

**Business Results for the Fiscal Year Ended
December 31, 2022 (Unaudited)**

February 9, 2023

Kuraray Co., Ltd.

February 9, 2023
Kuraray Co., Ltd.

Consolidated Earnings Report for the Fiscal Year Ended December 31, 2022

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

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Preparation of supplementary documentation for the earnings report: Yes
Holding of earnings results briefing: Yes (for securities analysts and institutional investors)

(Millions of yen rounded down unless otherwise stated)

1. Consolidated Financial Results for the Fiscal Year Ended December 31, 2022 (January 1, 2022 to December 31, 2022)

(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 previous fiscal year.)

(Millions of yen)

| | Net Sales | | Operating Income | | Ordinary Income | | Net Income Attributable to Owners of the Parent | |
|-------------|-----------|------|------------------|------|-----------------|------|---|-----|
| | | (%) | | (%) | | (%) | | (%) |
| Fiscal 2022 | 756,376 | — | 87,139 | — | 84,060 | — | 54,307 | — |
| Fiscal 2021 | 629,370 | 16.2 | 72,256 | 63.0 | 68,765 | 73.0 | 37,262 | — |

Note: Comprehensive income: For fiscal 2022: ¥113,371 million (—%)
For fiscal 2021: ¥75,741 million (—%)

| | Net Income per Share (Yen) | Fully Diluted Net Income per Share (Yen) | Return on Equity (%) | Return on Total Assets (%) | Operating Income/Net Sales (%) |
|-------------|----------------------------|--|----------------------|----------------------------|--------------------------------|
| Fiscal 2022 | 161.13 | 161.00 | 9.0 | 7.3 | 11.5 |
| Fiscal 2021 | 108.32 | 108.23 | 7.0 | 6.4 | 11.5 |

[Reference] Equity in earnings of affiliate: For fiscal 2022: ¥271 million
For fiscal 2021: ¥261 million

Note: Due to the adoption of the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29; March 31, 2020) from January 1, 2022, the figures for fiscal 2022 reflect the application of the newly applied accounting standard. Therefore, the rate of change from the previous year is not shown.

(2) Consolidated Financial Position

(Millions of yen)

| | Total Assets | Net Assets | Equity Ratio (%) | Net Assets per Share (Yen) |
|-------------|--------------|------------|------------------|-------------------------------|
| Fiscal 2022 | 1,221,533 | 668,534 | 52.9 | 1,932.37 |
| Fiscal 2021 | 1,091,014 | 579,602 | 51.3 | 1,627.84 |

[Reference] Equity attributable to owners of the parent: For fiscal 2022: ¥646,750 million

For fiscal 2021: ¥559,984 million

Note: Due to the adoption of the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29; March 31, 2020) from January 1, 2022, the figures for fiscal 2022 reflect the application of the newly applied accounting standard.

(3) Consolidated Cash Flows

(Millions of yen)

| | Cash Flows from Operating Activities | Cash Flows from Investing Activities | Cash Flows from Financing Activities | Cash and Cash Equivalents at End of Period |
|-------------|---|---|---|--|
| Fiscal 2022 | 51,727 | (68,624) | (12,053) | 127,616 |
| Fiscal 2021 | 78,221 | (65,595) | (47,447) | 151,487 |

2. Dividends

(Yen)

| Record Date | Cash Dividends per Share | | | | | Total Dividends Paid (full year) (¥ million) | Payout Ratio (consolidated) (%) | Dividends/Net Assets (consolidated) (%) |
|---------------------------|--------------------------|---------|---------|---------|--------|--|---------------------------------------|--|
| | Mar. 31 | Jun. 30 | Sep. 30 | Dec. 31 | Annual | | | |
| Fiscal 2021 | — | 20.00 | — | 20.00 | 40.00 | 13,760 | 36.9 | 2.6 |
| Fiscal 2022 | — | 21.00 | — | 23.00 | 44.00 | 14,726 | 27.3 | 2.5 |
| Fiscal 2023 (Forecast) | — | 24.00 | — | 24.00 | 48.00 | | 31.5 | |

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 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 | 400,000 | 11.7 | 36,000 | (5.5) | 33,000 | (12.9) | 21,000 | (13.2) | 62.74 |
| Full Fiscal Year | 830,000 | 9.7 | 84,000 | (3.6) | 79,000 | (6.0) | 51,000 | (6.1) | 152.38 |

[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) Changes in Accounting Principles, Procedures and Presentation Methods in Connection with the Preparation of Consolidated Financial Statements
1. Changes following revision of accounting standards: Yes
 2. Changes besides 1. above: No
 3. Changes in accounting estimates: No
 4. Restatement: No
- (3) Number of Shares Issued and Outstanding (Common Shares)
1. Number of shares issued and outstanding (including treasury shares) as of the period-end:

| | |
|-------------------------|--------------------|
| As of December 31, 2022 | 354,863,603 shares |
| As of December 31, 2021 | 354,863,603 shares |
 2. Number of treasury shares as of the period-end:

| | |
|-------------------------|-------------------|
| As of December 31, 2022 | 20,171,061 shares |
| As of December 31, 2021 | 10,858,263 shares |
 3. Average number of shares for the period (cumulative):

| | |
|-------------------------|--------------------|
| As of December 31, 2022 | 337,050,748 shares |
| As of December 31, 2021 | 343,987,048 shares |

[Reference]

Summary of Unconsolidated Results

1. Unconsolidated Results for Fiscal 2022 (January 1, 2022 – December 31, 2022)

(Percentages displayed for net sales, operating income, ordinary income and net income are comparisons with the previous fiscal year.)

(1) Unconsolidated Operating Results

(Millions of yen)

| | Net Sales | | Operating Income | | Ordinary Income | | Net Income | |
|-------------|-----------|----------|------------------|----------|-----------------|----------|------------|----------|
| | | (Change) | | (Change) | | (Change) | | (Change) |
| Fiscal 2022 | 253,982 | — | 35,328 | — | 39,151 | — | 28,026 | — |
| Fiscal 2021 | 252,721 | 14.5 | 40,300 | 44.1 | 41,815 | 37.2 | 28,315 | 79.6 |

| | Net Income per Share (Yen) | Fully Diluted Net Income per Share (Yen) |
|-------------|----------------------------|--|
| Fiscal 2022 | 83.15 | 83.09 |
| Fiscal 2021 | 82.32 | 82.25 |

Note: Due to the adoption of the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29; March 31, 2020) from January 1, 2022, the figures for fiscal 2022 reflect the application of the newly applied accounting standard.

(2) Unconsolidated Financial Position

(Millions of yen)

| | Total Assets | Net Assets | Shareholders' Equity Ratio (%) | Net Assets per Share (Yen) |
|-------------|--------------|------------|-----------------------------------|-------------------------------|
| Fiscal 2022 | 1,010,196 | 405,322 | 40.1 | 1,210.01 |
| Fiscal 2021 | 968,040 | 402,996 | 41.6 | 1,170.28 |

[Reference] Shareholders' equity: For fiscal 2022: ¥404,981 million For fiscal 2021: ¥402,581 million

Note: Due to the adoption of the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29; March 31, 2020) from January 1, 2022, the figures for fiscal 2022 reflect the application of the newly applied accounting standard.

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 (4) Outlook for Fiscal 2023" on page 9 of the Attachment for the assumptions used.

Access to Documents and Other Materials Relating to the Year-End Results Briefing to Be Held on February 9, 2023

Supplementary results presentation materials will be disclosed on TDnet and posted on the Company's website on the day results are announced. In addition, the video of the briefing will be posted on the Company's website immediately after the briefing is closed.

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1. Qualitative Information regarding Business Results

(1) Overview of Consolidated Business Results

In the fiscal year ended December 31, 2022 (“fiscal 2022”), the world economy continued to gradually recover as restrictions on economic activities were eased. However, the future remained unforeseeable as signs of economic deceleration appeared in the latter half of the year due in part to a rise in interest rates in various countries amid rapid inflation and the prolonged Russia-Ukraine crisis.

Amid these circumstances, the Group worked to tackle the three challenges outlined in the medium-term management plan “PASSION 2026,” which was launched at the beginning of the year: 1) Sustainability as an opportunity, 2) Innovations starting from networking, and 3) Transformation of people and organization. In addition, we revised the prices of products that were affected by soaring raw material and fuel costs while focusing on ensuring a steady supply of high value-added products by leveraging the global network we have constructed.

Consequently, consolidated operating results for fiscal 2022 are as follows: net sales were ¥756,376 million (¥629,370 million in the previous fiscal year); operating income was ¥87,139 million (¥72,256 million in the previous fiscal year); ordinary income was ¥84,060 million (¥68,756 million in the previous fiscal year); and net income attributable to owners of the parent was ¥54,307 million (¥37,262 million in the previous fiscal year). Furthermore, we recorded an extraordinary loss of ¥5,785 million as costs related to the suspension of operations due mainly to the suspension of some production facilities at a U.S. subsidiary.

