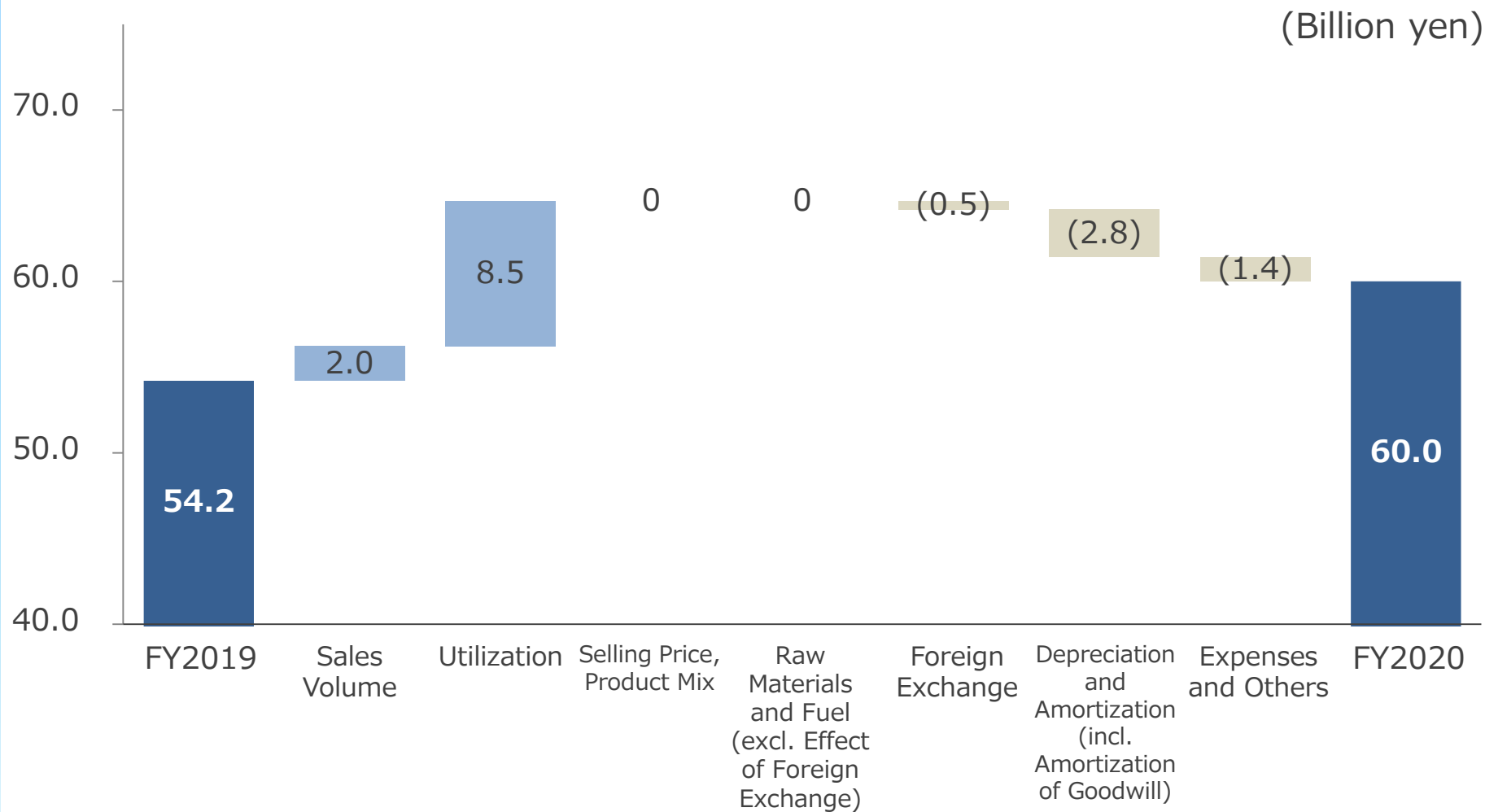
Note: Kuraray has adopted the Partial Amendments to Accounting Standard for Tax Effect Accounting. The figures of previous fiscal years have been retroactively adjusted to reflect the change.

Forecast for FY2020

(Billion yen)

	FY2020 Full-Year Forecast	FY2019 Full-Year Results	Difference
Net Sales	590.0	575.8	14.2
Operating Income	60.0	54.2	5.8
Ordinary Income	56.0	48.3	7.7
Net Income	35.0	(2.0)	37.0
EPS	¥101.82	(¥5.66)	¥107.48
Dividends per share	¥42	¥42	¥0
CAPEX(Decision basis)	95.0	51.4	43.6
CAPEX(Acceptance basis)	100.0	97.4	2.6
Depreciation and Amortization (incl. amortization of goodwill)	61.1	58.2	2.9
R&D Expenses	22.0	21.2	0.8

Factors Affecting the Change in Operating Income [2]



	FY2019	FY2020
Domestic naphtha(JPY1,000/kl)	¥43	¥43
USD (average)	¥109	¥105
EUR (average)	¥122	¥120

【Ref.】 Forecast for FY2020

(Billion yen)

