

**Consolidated Earnings Report for the
First Quarter of the Fiscal Year Ending
December 31, 2016 (Unaudited)**

May 11, 2016

Kuraray Co., Ltd.

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

Representative:

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(Millions of yen rounded down unless otherwise stated)

Preparation of supplementary documentation for the quarterly earnings report: No

Holding of quarterly earnings results briefing: No

1. Consolidated Financial Results for the First Quarter of the Fiscal Year Ending December 31, 2016 (January 1, 2016 to March 31, 2016)

(1) Consolidated Operating Results (Cumulative)

(Percentages displayed for net sales, operating income, ordinary income and net income 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 2016 1Q	120,710	(8.0%)	17,128	7.5%	18,423	4.6%	11,924	3.3%
Fiscal 2015 1Q	131,194	—	15,934	—	17,611	—	11,544	—

Note: Comprehensive income: For the fiscal 2016 first quarter: (¥2,576 million) —
For the fiscal 2015 first quarter: ¥6,160 million —

	Net Income per Share (Yen)	Fully Diluted Net Income per Share (Yen)
Fiscal 2016 1Q	33.95	33.88
Fiscal 2015 1Q	32.92	32.82

(2) Consolidated Financial Position

(Millions of yen)

	Total Assets	Net Assets	Shareholders' Equity Ratio (%)
As of March 31, 2016	679,073	492,928	71.5%
As of December 31, 2015	701,770	503,589	70.7%

(Reference)

Shareholders' equity: As of March 31, 2016: ¥485,391 million
As of December 31, 2015: ¥496,062 million

2. Dividends

(Yen)

Record Date	Cash Dividends per Share				
	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Annual
Fiscal 2015	—	18.00	—	22.00	40.00
Fiscal 2016	—				
Fiscal 2016 (Forecast)		20.00	—	20.00	40.00

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

3. Forecasts of Consolidated Financial Results for the Fiscal Year Ending December 31, 2016 (January 1, 2016 to December 31, 2016)

(Percentages displayed for net sales, operating income, ordinary income and net income 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)
Interim Period	260,000	(1.1%)	32,000	1.2%	31,000	(3.6%)	19,000	(9.2%)	54.08
Full Fiscal Year	540,000	3.5%	70,000	5.9%	68,000	5.4%	40,000	11.9%	113.85

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

4. Other

(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 Policies, Accounting Estimates and Restatement in Connection with the Preparation of Quarterly Consolidated Financial Statements

1. Changes following revision of accounting standards: Yes
2. Changes besides 1. above: No
3. Changes of accounting estimates: No
4. Restatement: No

Note: For details, refer to page 3 of the Attached Materials under the heading, “Items Regarding Summary Data (and Notes): Changes in Accounting Policies, Accounting Estimates and Restatement.”

(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, 2016 354,863,603 shares

As of December 31, 2015 354,863,603 shares

2. Number of treasury stock as of the period-end:

As of March 31, 2016 3,521,763 shares

As of December 31, 2015 3,658,647 shares

3. Average number of shares for the period (cumulative):

As of March 31, 2016 351,252,579 shares

As of March 31, 2015 350,711,358 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. Furthermore, this report was undergoing the review procedure process at the time of this release.

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 3 of the Attachment for the assumptions used.

Index of the Attachment

1. Qualitative Information and Financial Statements.....	2
(1) Qualitative Information and Overview of Consolidated Business Results.....	2
(2) Basis for the Revision in Forecasts, Including Consolidated Operating Results Forecasts.....	3
2. Items Regarding Summary Data (and Notes).....	3
Changes in Accounting Policies, Accounting Estimates and Restatement.....	3
3. Quarterly Consolidated Financial Statements.....	5
(1) Quarterly Consolidated Balance Sheets.....	5
(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income.....	7
Quarterly Consolidated Statements of Income.....	7
Quarterly Consolidated Statements of Comprehensive Income.....	8
(3) Notes regarding Quarterly Consolidated Financial Statements.....	9
Notes regarding Going Concern Assumptions.....	9
Material Changes in Shareholders' Equity.....	9
Segment and Other Information.....	9

1. Qualitative Information and Financial Statements

(1) Qualitative Information and Overview of Consolidated Business Results

In the first quarter of fiscal 2016 (January 1, 2016–March 31, 2016), recovery in the Japanese economy stalled as personal consumption stagnated and the pace of improvement in corporate profits slowed. In the global economy, although conditions in the United States were favorable, with a stable employment environment, the outlook in Europe was unclear despite gradual economic improvement. Meanwhile, the economies in China and emerging nations continued to slow.

