

**Business Results for the
First Quarter of the Fiscal Year Ending
December 31, 2017 (Unaudited)**

May 11, 2017

Kuraray Co., Ltd.

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Consolidated Earnings Report for the First Quarter of the Fiscal Year Ending December 31, 2017

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

Representative:

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Preparation of supplementary documentation for the quarterly earnings report: No
Holding of quarterly earnings results briefing: No

(Millions of yen rounded down unless otherwise stated)

1. Consolidated Financial Results for the First Quarter of the Fiscal Year Ending December 31, 2017 (January 1, 2017 to March 31, 2017)

(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 2017 1Q	126,342	4.7%	21,773	27.1%	21,066	14.3%	14,529	21.8%
Fiscal 2016 1Q	120,710	(8.0)%	17,128	7.5%	18,423	4.6%	11,924	3.3%

Note: Comprehensive income: For the fiscal 2017 first quarter: ¥7,656million —
For the fiscal 2016 first quarter: (¥2,576 million) —

	Net Income per Share (Yen)	Fully Diluted Net Income per Share (Yen)
Fiscal 2017 1Q	41.32	41.21
Fiscal 2016 1Q	33.95	33.88

(2) Consolidated Financial Position

(Millions of yen)

	Total Assets	Net Assets	Equity Ratio (%)
As of March 31, 2017	718,353	521,712	71.5
As of December 31, 2016	725,433	520,978	70.7

[Reference] Equity attributable to owners of the parent: As of March 31, 2017: ¥513,570 million
As of December 31, 2016: ¥512,959 million

2. Dividends

(Yen)

Record Date	Cash Dividends per Share				
	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Annual
Fiscal 2016	—	20.00	—	21.00	41.00
Fiscal 2017	—				
Fiscal 2017 (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, 2017 (January 1, 2017 to December 31, 2017)

(Percentages displayed for net sales, operating income, ordinary income and net income attributable to owners of the parent are comparisons with the corresponding interim period or fiscal year, as applicable)

(Millions of yen)

	Net Sales		Operating Income		Ordinary Income		Net Income Attributable to Owners of the Parent		Net Income per Share (Yen)
		(%)		(%)		(%)		(%)	
Interim Period	250,000	2.4	34,000	(1.9)	33,000	(2.0)	21,000	(6.2)	59.72
Full Fiscal Year	530,000	9.2	70,000	3.2	68,000	2.7	42,000	4.0	119.44

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 of 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 March 31, 2017	354,863,603 shares
As of December 31, 2016	354,863,603 shares
 2. Number of treasury stock as of the period-end:

As of March 31, 2017	3,212,822 shares
As of December 31, 2016	3,363,405 shares
 3. Average number of shares for the period (cumulative):

As of March 31, 2017	351,614,654 shares
As of March 31, 2016	351,252,579 shares

Indication of quarterly review procedure implementation status

This quarterly earnings report is exempt from the quarterly review procedure based upon the Financial

Instruments and Exchange Act.

*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.

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1. Qualitative Information and Financial Statements

(1) Qualitative Information and Overview of Consolidated Business Results

In the first quarter of fiscal 2017 (January 1, 2017–March 31, 2017), the Japanese economy began to achieve stability as corporate profits gradually rose due to overall favorable exports and production despite lackluster personal consumption. In the United States, the economy remained healthy overall due to growing real estate investment and personal consumption amid higher employment rates despite a persistent lack of clarity with regard to the new administration's policies. The European economy continued to gradually recover because the Brexit decision has thus far had only a limited effect on markets. In China, despite concerns that rate personal consumption would slow, the economy continued to gradually strengthen as various government-led measures showed results. Economies in emerging countries also showed signs of expansion.

Under these circumstances, the Kuraray Group has been successively implementing the business strategies outlined in GS-STEP, its medium-term management plan that started in fiscal 2015, to realize “a high-profit specialty chemical company with a global presence.”

