



FY2016 Earnings Presentation (Overview)

KURARAY CO., LTD.

Overview of FY2016 Results [1]

(Billion yen)

	FY2016	FY2015	Difference
Net Sales	485.2	521.7	▲ 36.5 (▲7.0%)
Operating Income	67.8	66.1	+ 1.7 (+2.6%)
Ordinary Income	66.2	64.5	+ 1.6 (+2.5%)
Net Income*	40.4	35.7	+ 4.7 (+13.0%)
Reference			
JPY/USD	109	121	
JPY/EUR	120	134	
Domestic naphtha (JPY 1,000/kl)	33	49	

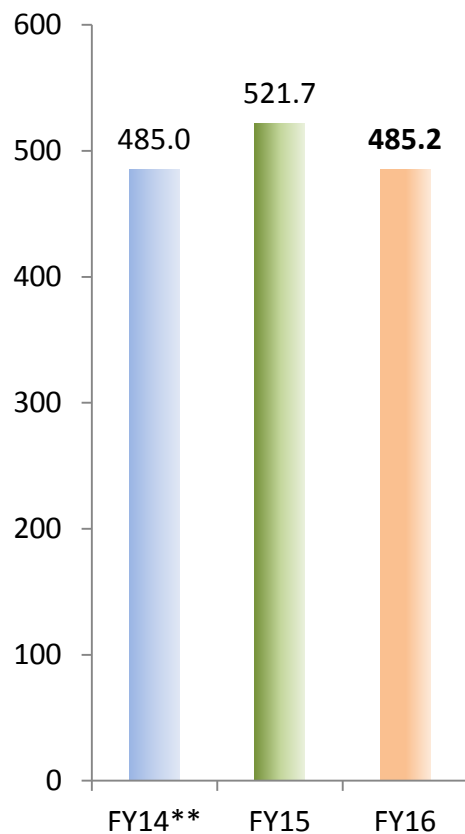
*Net Income Attributable to Owners of the Parent

Overview of FY2016 Results [2]

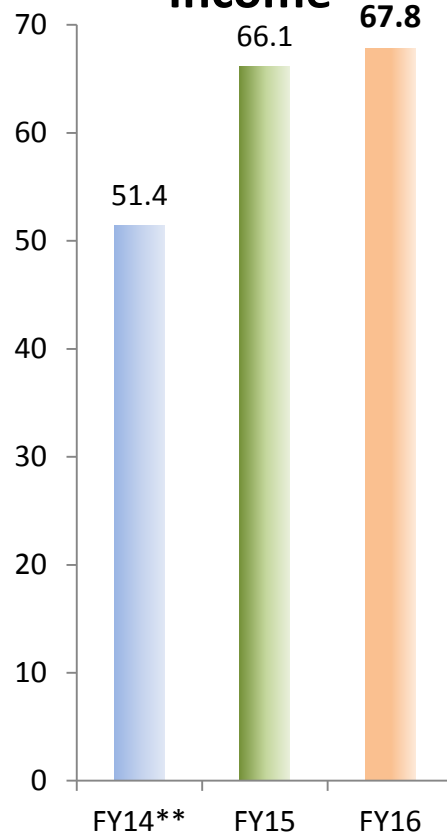
Set record highs for the second consecutive fiscal year for operating income, ordinary income and net income*

(Billion yen)