On January 1, 2022, the Company revised its organizational structure and changed the segment classification of the aqua business from “Others” to “Functional Materials.” In addition, the method of allocating eliminations of profits from some internal transactions among segments and corporate has been changed. Figures used in comparisons and analyses of the fiscal year reflect these changes. Furthermore, from January 1, 2022, we have adopted the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29; March 31, 2020). In line with the transition provisions set out in the revision to paragraph 84, the new accounting principle was not retroactively applied to the consolidated figures for the previous fiscal year. Net sales for the Trading segment and elimination & corporate for fiscal 2022 have significantly changed compared to fiscal 2021, mainly due to changes in accounting methods for revenues attributable to agent transactions in the Trading segment as a result of the adoption of the Accounting Standard for Revenue Recognition and other factors. Because of these changes, revenues from such transactions, which have previously been recorded on the basis of total transactional value, are now recorded on a net basis. Due to this change, net sales in the Trading segment were ¥84,985 million lower compared with the original method.

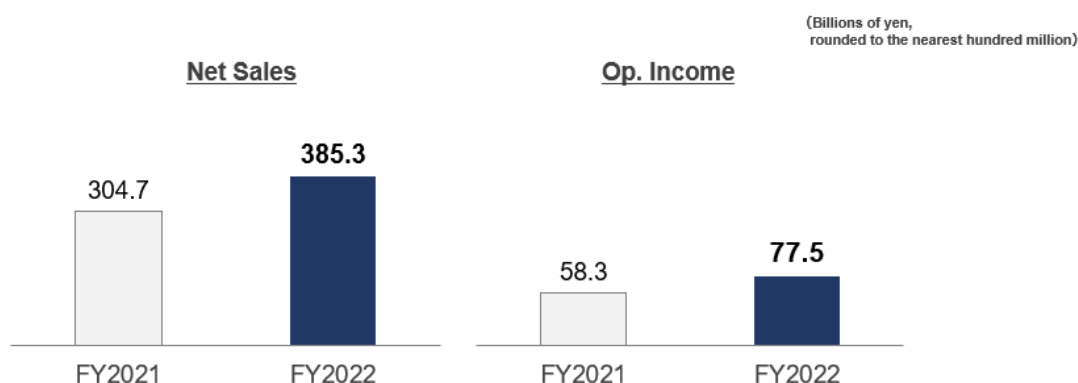
(Millions of yen)

| | FY2021 | | FY2022 | | Change | |
|------------------------------------|-----------|------------------|-----------|------------------|-----------|------------------|
| | Net Sales | Operating Income | Net Sales | Operating Income | Net Sales | Operating Income |
| Vinyl Acetate | 304,690 | 58,255 | 385,345 | 77,547 | 80,655 | 19,292 |
| Isoprene | 61,940 | 6,080 | 65,635 | 4,270 | 3,695 | (1,809) |
| Functional Materials | 142,366 | 8,673 | 174,059 | 8,574 | 31,692 | (99) |
| Fibers and Textiles | 61,082 | 5,608 | 66,859 | 6,736 | 5,776 | 1,127 |
| Trading | 144,027 | 4,842 | 58,844 | 5,121 | (85,182) | 279 |
| Others | 44,327 | 1,206 | 52,051 | 2,679 | 7,723 | 1,473 |
| Elimination & Corporate | (129,064) | (12,409) | (46,420) | (17,792) | 82,644 | (5,382) |
| Total | 629,370 | 72,256 | 756,376 | 87,139 | 127,005 | 14,882 |

Results by Business Segment

Vinyl Acetate

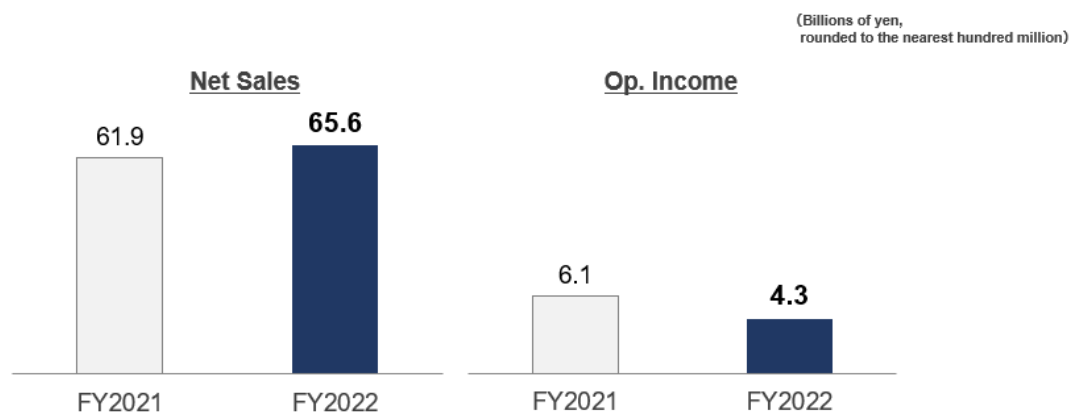
Sales in this segment were ¥385,345 million (¥304,690 million in the previous fiscal year), and segment income was ¥77,547 million (¥58,255 million in the previous fiscal year).



- (1) The sales volume of PVOH resin decreased due to the suspension of some production facilities at a U.S. subsidiary and a contraction in demand in the latter half of the year. On the other hand, we continued shifting to high value-added products while revising prices amid soaring raw material and fuel prices. Shipments of optical-use poval film declined significantly from the middle of the year due to the impact of LCD panel inventory adjustments. In addition, to meet needs for larger TV panel sizes, we decided to make a capital investment at the Kurashiki Plant (slated to begin operating in mid 2024), announcing this intention on May 9, 2022. As for Advanced Interlayer Solutions, sales of PVB film, especially for use in construction applications in North America, held steady year on year. Sales of water-soluble PVOH film were firm for use in unit dose laundry detergent packets.
- (2) As for EVAL™ ethylene vinyl alcohol copolymer (EVOH resin), the sales volume increased due to steady performance for use in food packaging applications as we revised product prices. In response to strong demand, we worked to improve productivity and decided to invest in production capacity expansion in Europe and the United States.

Isoprene

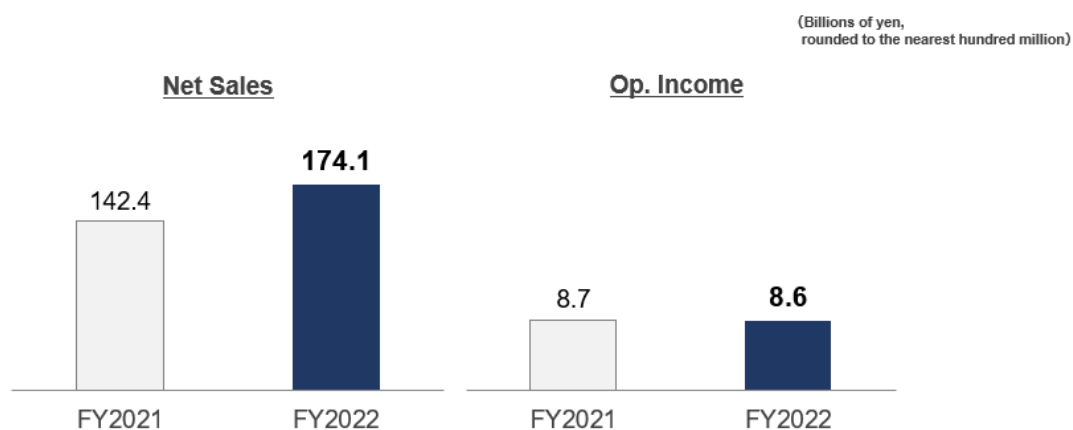
Sales in this segment were ¥65,635 million (¥61,940 million in the previous fiscal year), and segment income was ¥4,270 million (¥6,080 million in the previous fiscal year).



- (1) Amid soaring raw material and fuel prices, we revised the prices of isoprene chemicals and elastomer. Nevertheless, the sales volume decreased due to a temporary difficulty in procuring raw materials and a contraction in demand in the latter half of the year.
- (2) The sales volume of GENESTAR™ heat-resistant polyamide resin decreased due in part to inventory adjustments in automotive parts and electric and electronic devices.