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 2016 are as follows: net sales fell ¥10,484 million, or 8.0%, compared with the corresponding period of the previous fiscal year to ¥120,710 million; operating income grew ¥1,194 million, or 7.5%, to ¥17,128 million; ordinary income increased ¥811 million, or 4.6%, to ¥18,423 million; and net income attributable to owners of the parent rose ¥380 million, or 3.3%, to ¥11,924 million.

Results by Business Segment

Vinyl Acetate

Sales in this segment fell 8.1% year on year to ¥62,765 million, and segment income grew 15.7% year on year to ¥14,296 million.

- (1) Sales of PVA resins remained firm overall. The sales volume of optical-use poval film decreased due to adjustments in the production of LCD panels. Sales of water-soluble PVA film remained firm. Demand for PVB film in China showed signs of recovery.
- (2) Sales of *EVVAL* ethylene vinyl alcohol copolymer (EVOH resin) were favorable for both automotive gas tank and food packaging applications.

Isoprene

Sales in this segment declined 9.9% year on year to ¥12,672 million, and segment income fell 6.3% year on year to ¥2,854 million.

- (1) In isoprene chemicals, sales of fine chemicals, *SEPTON* thermoplastic elastomer and liquid rubber were affected by the slowdown in China’s economy.
- (2) Sales of *GENESTAR* heat-resistant polyamide resin continued to expand for automotive applications and signs of recovery emerged for connector applications, but sales for LED reflector applications were

still affected by the slowdown in China's economy.

Functional Materials

Sales in this segment decreased 6.4% year on year to ¥13,346 million, and segment income tumbled 6.8% year on year to ¥1,544 million.

- (1) For methacrylic resins, the Company was forced to adjust prices of certain resin applications.
- (2) In the medical business, sales of dental materials remained brisk due to an expanded range of new product offerings and greater synergies on the sales front.
- (3) For *CLARINO* man-made leather, sales of products made with both the conventional and the new production process remained firm.

Fibers and Textiles

In addition to brisk sales of *KURALON*, consumer goods and materials made progress in line with original projections. As a result, sales in this segment declined 6.0% year on year to ¥11,870 million while segment income grew 29.7% year on year to ¥1,097 million.

Trading

Chemical-related businesses were impacted by the economic slowdown in China, while sales of certain applications in fiber-related businesses bore the effects of weak domestic demand. As a result, segment sales decreased 4.8% year on year to ¥28,736 million, and segment income fell 8.2% to ¥918 million.

Others

In other businesses, while overall performance remained firm, development costs rose due to the addition of the energy materials business. As a result, segment sales fell 5.8% year on year to ¥15,719 million, and segment income declined 94.7% to ¥11 million.

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

Kuraray has not revised its full-year consolidated operating results forecast released on February 9, 2016.

2. Items Regarding Summary Data (and Notes)

Changes in Accounting Policies, Accounting Estimates and Restatement

(Changes in Accounting Policies)

The Accounting Standards Board of Japan (ASBJ) issued ASBJ Statement No. 21 "Revised Accounting Standard for Business Combinations," ASBJ Statement No. 22 "Revised Accounting Standard for Consolidated Financial Statements," and ASBJ Statement No. 7 "Revised Accounting Standard for Business Divestitures." These revised accounting

standards are applied from the first quarter of the fiscal year ending December 31, 2016. Accordingly, differences resulting from changes in ownership interest in a subsidiary when control over the subsidiary is retained are recorded under capital surplus, and costs related to acquisition of increased ownership interest are recognized in the period in which they arise. Also, transitional accounting is applied to business combinations performed on or after the beginning of the first quarter of the fiscal year ending December 31, 2016, with revision of purchase price allocation applied to the quarterly consolidated financial statements during the quarter in which the date of the business combination occurs. The presentation method of net income was amended, and “minority interests” were changed to “noncontrolling interests.” For comparison purposes, information for the first quarter of the fiscal year ended December 31, 2015, and for the fiscal year ended December 31, 2015, is shown in accordance with the new standards in the accompanying consolidated financial statements.