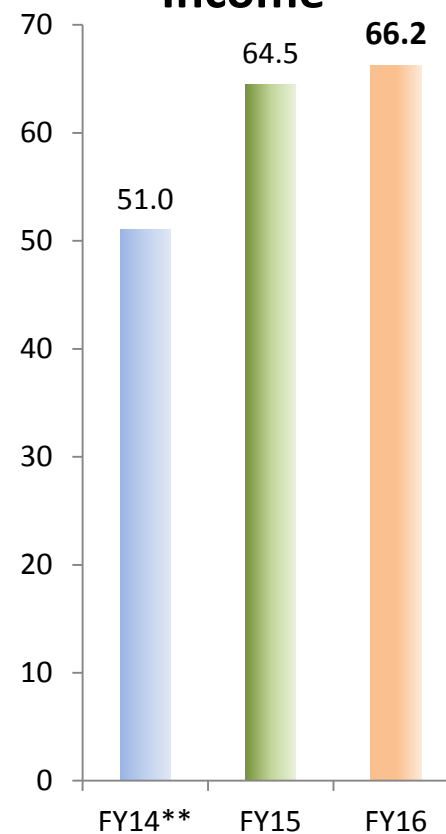
Net Sales



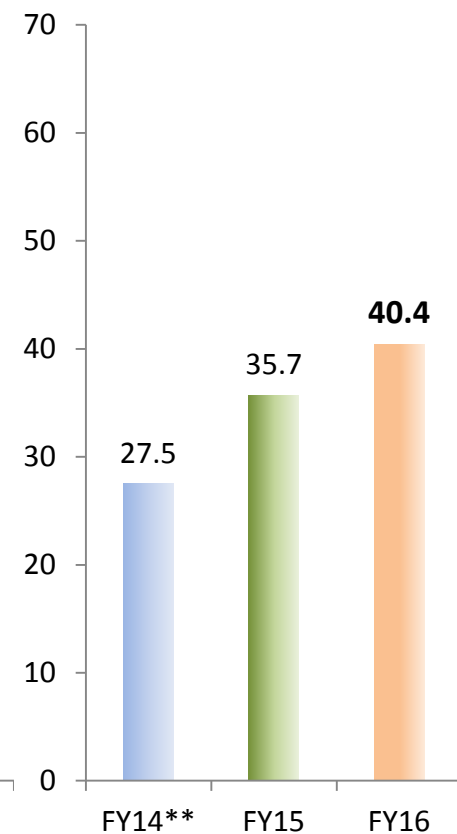
Operating Income



Ordinary Income



Net Income*



*Net Income Attributable to Owners of the Parent

**FY14: Adjusted to January-December

Outcomes of Main FY2016 Initiatives

Implementation of the following measures based on the main management strategies of GS-STEP

Deepening of Core Businesses

- ◆ Started operation of a new PVA resin plant in the U.S. for an additional 40,000 tons/year
- ◆ Started operation of a new plant for water-soluble PVA film in the U.S.
- ◆ Started operation of expanded capacity for *EVVAL* in Europe for an additional 11,000 tons/year
- ◆ Decided to expand production capacity for *EVVAL* in the U.S.
→ Additional 11,000 tons/year: start of operation scheduled for mid-2018
- ◆ Decided to expand production capacity for PVB film in South Korea
→ Start of operation scheduled for beginning of 2018
- ◆ Started feasibility studies for isoprene, elastomers and *GENESTAR* at new Thai plant

Technological Innovation

- ◆ Established a more efficient production process for *VECTRAN*

Next-Generation Growth Model

- ◆ Merged Kuraray Chemical Co., Ltd. by absorption, integrated it with Energy Materials Business Dept.
Start of Carbon Materials Business Dept. in January 2017

Optimum Allocation of Management Resources

- ◆ Building global IT system

Forecast for FY2017

(Billion yen)

	FY2017	For Reference FY2016	Difference
Net Sales	530.0	485.2	44.8
Operating Income	70.0	67.8	2.2
Ordinary Income	68.0	66.2	1.8
Net Income*	42.0	40.4	1.6

Domestic naphtha
(JPY1,000/kl)

¥36

¥33

USD (average)

¥110

¥109

EUR (average)

¥120

¥120

*Net Income Attributable to Owners of the Parent

Key Initiatives for FY2017

Implementation of specific measures based on the main management strategies of GS-STEP

Deepening of Core Businesses

- Optimize production at 4 global bases for PVA resin
- Smooth startup of new facility for optical-use PVA film
- Conduct timely capacity expansion to meet growing demand for water-soluble PVA film
- Strengthen marketing for automotive applications for PVB film
- Decide on commercialization of isoprene, elastomer and *GENESTAR* at new Thai plant

Technological Innovation

- Raise performance with development of resin raw materials for film products
- Strengthen catalyst development

