

**Business Results for the
Third Quarter of the Fiscal Year Ending
December 31, 2020 (Unaudited)**

November 11, 2020

Kuraray Co., Ltd.

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Consolidated Earnings Report for the Third Quarter of the Fiscal Year Ending December 31, 2020

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

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

(Millions of yen rounded down unless otherwise stated)

1. Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending December 31, 2020 (January 1, 2020 to September 30, 2020)

(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 corresponding period of the previous fiscal year.)

(Millions of yen)

	Net Sales		Operating Income		Ordinary Income		Net Income Attributable to Owners of the Parent	
		(%)		(%)		(%)		(%)
Fiscal 2020 3Q	393,778	(8.2)	32,527	(23.2)	29,823	(21.4)	15,147	(21.8)
Fiscal 2019 3Q	428,914	(4.7)	42,334	(22.1)	37,941	(27.1)	19,357	(41.8)

Note: Comprehensive income: For the fiscal 2020 third quarter: ¥2,525 million (41.4%)
 For the fiscal 2019 third quarter: ¥4,308 million (86.1%)

	Net Income per Share (Yen)	Fully Diluted Net Income per Share (Yen)
Fiscal 2020 3Q	44.05	44.01
Fiscal 2019 3Q	55.86	55.78

(2) Consolidated Financial Position

(Millions of yen)

	Total Assets	Net Assets	Equity Ratio (%)
As of September 30, 2020	1,075,047	528,089	47.7
As of December 31, 2019	991,149	538,545	53.0

[Reference] Equity attributable to owners of the parent: As of September 30, 2020: ¥512,924 million
 As of December 31, 2019: ¥525,151 million

2. Dividends

(Yen)

Record Date	Cash Dividends per Share				
	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Annual
Fiscal 2019	—	20.00	—	22.00	42.00
Fiscal 2020	—	21.00	—		
Fiscal 2020 (Forecast)				19.00	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, 2020 (January 1, 2020 to December 31, 2020)

(Percentage changes displayed for net sales, operating income, ordinary income and net income attributable to owners of the parent are comparisons with the corresponding period of the previous fiscal year.)

(Millions of yen)

	Net Sales		Operating Income		Ordinary Income		Net Income Attributable to Owners of the Parent		Net Income per Share (Yen)
		(%)		(%)		(%)		(%)	
Full Fiscal Year	520,000	(9.7)	40,000	(26.2)	35,000	(27.5)	15,000	—	43.61

Note: Revisions to forecasts of consolidated financial results during this period: Yes

[Reference]

- (1) Changes in Important Subsidiaries during the Period (Changes in Special Subsidiaries Involving Changes in the Scope of Consolidation)
Added: No companies Excluded: No companies
- (2) Adoption of Special Accounting Practices in the Preparation of Quarterly Consolidated Financial Statements
No
- (3) Changes in Accounting Principles, Procedures and Presentation Methods in Connection with the Preparation of Quarterly Consolidated Financial Statements
 1. Changes following revision of accounting standards: No
 2. Changes besides 1. above: No
 3. Changes in accounting estimates: No
 4. Restatement: No
- (4) Number of Shares Issued and Outstanding (Common Shares)
 1. Number of shares issued and outstanding (including treasury stock) as of the period-end:

As of September 30, 2020	354,863,603 shares
As of December 31, 2019	354,863,603 shares
 2. Number of treasury shares as of the period-end:

As of September 30, 2020	10,939,561 shares
As of December 31, 2019	11,130,834 shares
 3. Average number of shares for the period (cumulative):

As of September 30, 2020	343,865,009 shares
As of September 30, 2019	346,518,211 shares

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 “(3) Basis for the Revision in Forecasts, Including Consolidated Operating Results Forecasts” on page 4 of the Attachment for the assumptions used.