Consequently, cumulative consolidated operating results for the first quarter of fiscal 2017 are as follows: net sales rose ¥5,632 million, or 4.7%, compared with the corresponding period of the previous fiscal year to ¥126,342 million; operating income grew ¥4,644 million, or 27.1%, to ¥21,773 million; ordinary income increased ¥2,642 million, or 14.3%, to ¥21,066 million; and net income attributable to owners of the parent rose ¥2,604 million, or 21.8%, to ¥14,529 million.

In the previous fiscal year, the activated carbon business and energy materials business were included in the Other Business segment. However, due to the absorption-type merger of Kuraray Chemical Co., Ltd. on January 1, 2017, the Company decided to merge these businesses into the carbon materials business and move said business to the Functional Materials segment in fiscal 2017. Comparisons and analyses for the first quarter of fiscal 2017 are based on the segmentation following this change.

Results by Business Segment

Vinyl Acetate

Sales in this segment rose 1.8% year on year to ¥63,886 million, and segment income grew 21.7% year on year to ¥17,396 million.

- (1) Sales of PVA resin were brisk, increasing mainly in the U.S. market. Sales of optical-use poval film rose amid a steady LCD panel market. Sales of water-soluble PVA film were healthy due mainly to continued robust demand for unit dose detergent applications. In PVB film, sales of high added-value products expanded.
- (2) Sales of *EV_{AL}* ethylene vinyl alcohol copolymer (EVOH resin) grew favorably for both automotive gas tank and food packaging applications.

Isoprene

Sales in this segment increased 11.6% year on year to ¥14,147 million, and segment income edged up 0.1% year on year to ¥2,858 million.

- (1) In isoprene chemicals, sales of fine chemicals, *SEPTON* thermoplastic elastomer and liquid rubber remained favorable due to an increase in sales numbers. In addition, price adjustments were made to reflect soaring raw material and fuel costs for some brands.
- (2) The sales volume of *GENESTAR* heat-resistant polyamide resin for automotive, connector and LED reflector applications expanded but sales returns were affected by soaring raw material and fuel prices.

Functional Materials

Sales in this segment climbed 3.5% year on year to ¥18,061 million, and segment income jumped 58.7% year on year to ¥2,259 million.

- (1) Sales of methacrylic resins were healthy due mainly to a recovery in the market condition as well as an increase in sales of resins.
- (2) In the medical business, sales of dental materials remained brisk.
- (3) In the carbon materials business, sales of activated carbon were firm.
- (4) For *CLARINO* man-made leather, sales of products made with both the conventional and the new production process remained favorable.

Fibers and Textiles

Sales of *KURALON* remained favorable due to improved product mix and expanded sales numbers despite the effects of higher raw material and fuel costs. Sales of consumer goods and materials were also firm. As a result, sales in this segment rose 16.1% year on year to ¥13,784 million while segment income grew 38.4% year on year to ¥1,518 million.

Trading

In fiber-related businesses, sales were steady in the industrial material field although domestic clothing sales remained weak, except for certain applications in the textile field. Chemical-related businesses saw favorably expanding performance, mainly in exports to Asia. As a result, segment sales increased 8.2% year on year to ¥31,097 million, and segment income climbed 8.1% to ¥992 million.

Others

In other businesses, overall performance remained healthy. As a result, segment sales grew 9.1% year on year to ¥12,404 million, and segment income totaled ¥929 million, a turnaround from a loss of ¥27 million.

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

Kuraray has revised its consolidated operating results forecast for the second quarter of the fiscal year ending December 31, 2017 as shown below in the table to reflect overall healthy trends in the first quarter of fiscal 2017, including favorable sales and an accompanying rise in capacity utilization despite higher raw material and fuel costs, which were not taken into account in original forecasts. As for the full-year operating results forecasts, due to lingering uncertainties the Company has not changed forecasts announced at the beginning of the year; however, the Company will revise said forecast when the consolidated cumulative operating results for the second quarter of fiscal 2017 are confirmed.