	FY2020 Full-Year Forecast		FY2019 Full-Year Results		Difference	
	1H	2H	1H	2H	1H	2H
Net Sales	290.0	300.0	287.4	288.4	2.6	11.6
Operating Income	28.0	32.0	27.9	26.3	0.1	5.7
Ordinary Income	26.0	30.0	24.7	23.6	1.3	6.4
Net Income*	16.0	19.0	13.3	(15.2)	2.7	34.2

*Net Income Attributable to Owners of the Parent

Net Sales by Segment

(Billion yen)

	FY2020 Full-Year Forecast		FY2019 Full-Year Results		Difference	
	Net Sales	Operating Income	Net Sales	Operating Income	Net Sales	Operating Income
Vinyl Acetate	278.0	50.5	266.1	47.4	11.9	3.1
Isoprene	55.0	5.0	53.3	4.2	1.7	0.8
Functional Materials	131.0	5.0	126.0	3.8	5.0	1.2
Fibers & Textiles	67.0	6.0	64.5	5.7	2.5	0.3
Trading	135.0	4.5	130.9	4.2	4.1	0.3
Other Business	51.0	1.0	51.1	0.6	(0.1)	0.4
Elimination & Corporate	(127.0)	(12.0)	(116.1)	(11.8)	(10.9)	(0.2)
Total	590.0	60.0	575.8	54.2	14.2	5.8

【Ref.】 FY2020 Forecast by Segment

(Billion yen)

	Net Sales			Operating Income		
	1H	2H	Full Year	1H	2H	Full Year
Vinyl Acetate	138.0	140.0	278.0	24.5	26.0	50.5
Isoprene	27.0	28.0	55.0	2.0	3.0	5.0
Functional Materials	64.0	67.0	131.0	2.0	3.0	5.0
Fibers & Textiles	33.0	34.0	67.0	3.0	3.0	6.0
Trading	65.0	70.0	135.0	2.2	2.3	4.5
Other Business	25.0	26.0	51.0	0.3	0.7	1.0
Elimination & Corporate	(62.0)	(65.0)	(127.0)	(6.0)	(6.0)	(12.0)
Total	290.0	300.0	590.0	28.0	32.0	60.0

【Ref.】 Net Sales by Segment

(Billion yen)

	FY2020 Full-Year Forecast		FY2019 Full-Year Results		Difference	
	1H	2H	1H	2H	1H	2H
Vinyl Acetate	138.0	140.0	134.7	131.4	3.3	8.6
Isoprene	27.0	28.0	27.4	25.9	(0.4)	2.1
Functional Materials	64.0	67.0	62.6	63.4	1.4	3.6
Fibers & Textiles	33.0	34.0	33.1	31.4	(0.1)	2.6
Trading	65.0	70.0	64.8	66.1	0.2	3.9
Other Business	25.0	26.0	26.0	25.1	(1.0)	0.9
Elimination & Corporate	(62.0)	(65.0)	(61.2)	(54.9)	(0.8)	(10.1)
Total	290.0	300.0	287.4	288.4	2.6	11.6

【Ref.】 Operating Income by Segment

(Billion yen)

	FY2020 Full-Year Forecast		FY2019 Full-Year Results		Difference	
	1H	2H	1H	2H	1H	2H
Vinyl Acetate	24.5	26.0	23.1	24.3	1.4	1.7
Isoprene	2.0	3.0	3.4	0.8	(1.4)	2.2
Functional Materials	2.0	3.0	2.2	1.6	(0.2)	1.4
Fibers & Textiles	3.0	3.0	3.0	2.7	0	0.3
Trading	2.2	2.3	2.1	2.1	0.1	0.2
Other Business	0.3	0.7	0.4	0.2	(0.1)	0.5
Elimination & Corporate	(6.0)	(6.0)	(6.2)	(5.6)	0.2	(0.4)
Total	28.0	32.0	27.9	26.3	0.1	5.7



All figures are rounded to the nearest hundred million yen.

This presentation contains various forward-looking statements which are based on the current expectations and assumptions of future events. All figures and statements with respect to the future performance, projections, and business plans of Kuraray and its group companies constitute forward-looking statements. Although Kuraray believes that its expectations and assumptions are reasonable, actual results and trends of Kuraray's performance could differ materially from those expressed or implied by such figures or statements due to risks and uncertainties in the future business circumstances. The factors which may cause such difference include, without limitation: (1) general market and economic conditions in Asia including Japan, the U.S., Europe and other regions; (2) fluctuations of currency exchange rates, especially between the Japanese yen and the U.S. dollar and other foreign currencies; (3) changes in raw material and fuel costs; (4) industrial competition and price fluctuations in Japan and international markets; (5) advance or delay in the construction of new plants and production lines; (6) successful development of new products and technologies; and (7) changes in laws and regulations (including tax and environmental) and legal proceedings.

Cease and desist orders from the Fair Trade Commission

KURARAY CO., LTD.