Functional Materials

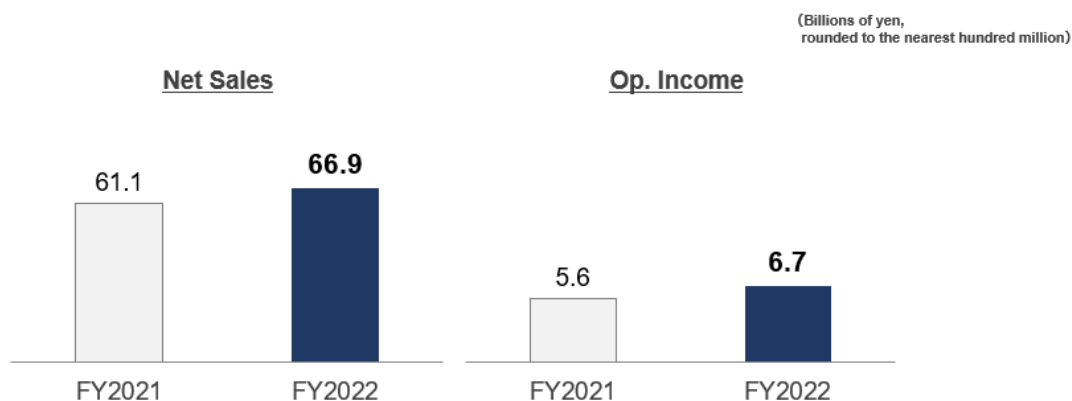
Sales in this segment were ¥174,059 million (¥142,366 million in the previous fiscal year), and segment income was ¥8,574 million (¥8,673 million in the previous fiscal year).



- (1) In the methacrylate business, the sales volume decreased due in part to electric and electronic device inventory adjustments. Soaring raw material prices and deteriorating market conditions also had a negative impact.
- (2) In the medical business, sales of cosmetic dental materials expanded in Japan and overseas.
- (3) In the environmental solutions business, demand for drinking water and water for industrial applications increased, especially in Europe and the United States, and sales of activated carbon expanded. In addition, we revised product prices due to soaring raw material and fuel prices.
- (4) In the aqua business, demand for hollow fiber membranes for water treatment remained steady.

Fibers and Textiles

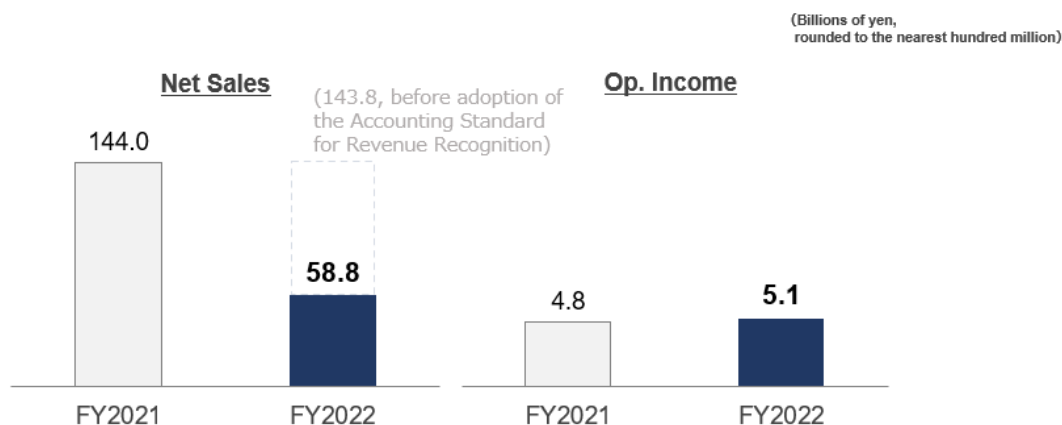
Sales in this segment were ¥66,859 million (¥61,082 million in the previous fiscal year), and segment income was ¥6,736 million (¥5,608 million in the previous fiscal year).



- (1) Sales of CLARINO™ man-made leather expanded for use in automotive and luxury products.
- (2) In fibers and industrial materials, KURALON™ was affected by a delayed recovery in the production of automobiles and an economic slowdown in the latter half of the year, while sales of VECTRAN™ remained favorable, especially for exports.
- (3) In consumer goods and materials, demand for KURAFLEX™ in the restaurant industry was weak despite an increase in shipments for hygienic applications.

Trading

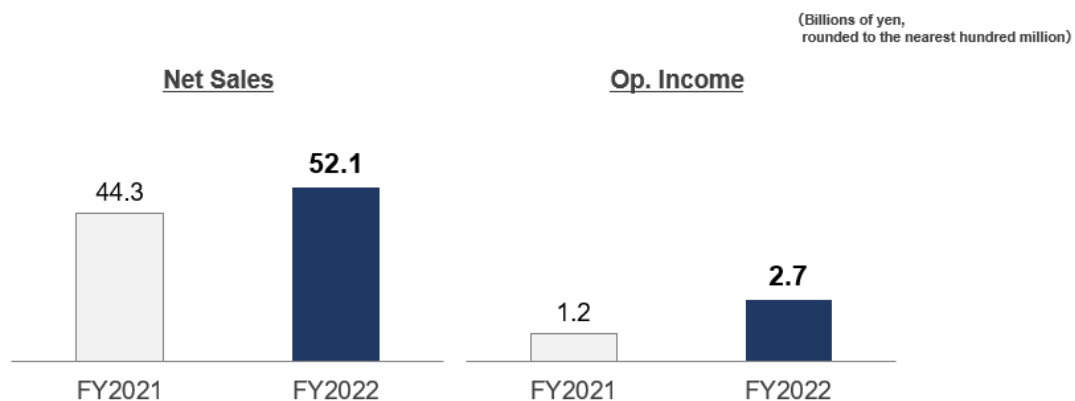
Sales in this segment were ¥58,844 million (¥144,027 million in the previous fiscal year), and segment income was ¥5,121 million (¥4,842 million in the previous fiscal year). In comparison with the previous methods, net sales decreased ¥84,985 million due to the adoption of the Accounting Standard for Revenue Recognition and other factors.



- (1) In fiber-related businesses, sales expanded, especially for wearables and other sportswear.
- (2) Although sales of resins and chemicals had been brisk in the Asian market in the first half of the year, sales were affected by the economic slowdown in the second half of the year.

Others

In Others, domestic affiliates saw sales recover. As a result, segment sales were ¥52,051 million (¥44,327 million in the previous fiscal year), and segment income was ¥2,679 million (¥1,206 million in the previous fiscal year).



(2) Overview of Financial Position

Total assets increased ¥130,518 million from the end of the previous fiscal year to ¥1,221,533 million mainly because of a ¥67,728 million increase in inventories, a ¥21,247 million increase in notes and accounts receivable–trade, and contract assets (notes and accounts receivable–trade in the previous fiscal year), a ¥20,105 million increase in construction in progress, and a ¥18,700 million increase in machinery, equipment and vehicles, net despite a ¥28,218 million decrease in cash and deposits.

Total liabilities increased ¥41,586 million to ¥552,998 million due to factors that included a ¥12,488 million increase in other noncurrent liabilities and the issuance of ¥10,000 million in commercial paper and ¥10,000 million in bonds payable.

Net assets rose ¥88,932 million to ¥668,534 million. Equity attributable to owners of the parent amounted to ¥646,750 million, for an equity ratio of 52.9%.

(3) Overview of Cash Flows

Cash Flows from Operating Activities:

Net cash provided by operating activities totaled ¥51,727 million. Cash provided included ¥77,997 million from income before income taxes and noncontrolling interests and ¥65,456 million in depreciation and amortization. Cash used included a ¥12,500 million increase in notes and accounts receivable – trade, a ¥54,716 million increase in inventories, and ¥19,453 million in income taxes paid.

Cash Flows from Investing Activities:

Net cash used in investing activities totaled ¥68,624 million. Contributing factors included ¥71,635 million used for the purchase of tangible fixed assets and intangible fixed assets.

Cash Flows from Financing Activities:

Net cash used in financing activities was ¥12,053 million. Cash provided included ¥49,375 million in proceeds from long-term loans payable, a ¥10,000 million net increase in commercial paper, and an issuance of ¥10,000 million in corporate bonds. Cash used included ¥55,013 million for the repayment of long-term loans payable, ¥10,002 million for the purchase of treasury stock, and cash dividends paid totaling ¥13,908 million.

The above factors along with the effect of exchange rate changes on cash and cash equivalents resulted in a ¥23,870 million decrease in cash and cash equivalents at the end of the fiscal year to ¥127,616 million.