Next-Generation Growth Model

- Accelerate enhancement/expansion of carbon materials business

Optimum Allocation of Management Resources

- Introduce global SAP system
- Begin operation of global HR system

Dividends

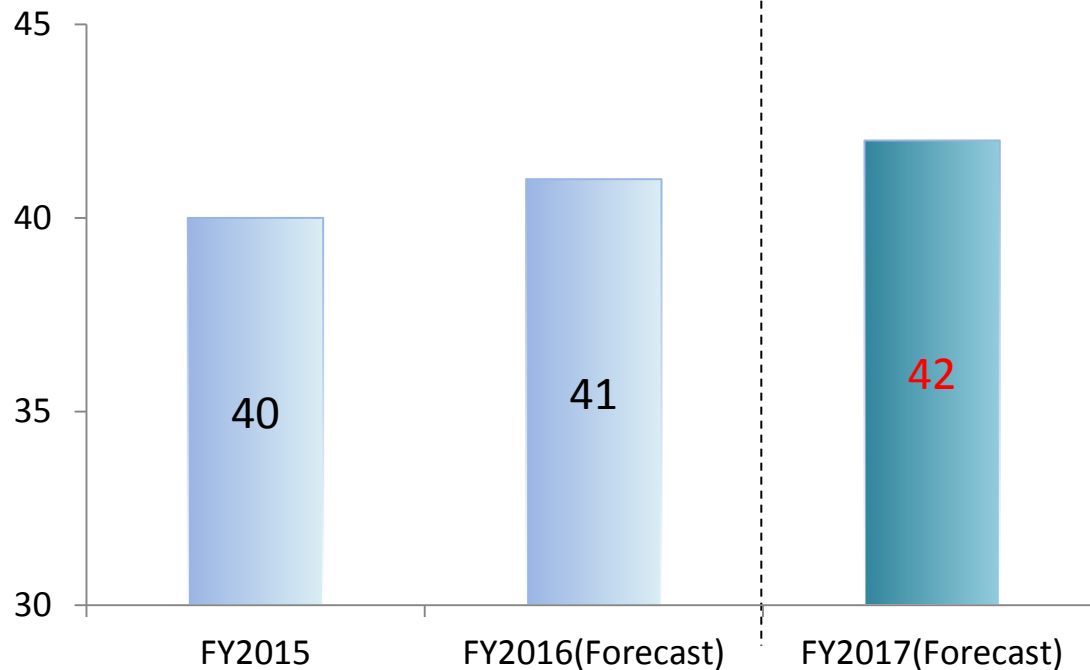
FY2016: ¥41 per share scheduled

(interim; ¥20, year-end; ¥21)

FY2017: ¥42 per share scheduled

(interim; ¥20, year-end; ¥22)

(Dividends: yen per share)



Profit allocation during GS-STEP

Total return ratio: 35% or higher; and

Annual dividends: ¥36 per share or higher



FY2016 Results (Details)

KURARAY CO., LTD.

Sales and Operating Income by Segment

(Billion yen)

	FY2016		FY2015		Difference	
	Net Sales	Operating Income	Net Sales	Operating Income	Net Sales	Operating Income
Vinyl Acetate	253.2	58.5	274.7	55.7	(21.5)	2.8
Isoprene	51.1	6.9	55.0	6.9	(3.9)	0
Functional Materials	52.2	4.6	56.9	5.6	(4.7)	(1.0)
Fibers & Textiles	48.6	6.0	46.3	4.1	2.3	1.9
Trading	119.5	3.8	119.6	3.9	(0.1)	(0.1)
Other Business	63.8	2.0	69.6	2.8	(5.8)	(0.8)
Elimination & Corporate	(103.2)	(14.1)	(100.5)	(12.9)	(2.7)	(1.2)
Total	485.2	67.8	521.7	66.1	(36.5)	1.7

Overview of Main Businesses in FY2016

PVA resin	Unable to absorb depreciation and other costs because the new U.S. plant did not achieve stable production.
PVA film	Sales volume of optical-use PVA film recovered as LCD panels reached the end of a stage of production adjustments. Sales of water-soluble PVA film were firm.
PVB film	Sales were favorable.
<i>EVAL</i>	Favorably expansion for both food packaging and automotive gas tank applications
Isoprene	Firm sales of fine chemicals, <i>SEPTON</i> thermoplastic elastomer and liquid rubber
<i>GENESTAR</i>	Sales continued to expand for automotive applications and rebounded for connector applications. Sales for LED reflector applications continued to struggle.
Methacrylic resin	Recovery in sales volume for some resin applications and monomers, which were affected by worsening market conditions.
Medical	Sales were favorable due to greater sales synergy from business integration in addition to an increase in new dental material products.
<i>CLARINO</i>	Sales were unable to absorb the impact of the stronger yen in currency translation.
Fibers and textiles	Sales of <i>KURALON</i> for high-value-added applications were brisk. Sales of consumer goods and materials, especially <i>KURAFLEX</i> , were favorable.