Transitional accounting in accordance with Article 58, Paragraph 2, Item 4, of ASBJ Statement No. 21, Article 44, Paragraph 5, Item 4, of ASBJ Statement No. 22, and Article 57, Paragraph 4, Item 4, of ASBJ Statement No. 7 is applied from the beginning of the first quarter of the fiscal year ending December 31, 2016.

These changes have no effect on the consolidated financial statements for the first quarter of the fiscal year ending December 31, 2016.

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	December 31, 2015	March 31, 2016
ASSETS		
Current Assets		
Cash and cash deposits	36,996	39,595
Notes and accounts receivable–trade	102,079	98,047
Short-term investment securities	18,805	11,000
Merchandise and finished goods	77,582	78,109
Work in process	11,293	11,828
Raw materials and supplies	23,310	23,795
Deferred tax assets	7,598	7,900
Other	19,430	19,130
Allowance for doubtful accounts	(611)	(446)
Total current assets	296,486	288,961
Noncurrent Assets		
Tangible fixed assets		
Buildings and structures, net	53,959	54,075
Machinery, equipment and vehicles, net	127,962	123,125
Land	18,508	18,528
Construction in progress	56,609	57,920
Other, net	4,978	4,840
Total tangible fixed assets	262,019	258,489
Intangible fixed assets		
Goodwill	28,564	27,868
Customer relation assets	32,244	29,653
Other	23,167	21,963
Total intangible fixed assets	83,976	79,485
Investments and other assets		
Investment securities	46,057	38,780
Long-term loans receivable	239	341
Net defined benefit assets	791	864
Deferred tax assets	6,361	6,481
Others	5,887	5,719
Allowance for doubtful accounts	(50)	(50)
Total investments and other assets	59,287	52,136
Total noncurrent assets	405,284	390,111
Total assets	701,770	679,073

(Millions of yen)

	December 31, 2015	March 31, 2016
LIABILITIES		
Current Liabilities		
Notes and accounts payable–trade	38,331	36,954
Short-term loans payable	7,187	7,438
Accrued expenses	10,468	8,288
Income taxes payable	14,692	7,757
Provision for bonuses	5,259	7,362
Other provision	31	10
Other	19,480	18,166
Total current liabilities	95,450	85,978
Long-term liabilities		
Bonds payable	10,000	10,000
Long-term loans payable	42,257	42,216
Deferred tax liabilities	24,102	23,077
Provision for directors' retirement benefits	185	185
Provision for environmental measures	353	352
Net defined benefit liabilities	11,247	10,425
Asset retirement obligations	3,615	3,528
Other	10,966	10,380
Total noncurrent liabilities	102,729	100,166
Total liabilities	198,180	186,144
NET ASSETS		
Shareholders' equity		
Capital stock	88,955	88,955
Capital surplus	87,147	87,155
Retained earnings	278,899	282,829
Treasury stock	(4,319)	(4,158)
Total shareholders' equity	450,682	454,781
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	10,808	8,243
Deferred gain or losses on hedges	(4)	(15)
Foreign currency translation adjustments	39,377	26,966
Remeasurements of defined benefit plans	(4,801)	(4,584)
Total accumulated other comprehensive income	45,380	30,610
Subscription rights to shares	831	764
Noncontrolling interests	6,695	6,772
Total net assets	503,589	492,928
Total liabilities and net assets	701,770	679,073

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

(Millions of yen)