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1. Qualitative Information regarding Business Results

(1) Overview of Consolidated Business Results

In the third quarter of fiscal 2020 (January 1, 2020–September 30, 2020), despite a decline in demand in many industries as the spread of COVID-19 continued to grow, economic activities began to gradually restart later on, and China and the United States saw signs of recovery. Even amid this kind of environment, our Group maintained its business activities while thoroughly ensuring safety and working to prevent infection with the aim of supporting industrial supply chains. Consequently, consolidated operating results for the third quarter of fiscal 2020 are as follows: net sales fell ¥35,136 million, or 8.2%, compared with the previous fiscal year to ¥393,778 million; operating income decreased ¥9,807 million, or 23.2%, to ¥32,527 million; ordinary income decreased ¥8,118 million, or 21.4%, to ¥29,823 million; and net income attributable to owners of the parent fell ¥4,210 million, or 21.8%, to ¥15,147 million.

The Group's long-term vision, Kuraray Vision 2026, is to become a "Specialty Chemical Company, growing sustainably by incorporating new foundational platforms into its own technologies." As we continue working to realize this vision, we will steadily take specific measures in line with the key management strategies underlined in the medium-term management plan "PROUD 2020" from a medium- to long-term perspective. Through these efforts, we will also continue working to establish a new business portfolio.

Results by Business Segment

Vinyl Acetate

Sales in this segment decreased 7.3% year on year to ¥186,759 million, and segment income fell 22.3% year on year to ¥27,996 million.

- (1) Sales of PVA resin remained weak due to stagnant global demand and a subsequent production adjustment. Due to a recovery in demand, especially for large displays, sales of optical-use poval film remained firm. Sales of PVB film were affected by stagnant demand for construction and automotive applications. However, sales of water-soluble PVA film continued to expand for use in unit dose detergent packets.
- (2) The sales volume of EVAL™ ethylene vinyl alcohol copolymer (EVOH resin) increased for food packaging applications due to expanded at-home consumption but the sales volume for gas tank applications fell due to a decline in the number of vehicles produced.

Isoprene

Sales in this segment decreased 9.6% year on year to ¥36,143 million, and segment income fell 48.1% year on year to ¥2,130 million.

- (1) Sales of isoprene chemicals and SEPTON™ thermoplastic elastomer were affected by stagnant demand, mainly in China and the rest of Asia.
- (2) Although sales of GENESTAR™ heat-resistant polyamide resin remained steady for electric and electronic device applications, sales for automotive applications were affected by the decline in automobile production.

Functional Materials

Sales in this segment decreased 4.1% year on year to ¥90,675 million, and segment income fell 9.4% year on year to ¥2,891 million.

- (1) The overall methacrylate business was affected by rising raw material costs and worsening market conditions despite an increase in sales of spatter-blocking barrier panels and displays.
- (2) In the medical business, although the dental materials business struggled early on in Europe and the United States as a result of an increase in the number of closed dental clinics due to the pandemic, demand is on track toward a recovery as clinics later reopened.
- (3) As for Calgon Carbon, sales were steady even during the novel coronavirus crisis as this business's products underpin people's daily lives. In the Carbon Materials business, sales increased due to growing demand for water treatment applications. Furthermore, in line with expanding demand for high-performance activated carbon, we decided to expand facilities at Calgon Carbon Corporation's existing U.S. factory in the second quarter. In addition, with expanding demand for industrial applications, we decided in this third quarter to expand the facilities for reactivated carbon at our Belgian subsidiary.

Fibers and Textiles

Sales in this segment fell 15.9% year on year to ¥40,020 million while segment income decreased 38.0% year on year to ¥2,703 million.

- (1) The sales volume of CLARINO™ man-made leather decreased due to receding demand in Asia and Europe.
- (2) In fibers and industrial materials, demand for KURALON™ stagnated. The sales volume decreased for cement reinforcement and rubber materials.
- (3) In consumer goods and materials, sales of KURAFLEX™ were weak as demand for cosmetic and automotive applications stagnated despite an increase in sales for mask-related applications.