Cash Flow for FY2016

(Billion yen)

	FY2016	FY2015	Difference	
Operating CF	93.9	93.2	0.7	
Investing CF*	(49.3)	(44.1)	(5.2)	
Free CF*	44.6	49.1	(4.5)	
M&A	0	(4.4)	4.4	
EPS	¥114.98	¥101.84	¥13.14	(12.9%)
BPS	¥1459.34	¥1,412.46	¥46.88	(3.3%)
CAPEX(Decision basis)	48.9	58.0	(9.1)	
CAPEX(Acceptance basis)	53.6	45.0	8.6	
Depreciation and Amortization (incl. amortization of goodwill)	41.6	44.1	(2.5)	
R&D Expenses	19.8	19.1	0.7	

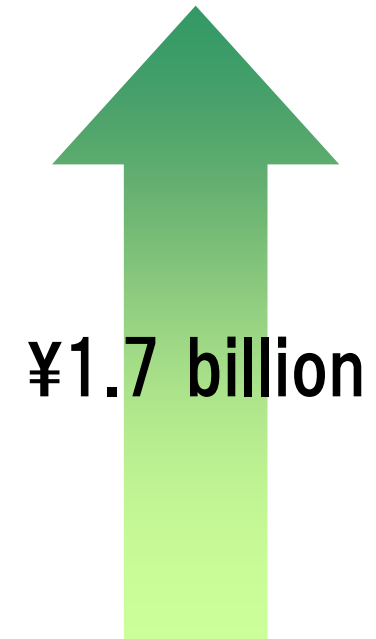
* Cash flows from investing activities and free cash flow exclude net cash used in fund management and M&A.

Factors Affecting the Change in Operating Income

FY2016

¥67.8 billion

Sales Volume	0
Utilization	2.0
Depreciation and Amortization (incl. Amortization of Goodwill)	2.5
Raw Materials and Fuel (excl. Effect of Foreign Exchange)	13.0
Selling Price, Product Mix	(8.5)
Foreign Exchange	(5.5)
Expenses and Others	(1.8)



FY2015

¥66.1 billion

		FY2015	FY2016
<u>Raw Materials and Fuel and Foreign Exchange</u>	Domestic naphtha (JPY1,000/kl)	¥49	¥33
	USD (average)	¥121	¥109
	EUR (average)	¥134	¥120

Balance Sheet [1]: Assets

(Billion yen)

	Dec. 31, 2016	Dec. 31, 2015	Difference
Current Assets	325.0	296.5	28.5
Noncurrent Assets	400.5	405.3	(4.8)
Total Assets	725.4	701.8	23.6

Reference: Exchange rates at end of period

	Dec. 31, 2016	Dec. 31, 2015
JPY/USD	116	121
JPY/EUR	123	132

Balance Sheet [2]: Liabilities and Net Assets

(Billion yen)

	Dec. 31, 2016	Dec. 31, 2015	Difference
Current Liabilities	96.1	95.5	0.6
Noncurrent Liabilities	108.3	102.7	5.6
Total Liabilities	204.4	198.2	6.2
Net Assets	521.0	503.6	17.4
Total Liabilities and Net Assets	725.4	701.8	23.6

Reference: Exchange rates at end of period

	Dec. 31, 2016	Dec. 31, 2015
JPY/USD	116	121
JPY/EUR	123	132

Forecast for FY2017

(Billion yen)

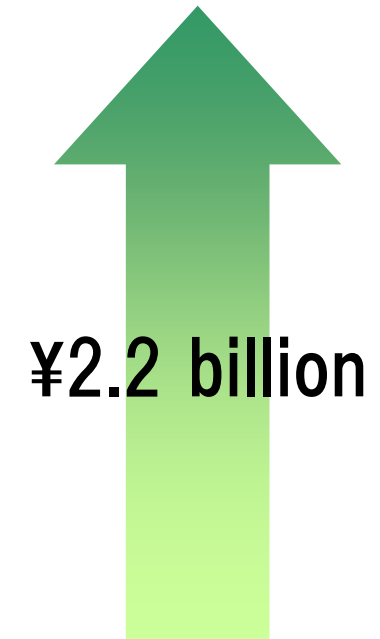
	FY2017 Full-Year Forecast	FY2016 Full-Year Results	Difference
Net Sales	530.0	485.2	44.8
Operating Income	70.0	67.8	2.2
Ordinary Income	68.0	66.2	1.8
Net Income	42.0	40.4	1.6
EPS	¥119.49	¥114.98	¥4.51
Dividends per Share	¥42	¥41	¥1
CAPEX (Decision Basis)	54.5	48.9	5.6
CAPEX (Acceptance Basis)	58.5	53.6	4.9
Depreciation and Amortization (incl. Amortization of Goodwill)	39.7	41.6	(1.9)
R&D Expenses	21.0	19.8	1.2