(Millions of yen)

| | Fiscal Year Ended December 31, 2021 | Fiscal Year Ended December 31, 2022 |
|--|--|--|
| Net cash provided by operating activities | 78,221 | 51,727 |
| Net cash used in investing activities | (65,595) | (68,624) |
| Net cash used in financing activities | (47,447) | (12,053) |
| Effect of exchange rate changes on cash and cash equivalents | 4,224 | 4,943 |
| Net increase in cash and cash equivalents | (30,596) | (24,006) |
| Cash and cash equivalents, beginning of the period | 182,084 | 151,487 |
| Increase in cash and cash equivalents from newly consolidated subsidiaries | — | 136 |
| Cash and cash equivalents, end of the period | 151,487 | 127,616 |

[Reference] Cash Flow Indicators for the Kuraray Group

| | Fiscal Year Ended December 31, 2018 | Fiscal Year Ended December 31, 2019 | Fiscal Year Ended December 31, 2020 | Fiscal Year Ended December 31, 2021 | Fiscal Year Ended December 31, 2022 |
|--|---|---|---|---|---|
| Equity ratio (%) | 58.6 | 53.0 | 47.4 | 51.3 | 52.9 |
| Equity ratio (%; market basis) | 57.1 | 46.2 | 35.9 | 31.5 | 29.0 |
| Ratio of cash flow to interest-bearing liabilities (%) | 2.9 | 2.5 | 4.3 | 3.9 | 6.3 |
| Interest coverage ratio (times) | 62.7 | 68.5 | 57.0 | 50.9 | 43.6 |

Notes:

Equity ratio: Total net assets excluding both subscription rights to shares and noncontrolling interests/total liabilities and net assets

Equity ratio (market basis): Total market value of shares issued and outstanding/total net assets

Ratio of cash flow to interest-bearing liabilities: Interest-bearing liabilities/net cash provided by (used in) operating activities

Interest coverage ratio: Net cash provided by (used in) operating activities/interest expenses

1. All indicators are calculated using the consolidated financial statements.

2. The total market value of shares issued and outstanding was calculated by multiplying the closing price at the end of the fiscal year by the total number of shares issued and outstanding (after subtracting treasury stock) at the end of the fiscal year.

3. The calculations use net cash provided by (used in) operating activities as reported in the consolidated statements of cash flows.

4. Interest-bearing liabilities are all liabilities reported in the consolidated balance sheets that require the payment of interest.

(4) Outlook for Fiscal 2023

The outlook for the economic environment over the next year is expected to shift toward a recovery trajectory in the latter half of the year despite lingering risks of an economic slowdown due to financial tightening, especially in Europe and the United States, in addition to geopolitical risks, including the Russia-Ukraine situation.

Amid this situation, the Group will continue to promote measures in line with its medium-term management plan "PASSION 2026" and stably supply high value-added products by leveraging its comprehensive Group strengths while paying careful attention to trends in demand and the supply chain. In addition, we will safely set up activated carbon manufacturing equipment in the United States, the new water soluble poval film plant in Poland as well as an isoprene base in Thailand, and swiftly make them profitable.

Based on these circumstances, the outlook for fiscal 2023 is as follows.

(Billions of yen, rounded to the nearest hundred million)

| | Fiscal 2022 | Forecast for Fiscal 2023 | Change (Adjusted) |
|---|-------------|--------------------------|-------------------|
| Net sales | 756.4 | 830.0 | 9.7% |
| Operating income | 87.1 | 84.0 | (3.6)% |
| Ordinary income | 84.1 | 79.0 | (6.0)% |
| Net income attributable to owners of the parent | 54.3 | 51.0 | (6.1)% |

For the forecast of operating results for fiscal 2023, we assume average exchange rates of ¥130 to the U.S. dollar and ¥140 to the euro, as well as a domestic naphtha price of ¥69,000 per kiloliter.

[Reference] Forecast of Results by Segment for Fiscal 2023

(Billions of yen, rounded to the nearest hundred million)

| | Net Sales | | Operating Income | |
|-------------------------|-------------|--------------------------|------------------|--------------------------|
| | Fiscal 2022 | Forecast for Fiscal 2023 | Fiscal 2022 | Forecast for Fiscal 2023 |
| Vinyl Acetate | 385.3 | 430.0 | 77.5 | 79.0 |
| Isoprene | 65.6 | 78.0 | 4.3 | 1.0 |
| Functional Materials | 174.1 | 195.0 | 8.6 | 9.0 |
| Fibers and Textiles | 66.9 | 72.0 | 6.7 | 5.5 |
| Trading | 58.8 | 63.0 | 5.1 | 5.2 |
| Others | 52.1 | 41.0 | 2.7 | 1.0 |
| Elimination & Corporate | (46.4) | (49.0) | (17.8) | (16.7) |
| Total | 756.4 | 83.0 | 87.1 | 84.0 |

Note: The above forecasts are based on the best information currently available. Actual operating results may vary significantly due to various factors.

(5) Basic Policies Related to Profit Distribution and Dividends in Fiscal 2022 and 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” (FY2022–FY2026), 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.

For fiscal 2022, we revised our previous forecast and plan to pay out an annual dividend of ¥44 per share comprising an interim dividend of ¥21 and a year-end dividend of ¥23. In addition, in fiscal 2022, we purchased 9,424 thousand shares of treasury stock totaling ¥9,999 million.

For fiscal 2023, we plan to pay out an annual dividend of ¥48 per share comprising an interim dividend of ¥24 and a year-end dividend of ¥24.

2. Management Policies

(1) Fundamental Management Policies

Kuraray’s mission in its corporate statement is: “For people and the planet—to achieve what no one else can.” Based on this, the Company aims to be a “Specialty Chemical Company contributing to customers, society and the planet and growing sustainably by incorporating new innovation platforms into its own technologies.” This is the Kuraray Vision 2026 long-term vision, which we aim to realize by 2026, the centennial of the Company’s founding.

(2) Management Indicator Targets, Medium- to Long-Term Strategies and Issues to Be Addressed

In the five-year medium-term management plan “PASSION 2026,” which began from fiscal 2022, the Group set the three challenges to tackle listed below to realize its long-term Kuraray Vision 2026.

1) Sustainability as an opportunity

Take sustainability as an opportunity and promote it with the collective strength of the whole group

2) Innovations starting from networking

Create a growth driver by connecting people with people, and technologies with technologies, both within and outside the Company

3) Transformation of people and organization

Transform people and organization via the digital-driven process innovation and the promotion of diversity which will, in turn, help us bring to bear a broad range of ideas

In fiscal 2023, which is the second year of “PASSION 2026,” we will steadily carry out capital investment, such as in the isoprene base in Thailand, the water-soluble poval film production base, and the activated carbon manufacturing facility in the United States. We will also direct resource allocation toward growth businesses as we strive to create a more upgraded business portfolio. The Group will continue taking on such challenges as a sustainably growing specialty chemical company looking toward the centennial in 2026.

In addition, since its founding, the Group has conducted management that contributes to sustainable development by aiming to improve natural and living environments through business activities.

We consider sustainability a key management strategy. We select material issues to prioritize for the sustainable development of the Company and society at the management level and work to solve these issues as a unified company.

Under the medium-term management plan “PASSION 2026,” the Group has put together and is implementing a medium-term sustainability plan comprising measures related to sustainability.

We have announced our support of the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) and are diligently working on the four items suggested: governance, strategy, risk management, and indicators and targets. The Group proactively promotes sustainability and will continue contributing to the natural environment and the enriched lives of people everywhere through its highly unique technologies and products. Details of the Group’s sustainability-related initiatives and disclosures based on the TCFD framework are uploaded on the Company’s official website.

| | |
|------------------------------------|---|
| Kuraray Report (Integrated report) | https://www.kuraray.com/csr/report_backnumber |
| Sustainability Website | https://www.kuraray.com/csr |
| Sustainability Medium-term Plan | https://www.kuraray.com/csr/report2022/4p-model |

In addition, there was a fire that resulted in injuries of outside contract workers at a U.S. subsidiary in May 2018, and multiple civil lawsuits were filed seeking damages. Only some of the plaintiffs’ lawsuits are still active. To ensure a similar fire does not occur again, safety inspections have been conducted at our main overseas chemical plants since 2019 in an effort to revise and strengthen safety measures. In addition, we regularly conduct risk assessments, and, regarding identified risks, we strive for mitigation through the taking of additional measures in line with the extent of assumed damage and the level of current safety measures. In 2022, we established a new Global Process Safety Management Audit Team and strengthen safety audits for chemical and activated carbon plants. We identify and assess issues from various viewpoints through organization-wide activities undertaken by this team, which is well versed in safety assurance and enhance the rollout and sharing of knowledge for making improvements.

3. Basic Approach to Selection of Accounting Standards

The Kuraray Group applies Japanese generally accepted accounting principles (“GAAP”). The Kuraray Group is considering the adoption of International Financial Reporting Standards (“IFRS”) and other matters while taking into account various circumstances in Japan and overseas.