Timeline to the Japan Fair Trade Commission ruling

Textile product (KURALON™)

Competitive bidding for textile products ordered by the Acquisition, Technology & Logistics Agency

Leniency application

Mar 2016 On-site inspection

Mar 2017
Cease and desist order penalty
waived by leniency application

Apr 2017 Officers' compensation
voluntarily returned

2016

2017

2018

2019

Activated Carbon

Manufacture and sales of activated carbon used in water purification facilities, waste incineration facilities, etc.

Jan 2017
Merged with Kuraray Chemical

Feb 2017 On-site inspection

Leniency application

Mar 2018
Acquired Calgon Carbon

Nov 2019 Cease and desist order and
penalty issued to Kuraray and CCJ
Amount: **approximately 70 million JPY**
(reduced by 30%)

Dec 2019 Officers' compensation
Voluntarily returned

Measures to prevent re-occurrence

Mar 2016 Top Message (Intranet, internal newsletter)

Start period		Categories	Measures taken	Frequency, target, content
2016	Jun	Rule revision, strengthen organization	Revision of Antimonopoly Act Compliance Guidelines	Enriched content on cartels and bid-rigging, and listed many specific cases
	Jul	Internal training	Antitrust seminars	Regularly held Lectured by outside counsel
	Jul-Sept	Internal investigation	Internal hearing on Antimonopoly Act compliance	Hearing of each business unit and group companies
2017	May	Rule revision, strengthen organization	Create Antitrust Guideline for Meeting with Competitors	Stricter regulation about get in contact with competitors
	May	Rule revision, strengthen organization	Starting the operation of Antitrust Compliance System	Advance approval for transactions and meeting with competitors and control for bid participation information
	Jul-Aug	Internal training	Group sessions for sales staff	Regularly held Training for sales dept. employees by using case studies
	Aug-Oct	Internal investigation	Internal leniency on Antimonopoly Act	Conducted for each business unit and affiliated company
2018	Apr-Jun	Internal investigation	Regular audit for tender by Legal Dept.	Annually Audit on the deal specifics, justification for tender pricing, sales channel, etc.
2019	Jun	Internal investigation	Regular audit for tender by Legal Dept.	Annually Audit on the deal specifics, justification for tender pricing, sales channel, etc.
	Dec	Internal investigation	Widen the scope of regular audit and internal hearing by Legal Dept.	Start preparation for audit to overseas group companies and for hearing to group companies in Japan

Initiatives scheduled in 2020

- Expanding the scope of rotation system for managers, who are at same job for a certain period of time (Rule revision, strengthen organization)
- Revision of Antimonopoly Act Compliance Guidelines (Rule revision, strengthen organization)
- Internal hearing by legal department for each business unit and group companies (Int. investigation)
- Ongoing seminars for executives by external legal counsel and sales department employees (Int. training)
- Internal leniency conducted by survey for sales department employees (Int. investigation)

Litigation in U.S. caused by fire incident and initiatives for safety

KURARAY CO., LTD.

Timeline of fire incident at US subsidiary

Impact to business

FY2018

Litigation related

May: Fire occurred at U.S. EVAL plant

Incident investigation begins

2Q: No impact to business due to inventory

Modification to safety facilities

3Q: Sales adjustment for food application in Americas

Sep/Late: Main production lines resumed

4Q: Supply gradually recovered

Nov/End: Affected production line resumed

Production resumed to normal condition FY2019

Cost of facility repair and safety measures:

- Facility repair costs: minimal (several million JPY)
- Safety measures costs: approximately 300 million JPY
- Review of safety design and horizontal deployment: approximately 70 million JPY

FY2020

Civil lawsuit raised

Plaintiff: Over 160 outside contractors
Claim : Damages for physical
and psychological injury

Oct: Settled with partial plaintiffs
and reported extraordinary loss
Settlement: approximately 10 billion JPY (92
million USD); Reported 14 billion JPY
extraordinary loss including above settlement

Nov: Reported additional extraordinary loss
Reported 34 billion JPY loss (over 140
plaintiffs).

Jan: Settled with partial plaintiffs
Settlement: approximately
28.9 billion JPY (265 million USD).
Settlement negotiations ongoing

Initiatives for safety and preventing re-occurrence of incidents

Corporate Statement: “Safety is the cornerstone of everything we do”

- ✓ Guiding principles on ensuring safety: “Safety is the cornerstone of everything we do”
- ✓ Action courses on ensuring safety (FY 2020):
 1. Ensuring Safety first, production second
 2. Ensuring a risk prediction and a check before and after taking action
 3. All Employees must act proactively to ensure safety

Main areas reviewed by FY2019 overseas plant safety inspections

(1) Improvement of the management system

- Revise concrete methods for change management and ensure post-change confirmation.
- Clarify the authority in writing to grant permission and approval for specific work a case of concrete situation.

(2) Enhancement of training

- Enhance training provided for higher risk items at plants.
- Revise and improve the emergency response manual, and ensure that employees are completely familiar with its contents.

(3) Expansion of risk assessment

- Introduce HAZOP(discovering and responding to sources of danger) to non-regular (start-up, shut-down) work.
- Reduce the number of work operations that have not been standardized in writing to zero.

CAPEX for maintaining safety

(Billion yen)