Factors Affecting the Change in Operating Income

FY2017 Forecast

¥70.0 billion

Sales Volume	2.0
Utilization	4.0
Depreciation and Amortization (incl. Amortization of Goodwill)	1.9
Foreign Exchange	0
Raw Materials and Fuel (excl. Effect of Foreign Exchange)	(2.5)
Selling Price, Product Mix	(2.5)
Expenses and Others	(0.7)



FY2016

¥67.8 billion

		FY2016	FY2017
<u>Raw Materials and Fuel and Foreign Exchange</u>	Domestic naphtha (JPY1,000/kl)	¥33	¥36
	USD (average)	¥109	¥110
	EUR (average)	¥120	¥120

Change in Segments

Former Segments (to the fiscal year ended December 31, 2016)

Vinyl Acetate	Remain unchanged
Isoprene	Remain unchanged
Functional Materials	Methacrylate Medical <i>CLARINO</i>
Fibers and Textiles	Remain unchanged
Trading	Remain unchanged
Other Business	Activated Carbon Energy Materials Business Environmental Business Engineering Others



Reclassified Segments (from the fiscal year ending December 31, 2017)

Vinyl Acetate	Remain unchanged
Isoprene	Remain unchanged
Functional Materials	Methacrylate Medical <i>CLARINO</i> Carbon materials(including Energy Materials Business)
Fibers and Textiles	Remain unchanged
Trading	Remain unchanged
Other Business	Environmental Business Engineering Others



Net Sales and Operating Income by Segment (Reclassified Segments)

(Billion yen)

	FY2017 Full-Year Forecast		FY2016 Full-Year Results		Difference	
	Net Sales	Operating Income	Net Sales	Operating Income	Net Sales	Operating Income
Vinyl Acetate	269.0	60.5	253.2	58.5	15.8	2.0
Isoprene	57.5	7.5	51.1	6.9	6.4	0.6
Functional Materials	73.5	5.5	68.0	4.5	5.5	1.0
Fibers & Textiles	52.0	5.5	48.6	6.0	3.4	(0.5)
Trading	125.0	4.0	119.5	3.8	5.5	0.2
Other Business	54.5	2.0	46.3	1.4	8.2	0.6
Elimination & Corporate	(101.5)	(15.0)	(101.4)	(13.3)	(0.1)	(1.7)
Total	530.0	70.0	485.2	67.8	44.8	2.2

Topics: PVB Division

**Business integration after the acquisition
and CAPEX for further growth during GS-STEP**

Development of premium products

- ◆ Trosifol® Sound Control
- ◆ SentryGlas® ionoplast interlayer

2014

Global business integration

Acquisition of Glass Laminating Solutions and Vinyls business from DuPont, US

2004

PVB film business acquired

from HT Troplast AG in Germany

2001

PVB resin business acquired

Acquisition of PVA & PVB Business from Clariant AG, Switzerland

No.1 Share in Architecture; Growth in Automotive

- ◆ Architectural: strengthen product portfolio with PVB film and SentryGlas® ionoplast interlayer
- ◆ Automotive: accelerate development of acoustic film

Integrated raw material chains VAM, PVA and PVB

- ◆ Optimize global raw material supply chains
- ◆ Invest for automotive PVB film expansion in Korea

**Global business
based on
integrated raw
material supply
chains**

Topics: PVB Division

Supply ability of value-added PVB film Capacity expansion in Korea

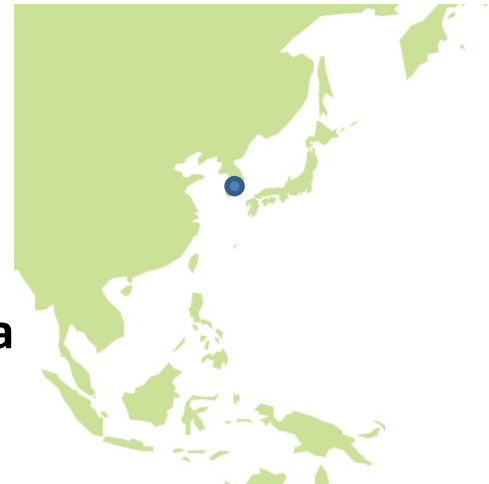
- ◆ **Purpose: To reply to increasing demand of acoustic PVB film**
- ◆ **Location: Asia, as a highly growing market of automobile**