4. Consolidated Financial Statements and Notes

(1) Consolidated Balance Sheets

(Millions of yen)

| | December 31, 2021 | December 31, 2022 |
|--|-------------------|-------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and deposits | 151,942 | 123,724 |
| Notes and accounts receivable–trade | 135,768 | — |
| Notes and accounts receivable–trade, and contract assets | — | 157,016 |
| Securities | 3,855 | 4,852 |
| Merchandise and finished goods | 103,505 | 145,851 |
| Work in process | 15,699 | 19,078 |
| Raw materials and supplies | 38,100 | 60,104 |
| Other | 21,745 | 23,815 |
| Allowance for doubtful accounts | (443) | (510) |
| Total current assets | 470,174 | 533,933 |
| Non-current Assets | | |
| Property, plant and equipment | | |
| Buildings and structures, net | 88,801 | 94,745 |
| Machinery, equipment and vehicles, net | 200,500 | 219,200 |
| Land | 22,648 | 23,264 |
| Construction in progress | 117,319 | 137,424 |
| Other, net | 25,997 | 37,926 |
| Total property, plant, and equipment | 455,266 | 512,562 |
| Intangible assets | | |
| Goodwill | 52,635 | 56,058 |
| Customer-related assets | 29,176 | 30,432 |
| Other | 32,243 | 34,993 |
| Total intangible assets | 114,055 | 121,484 |
| Investments and other assets | | |
| Investment securities | 25,689 | 23,194 |
| Long-term loans receivable | 121 | 97 |
| Retirement benefit asset | 3,066 | 2,104 |
| Deferred tax assets | 13,980 | 16,718 |
| Other | 8,686 | 11,458 |
| Allowance for doubtful accounts | (26) | (20) |
| Total investments and other assets | 51,517 | 53,553 |
| Total non-current assets | 620,839 | 687,600 |
| Total Assets | 1,091,014 | 1,221,533 |

(Millions of yen)

| | December 31, 2021 | December 31, 2022 |
|--|-------------------|-------------------|
| LIABILITIES | | |
| Current Liabilities | | |
| Notes and accounts payable–trade | 49,641 | 52,717 |
| Short-term borrowings | 34,480 | 34,480 |
| Commercial paper | — | 10,000 |
| Current portion of bonds payable | — | 10,000 |
| Current portion of long-term borrowings | 55,013 | 30,434 |
| Accrued expenses | 19,863 | 21,075 |
| Income taxes payable | 13,133 | 11,370 |
| Provision for bonuses | 7,996 | 9,132 |
| Other provisions | 89 | 111 |
| Other | 39,246 | 42,008 |
| Total current liabilities | 219,464 | 221,330 |
| Non-current Liabilities | | |
| Bonds payable | 60,000 | 60,000 |
| Long-term borrowings | 157,945 | 179,491 |
| Deferred tax liabilities | 12,022 | 17,279 |
| Provision for retirement benefits for directors (and other officers) | 375 | 294 |
| Provision for environmental measures | 365 | 397 |
| Retirement benefit liability | 25,629 | 25,626 |
| Asset retirement obligations | 4,821 | 5,303 |
| Other | 30,787 | 43,275 |
| Total non-current liabilities | 291,947 | 331,668 |
| Total Liabilities | 511,411 | 552,998 |
| NET ASSETS | | |
| Shareholders' Equity | | |
| Share capital | 88,955 | 88,955 |
| Capital surplus | 87,166 | 87,152 |
| Retained earnings | 359,898 | 399,910 |
| Treasury shares | (15,885) | (25,735) |
| Total shareholders' equity | 520,134 | 550,282 |
| Accumulated Other Comprehensive Income | | |
| Valuation difference on available-for-sale securities | 7,273 | 5,769 |
| Deferred gain or losses on hedges | 219 | 611 |
| Foreign currency translation adjustment | 34,648 | 90,555 |
| Remeasurements of defined benefit plans | (2,291) | (468) |
| Total accumulated other comprehensive income | 39,850 | 96,467 |
| Share Acquisition Rights | 414 | 341 |
| Non-controlling Interests | 19,203 | 21,443 |
| Total Net Assets | 579,602 | 668,534 |
| Total Liabilities and Net Assets | 1,091,014 | 1,221,533 |

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

Consolidated Statements of Income

(Millions of yen)

| | Fiscal 2021 (January 1, 2021 – December 31, 2021) | Fiscal 2022 (January 1, 2022 – December 31, 2022) |
|---|---|---|
| Net sales | 629,370 | 756,376 |
| Cost of sales | 425,234 | 514,713 |
| Gross profit | 204,136 | 241,663 |
| Selling, general and administrative expenses | | |
| Selling expenses | 38,721 | 46,678 |
| General and administrative expenses | 93,157 | 107,845 |
| Total selling, general and administrative expenses | 131,879 | 154,524 |
| Operating income | 72,256 | 87,139 |
| Non-operating income | | |
| Interest income | 141 | 450 |
| Dividend income | 553 | 714 |
| Share of profit of entities accounted for using equity method | 261 | 271 |
| Gain on investments in investment partnerships | 79 | 382 |
| Other | 1,403 | 1,708 |
| Total non-operating income | 2,439 | 3,527 |
| Non-operating expenses | | |
| Interest expenses | 1,627 | 1,457 |
| Foreign exchange loss | 188 | 1,021 |
| Loss on disposal of tangible non-current assets | 639 | 986 |
| Other | 3,475 | 3,140 |
| Total non-operating expenses | 5,930 | 6,606 |
| Ordinary income | 68,765 | 84,060 |
| Extraordinary income | | |
| Gain on sale of investment securities | 563 | 2,614 |
| Insurance claim income | 544 | 1,415 |
| Subsidy income | 510 | — |
| Compensation for transfer | 422 | — |
| Total extraordinary income | 2,040 | 4,030 |
| Extraordinary losses | | |
| Costs related to the suspension of operations | 1,350 | 5,785 |
| Loss on litigation | 4,296 | 1,819 |
| Impairment loss | 1,569 | 1,385 |
| Loss on disaster | 3,284 | 653 |
| Loss on disposal of tangible non-current assets | 1,183 | 450 |
| Loss on tax purpose reduction entry of noncurrent assets | 423 | — |
| Total extraordinary losses | 12,108 | 10,094 |
| Income before income taxes and non-controlling interests | 58,697 | 77,997 |
| Income taxes—current | 19,718 | 21,232 |
| Income taxes for prior periods | 1,386 | — |
| Income taxes—deferred | (767) | 1,155 |
| Total income taxes | 20,336 | 22,388 |
| Net income | 38,360 | 55,608 |
| Net income attributable to non-controlling interests | 1,098 | 1,300 |
| Net income attributable to owners of the parent | 37,262 | 54,307 |

Consolidated Statements of Comprehensive Income

(Millions of yen)

| | Fiscal 2021 (January 1, 2021 – December 31, 2021) | Fiscal 2022 (January 1, 2022 – December 31, 2022) |
|---|---|---|
| Net income | 38,360 | 55,608 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | 426 | (1,504) |
| Deferred gains or losses on hedges | 793 | 645 |
| Foreign currency translation adjustment | 33,130 | 56,798 |
| Remeasurements of defined benefit plans, net of tax | 3,030 | 1,822 |
| Total other comprehensive income | 37,380 | 57,762 |
| Quarterly comprehensive income | 75,741 | 113,371 |
| Comprehensive income attributable to: | | |
| Owners of the parent | 74,491 | 110,925 |
| Non-controlling interests | 1,249 | 2,446 |

(3) Consolidated Statements of Changes in Net Assets

Fiscal 2021 (January 1, 2021 – December 31, 2021)

(Millions of yen)

| | Shareholders' equity | | | | |
|--|----------------------|-----------------|-------------------|----------------|----------------------------|
| | Capital stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| Balance at January 1, 2021 | 88,955 | 87,178 | 336,050 | (16,006) | 496,177 |
| Changes of items during the period | | | | | |
| Cash dividends | | | (13,414) | | (13,414) |
| Net loss attributable to owners of the parent | | | 37,262 | | 37,262 |
| Purchase of treasury stock | | | | (2) | (2) |
| Disposal of treasury stock | | (12) | | 123 | 111 |
| Changes resulting from additions to consolidation | | | | | |
| Other | | | | | |
| Net changes of items other than shareholders' equity | | | | | |
| Total changes of items during the period | — | (12) | 23,847 | 120 | 23,956 |
| Balance at December 31, 2021 | 88,955 | 87,166 | 359,898 | (15,885) | 520,134 |

| | Accumulated other comprehensive income | | | | | Subscription rights to shares | Non-controlling interests | Total net assets |
|--|---|------------------------------------|---|--|--|-------------------------------|---------------------------|------------------|
| | Valuation difference on available-for sale securities | Deferred gains or losses on hedges | Foreign currency translation adjustment | Remeasurement of defined benefit plans | Total accumulated other comprehensive income | | | |
| Balance at January 1, 2021 | 6,847 | (376) | 1,470 | (5,321) | 2,620 | 328 | 16,354 | 515,481 |
| Changes of items during the period | | | | | | | | |
| Cash dividends | | | | | | | | (13,414) |
| Net loss attributable to owners of the parent | | | | | | | | 37,262 |
| Purchase of treasury stock | | | | | | | | (2) |
| Disposal of treasury stock | | | | | | | | 111 |
| Other | | | | | | | | |
| Net changes of items other than shareholders' equity | 426 | 595 | 33,178 | 3,030 | 37,229 | 86 | 2,848 | 40,165 |
| Total changes of items during the period | 426 | 595 | 33,178 | 3,030 | 37,229 | 86 | 2,848 | 64,121 |
| Balance at December 31, 2021 | 7,273 | 219 | 34,648 | (2,291) | 39,850 | 414 | 19,203 | 579,602 |