	Fiscal 2015 1Q (January 1, 2015 – March 31, 2015)	Fiscal 2016 1Q (January 1, 2016 – March 31, 2016)
Net sales	131,194	120,710
Cost of sales	91,058	78,889
Gross profit	40,135	41,820
Selling, general and administrative expenses		
Selling expenses	6,330	6,691
General and administrative expenses	17,871	18,001
Total selling, general and administrative expenses	24,201	24,692
Operating income	15,934	17,128
Non-operating income		
Interest income	57	55
Dividends income	1,974	1,723
Equity in earnings of affiliates	1	10
Other, net	680	660
Total non-operating income	2,714	2,450
Non-operating expenses		
Interest expenses	180	184
Other expenses	856	970
Total non-operating expenses	1,037	1,155
Ordinary income	17,611	18,423
Extraordinary income		
Gain on sales of tangible fixed assets	277	—
Total extraordinary income	277	—
Income before income taxes	17,889	18,423
Income taxes—current	6,711	5,885
Income taxes—deferred	(586)	343
Total income taxes	6,125	6,228
Net income	11,763	12,194
Net income attributable to noncontrolling interests	219	269
Net income attributable to owners of the parent	11,544	11,924

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	Fiscal 2015 1Q (January 1, 2015 – March 31, 2015)	Fiscal 2016 1Q (January 1, 2016 – March 31, 2016)
Net income	11,763	12,194
Other comprehensive income		
Valuation difference on available-for-sale securities	2,182	(2,565)
Deferred gain or losses on hedges	(55)	(11)
Foreign currency translation adjustments	(7,868)	(12,411)
Pension liability adjustments	138	217
Total other comprehensive income	<u>(5,602)</u>	<u>(14,771)</u>
Quarterly comprehensive income	<u>6,160</u>	<u>(2,576)</u>
Comprehensive income attributable to:		
Owners of the parent	5,941	(2,845)
Noncontrolling interests	219	268

(3) Notes Regarding Quarterly Consolidated Financial Statements

Notes Regarding Going Concern Assumptions

None

Material Changes in Shareholders' Equity

None

Segment and Other Information

Segment Information

I. First Quarter of Fiscal 2015 (January 1, 2015 to March 31, 2015)

1. Net sales, income and loss by reporting segment

(Millions of yen)

	Reporting Segment						Others ¹	Total	Elimination on Consolidation and Corporate ²	Consolidated Statements of Income ³
	Vinyl Acetate	Isoprene	Functional Materials	Fibers and Textiles	Trading	Total				
Net Sales										
Outside customers	60,351	8,156	9,879	9,831	29,627	117,846	13,347	131,194	—	131,194
Inter-segment sales and transfers	7,946	5,911	4,378	2,791	569	21,596	3,336	24,932	(24,932)	—
Total	68,298	14,068	14,257	12,622	30,196	139,443	16,684	156,127	(24,932)	131,194
Segment Income	12,356	3,047	1,656	846	1,000	18,907	212	19,119	(3,184)	15,934

Notes:

1. The "Other Business" category incorporates operations not included in business segments reported, including activated carbon, environmental business and engineering.
2. Elimination on Consolidation and Corporate is as follows: Included within negative segment income of ¥3,184 million is the elimination of intersegment transactions of ¥209 million and corporate expenses of ¥3,394 million. Corporate expenses mainly comprise headquarters' general and administrative expenses and the submitting company's basic research expenses not usually attributed to segments.
3. Segment income is adjusted to agree with operating income in the consolidated statements of income.

II. 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						Others ¹	Total	Elimination on Consolidation and Corporate ²	Consolidated Statements of Income ³
	Vinyl Acetate	Isoprene	Functional Materials	Fibers and Textiles	Trading	Total				
Net Sales										
Outside customers	55,722	6,798	8,916	9,219	28,110	108,767	11,943	120,710	—	120,710
Inter-segment sales and transfers	7,043	5,873	4,430	2,650	625	20,623	3,775	24,399	(24,399)	—
Total	62,765	12,672	13,346	11,870	28,736	129,391	15,719	145,110	(24,399)	120,710
Segment Income	14,296	2,854	1,544	1,097	918	20,711	11	20,722	(3,594)	17,128

Notes:

1. The “Other Business” category incorporates operations not included in business segments reported, including activated carbon, environmental business and engineering.
2. Elimination on Consolidation and Corporate is as follows: Included within negative segment income of ¥3,594 million is the elimination of intersegment transactions of ¥489 million and corporate expenses of ¥4,084 million. Corporate expenses mainly comprise headquarters’ general and administrative expenses and the submitting company’s basic research expenses not usually attributed to segments.
3. Segment income is adjusted to agree with operating income in the consolidated statements of income.