Asia accounts for 53% of annual auto production in the world in 2015*

***Source: a report by Japan Automobile Manufacturers Association, Inc.**

http://www.jama.or.jp/world/world/world_t2.html

- ◆ **Start of operation: Beginning of 2018 (Scheduled)**
- ◆ **Target application: High performance film for automotive**
- ◆ **Target functionality: Acoustic**
- ◆ **Customer: enhance intimacy with major customers in Asia**



Topics: Synergy with GLS Business

Generate Synergy from 2015 to 2017

**Cost
Synergy:
¥3.5 billion**

- Increase captive use ratio of raw materials
- Optimize production
- Optimize sales/technical service, technical know-how, raw materials procurement, distribution, etc.

**Sales
Synergy:
¥0.5 billion**

- Expand products and markets

Increase synergy by expanding sales of high-performance PVB film for automobile applications and strengthening the production base in South Korea.

【Ref.】

Forecast for FY2017

(Billion yen)

	FY2017 Full-Year Forecast		FY2016 Full-Year Results		Difference	
	1H	2H	1H	2H	1H	2H
Net Sales	250.0	280.0	244.1	241.1	5.9	38.9
Operating Income	32.0	38.0	34.6	33.2	(2.6)	4.8
Ordinary Income	31.0	37.0	33.7	32.5	(2.7)	4.5
Net Income*	20.0	22.0	22.4	18.0	(2.4)	4.0

*Net Income Attributable to Owners of the Parent

【Ref.】FY2017 Forecast by Segment (Reclassified Segments)

(Billion yen)

	Net Sales			Operating Income		
	1H	2H	Full Year	1H	2H	Full Year
Vinyl Acetate	128.0	141.0	269.0	28.6	31.9	60.5
Isoprene	26.5	31.0	57.5	2.8	4.7	7.5
Functional Materials	34.0	39.5	73.5	2.3	3.2	5.5
Fibers & Textiles	26.0	26.0	52.0	2.7	2.8	5.5
Trading	60.0	65.0	125.0	1.9	2.1	4.0
Other Business	23.5	31.0	54.5	0.7	1.3	2.0
Eliminations & Corporate	(48.0)	(53.5)	(101.5)	(7.0)	(8.0)	(15.0)
Total	250.0	280.0	530.0	32.0	38.0	70.0

【Ref.】 **Net Sales by Segment (Reclassified Segments)**
 (Billion yen)

	FY2017 Full-Year Forecast		FY2016 Full-Year Results		Difference	
	1H	2H	1H	2H	1H	2H
Vinyl Acetate	128.0	141.0	128.6	124.6	(0.6)	16.4
Isoprene	26.5	31.0	26.0	25.1	0.5	5.9
Functional Materials	34.0	39.5	33.9	34.1	0.1	5.4
Fibers & Textiles	26.0	26.0	23.9	24.7	2.1	1.3
Trading	60.0	65.0	59.1	60.4	0.9	4.6
Other Business	23.5	31.0	22.2	24.1	1.3	6.9
Elimination & Corporate	(48.0)	(53.5)	(49.5)	(51.9)	1.5	(1.6)
Total	250.0	280.0	244.1	241.1	5.9	38.9

【Ref.】 Operating Income by Segment (Reclassified Segments)

(Billion yen)

	FY2017 Full-Year Forecast		FY2016 Full-Year Results		Difference	
	1H	2H	1H	2H	1H	2H
Vinyl Acetate	28.6	31.9	29.4	29.1	(0.8)	2.8
Isoprene	2.8	4.7	4.0	2.9	(1.2)	1.8
Functional Materials	2.3	3.2	2.0	2.5	0.3	0.7
Fibers & Textiles	2.7	2.8	3.0	3.0	(0.3)	(0.2)
Trading	1.9	2.1	1.9	1.9	0	0.2
Other Business	0.7	1.3	0.6	0.8	0.1	0.5
Elimination & Corporate	(7.0)	(8.0)	(6.2)	(7.0)	(0.8)	(1.0)
Total	32.0	38.0	34.6	33.2	(2.6)	4.8

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All figures are rounded to the nearest hundred million yen.

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