The revised cumulative consolidated operating results forecast for the second quarter of the fiscal year ending December 31, 2017 (January 1, 2017 to June 30, 2017) 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 8, 2017)	250,000	32,000	31,000	20,000	56.90
Revised Forecast (B)	250,000	34,000	33,000	21,000	59.72
Amount Adjusted (B - A)	—	2,000	2,000	1,000	
Percent Adjusted	—	6.3	6.5	5.0	

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

(Millions of yen)

	December 31, 2016	March 31, 2017
ASSETS		
Current Assets		
Cash and cash deposits	51,437	47,744
Notes and accounts receivable—trade	105,010	105,042
Short-term investment securities	39,064	38,204
Merchandise and finished goods	73,504	79,764
Work in process	12,260	12,568
Raw materials and supplies	25,504	24,788
Deferred tax assets	5,974	6,776
Other	12,669	8,645
Allowance for doubtful accounts	(451)	(452)
Total current assets	324,974	323,082
Noncurrent Assets		
Tangible fixed assets		
Buildings and structures, net	54,343	56,306
Machinery, equipment and vehicles, net	162,963	160,527
Land	19,526	19,486
Construction in progress	29,904	30,850
Other, net	5,090	4,951
Total tangible fixed assets	271,827	272,122
Intangible fixed assets		
Goodwill	26,256	25,083
Customer-related assets	28,880	27,341
Other	24,401	23,740
Total intangible fixed assets	79,537	76,165
Investments and other assets		
Investment securities	34,023	31,939
Long-term loans receivable	260	271
Net defined benefit assets	827	897
Deferred tax assets	7,097	7,129
Others	6,929	6,787
Allowance for doubtful accounts	(43)	(42)
Total investments and other assets	49,093	46,983
Total noncurrent assets	400,458	395,270
Total assets	725,433	718,353

(Millions of yen)

	December 31, 2016	March 31, 2017
LIABILITIES		
Current Liabilities		
Notes and accounts payable—trade	36,424	37,165
Short-term loans payable	7,626	7,613
Accrued expenses	10,719	11,151
Income taxes payable	7,635	7,285
Provision for bonuses	5,296	7,409
Other provision	4	8
Other	28,430	19,628
Total current liabilities	96,136	90,263
Noncurrent liabilities		
Bonds payable	10,000	10,000
Long-term loans payable	42,172	42,136
Deferred tax liabilities	25,442	24,447
Provision for directors' retirement benefits	209	187
Provision for environmental measures	3,580	3,580
Net defined benefit liabilities	11,542	11,170
Asset retirement obligations	4,192	4,111
Other	11,178	10,742
Total noncurrent liabilities	108,318	106,376
Total liabilities	204,454	196,640
NET ASSETS		
Shareholders' equity		
Capital stock	88,955	88,955
Capital surplus	87,178	87,177
Retained earnings	304,277	311,624
Treasury stock	(3,972)	(3,795)
Total shareholders' equity	476,439	483,962
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	10,913	10,547
Deferred gain or losses on hedges	(110)	3
Foreign currency translation adjustments	30,054	23,178
Remeasurements of defined benefit plans	(4,336)	(4,121)
Total accumulated other comprehensive income	36,520	29,607
Subscription rights to shares	719	777
Noncontrolling interests	7,300	7,364
Total net assets	520,978	521,712
Total liabilities and net assets	725,433	718,353

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

Quarterly Consolidated Statements of Income

(Millions of yen)

	Fiscal 2016 1Q (January 1, 2016 – March 31, 2016)	Fiscal 2017 1Q (January 1, 2017 – March 31, 2017)
Net sales	120,710	126,342
Cost of sales	78,889	78,973
Gross profit	41,820	47,369
Selling, general and administrative expenses		
Selling expenses	6,691	7,316
General and administrative expenses	18,001	18,279
Total selling, general and administrative expenses	24,692	25,596
Operating income	17,128	21,773
Non-operating income		
Interest income	55	107
Dividend income	1,723	365
Equity in earnings of affiliates	10	5
Other	660	575
Total non-operating income	2,450	1,054
Non-operating expenses		
Interest expenses	184	176
Foreign exchange loss	191	549
Other	779	1,035
Total non-operating expenses	1,155	1,761
Ordinary income	18,423	21,066
Income before income taxes and noncontrolling interests	18,423	21,066
Income taxes—current	5,885	7,263
Income taxes—deferred	343	(1,009)
Total income taxes	6,228	6,253
Net income	12,194	14,812
Net income attributable to noncontrolling interests	269	283
Net income attributable to owners of the parent	11,924	14,529