Fiscal 2022 (January 1, 2022 – December 31, 2022)

(Millions of yen)

| | Shareholders' equity | | | | |
|--|----------------------|-----------------|-------------------|----------------|----------------------------|
| | Capital stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| Balance at January 1, 2022 | 88,955 | 87,166 | 359,898 | (15,885) | 520,134 |
| Cumulative effect of changes in accounting policies | | | (388) | | (388) |
| Restated balance | 88,955 | 87,166 | 359,509 | (15,885) | 519,745 |
| Changes of items during the period | | | | | |
| Cash dividends | | | (13,908) | | (13,908) |
| Net income attributable to owners of the parent | | | 54,307 | | 54,307 |
| Changes resulting from additions to consolidation | | | 2 | | 2 |
| Purchase of treasury stock | | | | (10,002) | (10,002) |
| Disposal of treasury stock | | (14) | | 152 | 138 |
| Net changes of items other than shareholders' equity | | | | | — |
| Total changes of items during the period | — | (14) | 40,401 | (9,849) | 30,537 |
| Balance at December 31, 2022 | 88,955 | 87,152 | 399,910 | (25,735) | 550,282 |

| | Accumulated other comprehensive income | | | | | Subscription rights to shares | Non-controlling interests | Total net assets |
|--|---|------------------------------------|---|--|--|-------------------------------|---------------------------|------------------|
| | Valuation difference on available-for-sale securities | Deferred gains or losses on hedges | Foreign currency translation adjustment | Remeasurement of defined benefit plans | Total accumulated other comprehensive income | | | |
| Balance at January 1, 2022 | 7,273 | 219 | 34,648 | (2,291) | 39,850 | 414 | 19,203 | 579,602 |
| Cumulative effect of changes in accounting policies | | | | | | | | (388) |
| Restated balance | 7,273 | 219 | 34,648 | (2,291) | 39,850 | 414 | 19,203 | 579,213 |
| Changes of items during the period | | | | | | | | |
| Cash dividends | | | | | | | | (13,908) |
| Net income attributable to owners of the parent | | | | | | | | 54,307 |
| Changes resulting from additions to consolidation | | | | | | | | 2 |
| Purchase of treasury stock | | | | | | | | 10,002 |
| Disposal of treasury stock | | | | | | | | 138 |
| Net changes of items other than shareholders' equity | (1,504) | 392 | 55,906 | 1,822 | 56,617 | (73) | 2,240 | 58,783 |
| Total changes of items during the period | (1,504) | 392 | 55,906 | 1,822 | 56,617 | (73) | 2,240 | 89,321 |
| Balance at December 31, 2022 | 5,769 | 611 | 90,555 | (468) | 96,467 | 341 | 21,443 | 668,534 |

(4) Consolidated Statements of Cash Flows

(Millions of yen)

| | Fiscal 2021 (January 1, 2021 – December 31, 2021) | Fiscal 2022 (January 1, 2022 – December 31, 2022) |
|---|---|---|
| Net cash provided by (used in) operating activities | | |
| Income before income taxes and noncontrolling interests | 58,697 | 77,997 |
| Depreciation and amortization | 59,003 | 65,456 |
| Increase (decrease) in allowance for doubtful accounts | (29) | 9 |
| Loss (gain) on sale of investment securities | (563) | (2,614) |
| Loss on litigation | 4,296 | 1,819 |
| Impairment loss | 1,569 | 1,385 |
| Loss on disposal of tangible fixed assets | 1,183 | 450 |
| Foreign exchange losses (gains) | (2,610) | (2,777) |
| Interest and dividend income | (694) | (1,165) |
| Interest expenses | 1,627 | 1,457 |
| Decrease (increase) in notes and accounts receivable – trade | (13,437) | (12,500) |
| Decrease (increase) in inventories | (17,537) | (54,716) |
| Increase (decrease) in notes and accounts payable – trade | 12,244 | 691 |
| Increase (decrease) in provision for bonuses | 858 | 632 |
| Increase (decrease) in net defined benefit liabilities | 2,273 | 678 |
| Decrease (increase) in net defined benefit assets | (624) | 664 |
| Other, net | 10,899 | (4,771) |
| Subtotal | 117,157 | 72,696 |
| Interest and dividends received | 833 | 1,246 |
| Interest paid | (1,537) | (1,186) |
| Income taxes (paid) refund | (14,127) | (19,453) |
| Payments for loss on litigation | (24,104) | (1,575) |
| Net cash provided by (used in) operating activities | 78,221 | 51,727 |
| Net cash provided by (used in) investing activities | | |
| Net decrease (increase) in time deposits | (150) | 3,350 |
| Net decrease (increase) in short-term investment securities | 6,000 | - |
| Proceeds from sale and redemption of investment securities | 1,647 | 3,336 |
| Purchase of tangible fixed assets and intangible fixed assets | (68,408) | (71,635) |
| Payments for disposal of tangible fixed assets and intangible fixed assets | (1,774) | (1,022) |
| Proceeds from sales of tangible fixed assets and intangible fixed assets | 92 | 613 |
| Other, net | (3,000) | (3,266) |
| Net cash provided by (used in) investing activities | (65,595) | (68,624) |

(Millions of yen)

| | Fiscal 2021 (January 1, 2021 – December 31, 2021) | Fiscal 2022 (January 1, 2022 – December 31, 2022) |
|--|---|---|
| Net cash provided by (used in) financing activities | | |
| Net increase (decrease) in commercial paper | (20,000) | 10,000 |
| Proceeds from long-term loans payable | 6,212 | 49,375 |
| Repayment of long-term loans payable | (29) | (55,013) |
| Proceeds from corporate bonds | — | 10,000 |
| Payment for redemption of corporate bonds | (20,000) | — |
| Purchase of treasury stock | (2) | (10,002) |
| Proceeds from sale of treasury stock | 82 | 0 |
| Dividends paid | (13,414) | (13,908) |
| Proceeds from stock issuance to noncontrolling interests | 1,820 | 502 |
| Dividends paid to noncontrolling interests | (220) | (708) |
| Other, net | (1,894) | (2,297) |
| Net cash provided by (used in) financing activities | (47,447) | (12,053) |
| Effect of exchange rate changes on cash and cash equivalents | 4,224 | 4,943 |
| Net increase (decrease) in cash and cash equivalents | (30,596) | (24,006) |
| Cash and cash equivalents, beginning of the period | 182,084 | 151,487 |
| Increase in cash and cash equivalents from newly consolidated subsidiaries | — | 136 |
| Cash and cash equivalents, end of the period | 151,487 | 127,616 |

(5) Notes regarding Consolidated Financial Statements

Notes regarding Going Concern Assumptions

None

Changes in Accounting Principles

Adoption of Accounting Standard for Revenue Recognition

Kuraray has adopted the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) from January 1, 2022, and recognizes revenue for goods or services based on the amount estimated to be received in exchange for such goods or services at the point when control of the promised goods or services is transferred to the customer.

The main changes resulting from the adoption of the standards are as follows.

- (1) In supply transactions with repurchase obligations, we changed the method by which the elimination of supplied goods is not recognized and changed the method by which liabilities related to supply transactions regarding consideration received from suppliers are recognized.
- (2) In contracts with customers that include a variable consideration among their considerations, when the uncertainty related to the amount of the variable consideration is eventually eliminated (restricted to portions that have a high probability of not generating a significant drop in revenue until the uncertainty is eliminated), the variable consideration is included in the transaction price. In addition, a portion of such variable considerations was formerly presented under selling, general and administrative expenses, however, the presentation method has been changed so that it is now presented after being excluded from net sales.
- (3) Regarding transactions where the role of providing products or goods corresponds to that of an agent, we have changed the previous method of recognizing the total consideration received from the customer as revenue to a method in which we recognize the net amount received from the customer, excluding the amount paid to the buyer, as revenue.

Regarding the adoption of the revenue recognition standards, in line with the transition provisions set out in the revision to paragraph 84, the cumulative effect of retroactively applying the new accounting principle before January 1, 2022, is added or subtracted to retained earnings as of January 1, 2022, and the new accounting principle is adopted from January 1, 2022.

As a result, net sales for fiscal 2021 decreased ¥4,651 million. The effect on operating income, ordinary income, and income before income taxes and non-controlling interests is minimal. In addition, the balance of retained earnings as of January 1, 2022, decreased ¥388 million.