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	Fiscal 2016 1Q (January 1, 2016 – March 31, 2016)	Fiscal 2017 1Q (January 1, 2017 – March 31, 2017)
Net income	12,194	14,812
Other comprehensive income		
Valuation difference on available-for-sale securities	(2,565)	(366)
Deferred gains or losses on hedges	(11)	122
Foreign currency translation adjustment	(12,411)	(7,127)
Remeasurements of defined benefit plans	217	215
Total other comprehensive income	(14,771)	(7,156)
Quarterly comprehensive income	(2,576)	7,656
Comprehensive income attributable to:		
Owners of the parent	(2,845)	7,365
Noncontrolling interests	268	291

(3) Notes regarding Quarterly Consolidated Financial Statements

Notes regarding Going Concern Assumptions

None

Material Changes in Shareholders' Equity

None

Additional Information

The Accounting Standards Board of Japan (ASBJ) issued ASBJ Guidance No. 26 “Guidance on Recoverability of Deferred Tax Assets” on March 28, 2016. This guidance is applied from the first quarter of the fiscal year ending December 31, 2017.

Segment Information, etc.
(Segment Information)

I. First Quarter of Fiscal 2016 (January 1, 2016 to March 31, 2016)

1. Net sales, income and loss by reporting segment

(Millions of yen)

	Reporting Segment						Other Business	Total	Adjustment	Consolidated Statements of Income ³
	Vinyl Acetate	Isoprene	Functional Materials	Fibers and Textiles	Trading	Total				
Net sales										
(1) Outside customers	55,722	6,798	12,746	9,219	28,110	112,598	8,112	120,710	—	120,710
(2) Inter-segment sales and transfers	7,043	5,873	4,703	2,650	625	20,896	3,253	24,150	(24,150)	—
Total	62,765	12,672	17,450	11,870	28,736	133,494	11,366	144,861	(24,150)	120,710
Segment income (loss)	14,296	2,854	1,423	1,097	918	20,590	(27)	20,563	(3,435)	17,128

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 ¥3,435 million is the elimination of intersegment transactions of ¥489 million and corporate expenses of ¥3,925million. 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 2017 (January 1, 2017 to March 31, 2017)

1. Net sales, income and loss by reporting segment

(Millions of yen)

	Reporting Segment						Other Business	Total	Adjustment	Consolidated Statements of Income ³
	Vinyl Acetate	Isoprene	Functional Materials	Fibers and Textiles	Trading	Total				
Net sales										
(3) Outside customers	56,020	7,577	12,891	10,957	30,170	117,617	8,725	126,342	—	126,342
(4) Inter-segment sales and transfers	7,865	6,570	5,170	2,826	926	23,359	3,679	(27,038)	(27,038)	—
Total	63,886	14,147	18,061	13,784	31,097	140,977	12,404	153,381	(27,038)	126,342
Segment income (loss)	17,396	2,858	2,259	1,518	992	25,026	929	25,955	(4,182)	21,773

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 ¥4,182 million is the elimination of intersegment transactions of ¥162 million and corporate expenses of ¥4,345 million. Corporate expenses mainly comprise headquarters’ general and administrative expenses and the submitting company’s basic research expenses.
3. Segment income is adjusted to agree with operating income in the consolidated statements of income.

2. Change in Reporting Segments

On January 1, 2017, Kuraray absorbed its consolidated subsidiary Kuraray Chemical Co., Ltd. Following this, the Company revised the organization of its business segments in the first quarter of fiscal 2017.

The activated carbon business and energy materials business, which had been included in Other Business, were merged into the Carbon Materials Business. This business is now listed under Functional Materials.

Segment information for the first quarter of fiscal 2017 is based on the segmentation following the revision.