Because we adopted the revenue recognition standards, in the consolidated balance sheet for the previous fiscal year, “notes and accounts receivable–trade” previously presented under current assets is included in “notes and accounts receivable–trade and contract assets” from January 1, 2022. In line with the transition provisions set out in Paragraph 89-2 of the revenue recognition standard, we have not revised the presentation method for the previous fiscal year.

Adoption of Accounting Standard for Fair Value Measurement

Kuraray has adopted the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019) from January 1, 2022. The Company has prospectively adopted new accounting policies based on the Accounting Standard for Fair Value Measurement in accordance with the transition provisions in Paragraph 19 of the Accounting Standard for Fair Value Measurement and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019). These changes have no impact on quarterly financial statements.

Application of Accounting Standard Related to U.S. Leases

At overseas affiliates that apply U.S. GAAP, ASC No. 842 pertaining to leases is applied from fiscal 2022. Regarding operating leases (loans) to which ASC No. 840 applies, as a general rule we record all leases as assets and liabilities in the consolidated balance sheet. Regarding the application of this accounting standard, we adopt methods to recognize cumulative effects on the day application begins in line with transition provisions.

As a result, in the consolidated balance sheet for fiscal 2022, “other” presented under tangible non-current assets increased ¥10,731 million, “other” presented under current liabilities increased ¥2,059 million, and “other” presented under non-current liabilities increased ¥9,206 million.

Changes in Presentation Methods

Consolidated Statements of Income

In the previous fiscal year, “gain on investments in investment partnerships” was included in “other” under non-operating income. However, due to its increased financial importance, from fiscal 2022 this item is presented as an independent line item. To reflect this change in presentation method, some items presented in the consolidated financial statements for the previous fiscal year have been restated.

As a result, under non-operating income in the consolidated statements of income for the previous fiscal year, “other” amounting to ¥1,482 million has been restated as “gain on investments in investment partnerships” of ¥79 million and “other” of ¥1,403 million.

Consolidated Statements of Cash Flows

From fiscal 2022, “purchase of investment securities,” which had been an independent line item under net cash provided by (used in) investing activities in the previous fiscal year, is now included in “other” due to diminished financial importance. To reflect this change in presentation method, some items presented in the consolidated financial statements for the previous fiscal year have been restated.

As a result, under net cash provided by (used in) investing activities in the consolidated statements of cash flows for the previous fiscal year, “purchase of investment securities” amounting to ¥88 million and “other” amounting to ¥2,912 million has been restated as “other” of ¥3,000 million.

Segment and Other Information

(Segment Information)

1. Segment Overview

The business segments reported by Kuraray are the business units for which the Company is able to obtain respective financial information separately in order for the Board of Directors to conduct periodic investigations to determine the distribution of management resources and evaluate their business results.

Kuraray adopts an in-house company system where each in-house company conducts business activities and establishes its own comprehensive strategy, both for Japan and for overseas markets, for the products it handles. In addition, among Kuraray subsidiaries, Kuraray Trading Co., Ltd. independently conducts propriety planning and sales activities, including the processing and sale of Kuraray Group products as well as other companies' products.

Consequently, Kuraray has created five business segments for reporting – “Vinyl Acetate,” “Isoprene,” “Functional Materials,” “Fibers and Textiles” and “Trading” – categorized by product group based on the respective in-house companies and the Trading segment.

The Vinyl Acetate segment manufactures and markets functional resins and film, including PVOH, PVB and EVAL™. The Isoprene segment manufactures and markets SEPTON™ thermoplastic elastomer, isoprene-related products and GENESTAR™. The Functional Materials segment manufactures and markets methacrylic resin, medical products, carbon materials and others. The Fibers and Textiles segment manufactures and sells synthetic fibers and textiles, CLARINO™ man-made leather, non-woven fabrics and others. The Trading segment mainly processes and sells synthetic fibers and man-made leather, and conducts planning and marketing for other products produced by the Kuraray Group and other companies.

Matters Related to a Change in Reporting Segments

Following in the organizational revision, we moved the aqua business from Others to Functional Materials from fiscal 2022. Furthermore, segment information for the previous fiscal year has been restated to reflect the changes to the reporting segments.

2. Methods for Calculating Reporting Segment Net Sales, Income and Loss, Assets and Other Items

The accounting method applied to reporting segments is the same as that used in creating the consolidated financial statements. Profits from reporting segments are operating income, and intersegment sales and transfers are based on the prevailing market prices.

Change in Methods for Calculating Reporting Segment Net Sales, Income, and Assets

As stated in Change in Accounting Policies, we apply profit recognition accounting standards from fiscal 2022 and accordingly changed the accounting treatment method related to profit recognition. Similarly, the methods for calculating business segment net sales and profit have been changed.

Due to this change, compared with conventional methods, regarding net sales to outside customers in fiscal 2022, there was a ¥35,854 million increase in Vinyl Acetate, a ¥10,340 million increase in Isoprene, a ¥20,229 million increase in Functional Materials, a ¥10,889 million increase in Fibers and Textiles, a ¥82,536 million decrease in Trading, and a ¥570 million increase in Others.

In addition, regarding intersegment net sales and transfers, there was a decrease in ¥37,055 million in Vinyl Acetate, an ¥11,612 million decrease in Isoprene, a ¥20,438 million decrease in Functional Materials, an ¥11,808 decrease in Fibers and Textiles, a ¥2,448 million decrease in Trading, a ¥844 million decrease in Others, and a ¥84,208 million increase in adjustment.

The impact of these changes on segment income and segment assets is minor.

In addition, we apply ASC No. 842 "Leases" to overseas affiliates in the United States from fiscal 2022. Due to this, regarding operating leases (lessees) in ASC No. 840, we recognize right-to-use assets on the start date of application.

In addition, from fiscal 2022, regarding the elimination of some inter-segment trade income, we have changed the method of allocation to each segment and the entire Company. Furthermore, segment information for the previous fiscal year has been restated to reflect the changed allocation method.

3. Net Sales, Income and Loss, Net Assets and Other Items by Reporting Segment Fiscal 2021 (January 1, 2021 to December 31, 2021)

(Millions of yen)

| | Reporting Segment | | | | | | Others ¹ | Total | Adjustment ^{2,4,5} | Consolidated Statements ³ of Income |
|---|-------------------|----------|----------------------|---------------------|---------|---------|---------------------|---------|-----------------------------|--|
| | Vinyl Acetate | Isoprene | Functional Materials | Fibers and Textiles | Trading | Total | | | | |
| Net sales | | | | | | | | | | |
| (1) Outside customers | 254,814 | 31,994 | 119,397 | 46,023 | 141,306 | 593,536 | 35,834 | 629,370 | — | 629,370 |
| (2) Intersegment sales and transfers | 49,875 | 29,946 | 22,969 | 15,058 | 2,721 | 120,571 | 8,493 | 129,064 | (129,064) | — |
| Total | 304,690 | 61,940 | 142,366 | 61,082 | 144,027 | 714,108 | 44,327 | 758,435 | (129,064) | 629,370 |
| Segment income (loss) | 58,255 | 6,080 | 8,673 | 5,608 | 4,842 | 83,460 | 1,206 | 84,666 | (12,409) | 72,256 |
| Segment assets | 424,726 | 125,446 | 230,645 | 77,188 | 50,320 | 908,327 | 44,839 | 953,166 | 137,847 | 1,091,014 |
| Other items | | | | | | | | | | |
| Depreciation and amortization (other than goodwill) | 32,618 | 2,487 | 11,573 | 4,300 | 86 | 51,066 | 1,083 | 52,150 | 3,194 | 55,344 |
| Impairment loss | 10 | — | 78 | — | — | 88 | — | 88 | 1,481 | 1,569 |
| Amortization of goodwill | 1,290 | — | 2,368 | — | — | 3,659 | — | 3,659 | — | 3,659 |
| Balance of goodwill at end of current period | 14,764 | — | 37,870 | — | — | 52,635 | — | 52,635 | — | 52,635 |
| Investments in equity method affiliates | — | — | — | 2,967 | — | 2,967 | — | 2,967 | — | 2,967 |
| Increase in tangible fixed assets and intangible fixed assets | 20,301 | 14,665 | 17,272 | 5,711 | 555 | 58,507 | 1,262 | 59,769 | 6,177 | 65,947 |

Notes:

1. The “Others” category incorporates operations not included in business segment reporting, including the engineering business.
2. Adjustment is as follows: Included within segment loss of ¥12,409 million is the elimination of intersegment transactions of ¥218 million and corporate expenses of ¥12,191 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.
4. Adjustment is as follows: Included with segment assets of ¥137,847 million is the elimination of intersegment transactions of ¥39,170 million and unallocated corporate assets of ¥177,018 million. Corporate assets mainly comprise the submitting company’s surplus funds, long-term investments and assets related to basic research and administrative divisions at headquarters.
5. The ¥1,481 million adjustment to impairment loss is related to Companywide assets.

Fiscal 2022 (January 1, 2022 to December 31, 2022)

(Millions of yen)

| | Reporting Segment | | | | | | Others ¹ | Total | Adjustment ^{2,4} | Consolidated Statements of Income ³ |
|--|-------------------|---------------|----------------------|---------------------|---------------|----------------|---------------------|----------------|---------------------------|--|
| | Vinyl Acetate | Isoprene | Functional Materials | Fibers and Textiles | Trading | Total | | | | |
| Net sales | | | | | | | | | | |
| Outside customers | 371,214 | 52,449 | 170,329 | 63,102 | 57,155 | 714,252 | 42,124 | 756,376 | — | 756,376 |
| Inter-segment sales and transfers | 14,130 | 13,186 | 3,730 | 3,756 | 1,689 | 36,493 | 9,927 | 46,420 | (46,420) | — |
| Total | 385,345 | 65,635 | 174,059 | 66,859 | 58,844 | 750,745 | 52,051 | 802,796 | (46,420) | 756,376 |
| Segment income (loss) | 77,547 | 4,270 | 8,574 | 6,736 | 5,121 | 102,251 | 2,679 | 104,931 | (17,792) | 87,139 |
| Segment assets | 487,392 | 158,821 | 284,016 | 82,638 | 51,058 | 1,063,926 | 51,246 | 1,115,173 | 106,360 | 1,221,533 |
| Other items | | | | | | | | | | |
| Depreciation and amortization (other than goodwill) | 35,769 | 2,768 | 13,249 | 4,709 | 187 | 56,683 | 1,111 | 57,794 | 3,343 | 61,138 |
| Impairment loss | 1,036 | — | 291 | 18 | — | 1,346 | — | 1,346 | 39 | 1,385 |
| Amortization of goodwill | 1,508 | — | 2,809 | — | — | 4,318 | — | 4,318 | — | 4,318 |
| Balance of goodwill at end of current period | 15,272 | — | 40,786 | — | — | 56,058 | — | 56,058 | — | 56,058 |
| Investments in equity method affiliates | — | — | — | 3,298 | — | 3,298 | — | 3,298 | — | 3,298 |
| Increase in tangible fixed assets and intangible fixed assets ⁵ | 22,303 | 13,978 | 24,981 | 4,879 | 219 | 66,362 | 934 | 67,297 | 5,302 | 72,599 |

Notes:

1. The “Others” category incorporates operations not included in business segment reporting, including the engineering business.
2. Adjustment is as follows: Included within segment loss of ¥17,792 million is the elimination of intersegment transactions of ¥1,887 million and corporate expenses of ¥15,904 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.
4. Adjustment is as follows: Included with segment assets of ¥106,360 million is the elimination of intersegment transactions of ¥47,242 million and unallocated corporate assets of ¥153,602 million. Corporate assets mainly comprise the submitting company’s surplus funds, long-term investments and assets related to basic research and administrative divisions at headquarters.
5. The increase in tangible and intangible noncurrent assets does not include the increase attributable to the application of ASC No. 842 “Leases.”

Related Information

Fiscal 2021 (January 1, 2021 – December 31, 2021) Information by Each Product and Service

1. Information by Each Product and Service (Millions of yen)

| | Vinyl Acetate | Isoprene | Functional Materials | Fibers and Textiles | Others | Total |
|--------------------------------|---------------|----------|----------------------|---------------------|--------|---------|
| Net sales to outside customers | 301,055 | 60,562 | 142,172 | 84,015 | 41,565 | 629,370 |

Notes:

Principal products of each segment are as follows:

Vinyl Acetate: PVOH resin and film, PVB resin and film, EVAL™ resin and others

Isoprene: SEPTON™ thermoplastic elastomer, isoprene chemicals, GENESTAR™ heat-resistant polyamide resin and others

Functional Materials: Methacrylic resin, medical products, carbon materials, aqua business and others

Fibers and Textiles: KURALON™, CLARINO™ man-made leather, KURAFLEX™ non-woven fabrics, MAGICTAPE™ hook and loop fasteners, polyester and others

Others: Engineering business and others

As stated in Segment Information 1) Overview of Reporting segments, we moved the aqua business from Others to Functional Materials from fiscal 2022, and the figures for the previous fiscal year reflect the changed segments.

2. Information by Geographical Segment

(1) Net Sales (Millions of yen)

| Japan | United States | China | Europe | Asia | Other Area | Total |
|---------|---------------|--------|---------|--------|------------|---------|
| 170,532 | 116,400 | 86,774 | 148,405 | 77,528 | 29,729 | 629,370 |

Note: Net sales are classified by country or area based on customer location.

(2) Tangible Fixed Assets (Millions of yen)

| Japan | United States | Thailand | Other Area | Total |
|---------|---------------|----------|------------|---------|
| 185,489 | 124,469 | 62,640 | 82,667 | 455,266 |

3. Major Customers

No information is available as there is no single outside customer accounting for 10% or more of the Company's total net sales.

Fiscal 2022 (January 1, 2022 – December 31, 2022) Information by Each Product and Service

1. Information by Each Product and Service (Millions of yen)

| | Vinyl Acetate | Isoprene | Functional Materials | Fibers and Textiles | Others | Total |
|--------------------------------|---------------|----------|----------------------|---------------------|--------|---------|
| Net sales to outside customers | 378,334 | 64,847 | 172,838 | 93,484 | 46,871 | 756,376 |

Notes:

Principal products of each segment are as follows:

Vinyl Acetate: PVOH resin and film, PVB resin and film, EVAL™ resin and others

Isoprene: SEPTON™ thermoplastic elastomer, isoprene chemicals, GENESTAR™ heat-resistant polyamide resin and others

Functional Materials: Methacrylic resin, medical products, carbon materials, aqua business and

others
 Fibers and Textiles: KURALON™, CLARINO™ man-made leather, KURAFLEX™ non-woven fabrics, MAGICTAPE™ hook and loop fasteners, polyester and others
 Others: Engineering business and others

2. Information by Geographical Segment

(1) Net Sales (Millions of yen)

| Japan | United States | China | Europe | Asia | Other Area | Total |
|---------|---------------|--------|---------|--------|------------|---------|
| 178,774 | 164,673 | 90,028 | 193,938 | 84,974 | 43,987 | 756,376 |

Note: Net sales are classified by country or area based on customer location.

(2) Tangible Fixed Assets (Millions of yen)

| Japan | United States | Thailand | Other Area | Total |
|---------|---------------|----------|------------|---------|
| 187,974 | 156,214 | 79,722 | 88,650 | 512,562 |

3. Major Customers

No information is available as there is no single outside customer accounting for 10% or more of the Company's total net sales.

Noncurrent assets and impairment loss by reporting segment

Fiscal 2021 (January 1, 2021 – December 31, 2021)

Omitted because the same information is provided under segment information

Fiscal 2022 (January 1, 2022 – December 31, 2022)

Omitted because the same information is provided under segment information

Amortization of goodwill and unamortized balances by reporting segment

Fiscal 2021 (January 1, 2021 – December 31, 2021)

Omitted because the same information is provided under segment information

Fiscal 2022 (January 1, 2022 – December 31, 2022)

Omitted because the same information is provided under segment information

Negative goodwill by reporting segment

Fiscal 2021 (January 1, 2021 – December 31, 2021)

None

Fiscal 2022 (January 1, 2022 – December 31, 2022)

None

Per Share Information

| | Fiscal 2021 (January 1, 2021 – December 31, 2021) | Fiscal 2022 (January 1, 2022 – December 31, 2022) |
|---|---|---|
| Net assets per share (yen) | 1,627.84 | 1,932.37 |
| Basic net income (loss) per share (yen) | 108.32 | 161.13 |
| Diluted net income per share (yen) | 108.23 | 161.00 |

Notes: 1. The basis for the computation of basic and diluted income per share is as follows:

| | Fiscal 2021 (January 1, 2021 – December 31, 2021) | Fiscal 2022 (January 1, 2022 – December 31, 2022) |
|--|---|---|
| Basic net income (loss) per share | | |
| Net income (loss) attributable to owners of the parent (millions of yen) | 37,262 | 54,307 |
| Amount unallocated to common stock (millions of yen) | — | — |
| Net income (loss) attributable to owners of the parent allocated to common stock (millions of yen) | 37,262 | 54,307 |
| Average number of common stock outstanding during the fiscal year (thousand shares) | 343,987 | 337,050 |
| Diluted net income per share | | |
| Adjustment made on net income (millions of yen) | — | — |
| Increase of common stocks (thousand shares) | 295 | 266 |
| [Subscription rights to shares included in above] | (295) | (266) |
| Outline of the residual securities not included in the calculation of the diluted net income | — | — |

Significant Subsequent Information

None