Trading

Although sales of products for various applications struggled in fiber-related businesses, demand for resins and chemicals recovered in China, and performance was on par with the previous year. As a result, segment sales decreased 7.7% year on year to ¥89,322 million, and segment income fell 6.1% to ¥2,817 million.

Others

In other business, due to weak sales of domestic affiliates, segment sales declined 16.3% year on year to ¥32,051 million, and segment income fell 40.4% to ¥347 million.

(2) Overview of Financial Position

We increased liquidity in preparation of the novel coronavirus pandemic. Specifically, liquidity comprising cash and cash deposits and short-term investment securities increased ¥103,670 million due mainly to an increase of ¥135,996 million in interest-bearing debt, including increases of ¥30,000 million in corporate bonds, ¥28,000 million in commercial paper, ¥78,364 million in long-term loans payable. In addition to the above, accrued expenses decreased ¥25,927 million, and, as a result total assets increased ¥83,898 million from the end of the previous fiscal year to ¥1,075,047 million,) and total liabilities increased ¥94,353 million to ¥546,957 million.

Total net assets fell ¥10,455 million to ¥528,089 million. Equity attributable to owners of the parent amounted to ¥512,924 million, for an equity ratio of 47.7%.

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

Although the COVID-19 is continuing to spread, we saw signs of recovery in demand for the Company’s mainstay applications, including automobiles, electronic devices, and displays, especially in China and the United States, underpinned by economic stimulus measures. Demand is expected to continue gradually recovering while countries work to control the pandemic and maintain social and economic activities.

We have revised the full-year operating results forecast announced in August 12, 2020 based on the consolidated third quarter operating results, the current business environment, and trends in exchange rates and raw material prices.

Revised Consolidated Operating Results Forecast for Fiscal 2020

	(Millions of yen)				(Yen)
	Net Sales	Operating Income	Ordinary Income	Net Income Attributable to Owners of the Parent	Net Income Per Share
Original Forecast (A)	510,000	33,000	29,000	13,000	37.80
Revised Forecast (B)	520,000	40,000	35,000	15,000	43.61
Amount Adjusted (B – A)	10,000	7,000	6,000	2,000	
Percent Adjusted	2.0	21.2	20.7	15.4	
Ref: FY2019 Results	575,807	54,173	48,271	(1,956)	(5.66)

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

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

(Millions of yen)

	December 31, 2019	September 30, 2020
ASSETS		
Current Assets		
Cash and cash deposits	72,014	202,159
Notes and accounts receivable–trade	121,166	112,185
Short-term investment securities	33,341	6,865
Merchandise and finished goods	101,628	97,518
Work in process	15,679	15,543
Raw materials and supplies	34,696	31,445
Other	16,661	19,697
Allowance for doubtful accounts	(455)	(333)
Total current assets	394,732	485,082
Noncurrent Assets		
Tangible fixed assets		
Buildings and structures, net	79,629	82,708
Machinery, equipment and vehicles, net	205,974	198,644
Land	22,062	22,145
Construction in progress	82,071	94,427
Other, net	25,055	24,246
Total tangible fixed assets	414,793	422,173
Intangible fixed assets		
Goodwill	61,357	56,597
Customer-related assets	33,062	30,037
Other	35,514	32,861
Total intangible fixed assets	129,934	119,496
Investments and other assets		
Investment securities	28,770	24,136
Long-term loans receivable	189	162
Net defined benefit assets	1,977	2,175
Deferred tax assets	13,506	14,819
Others	7,272	7,032
Allowance for doubtful accounts	(28)	(29)
Total investments and other assets	51,688	48,295
Total noncurrent assets	596,416	589,965
Total Assets	991,149	1,075,047

(Millions of yen)

	December 31, 2019	September 30, 2020
LIABILITIES		
Current Liabilities		
Notes and accounts payable—trade	39,883	31,368
Short-term loans payable	34,864	34,495
Commercial paper	24,000	52,000
Current portion of bonds payable	—	10,000
Accrued expenses	50,491	24,564
Income taxes payable	4,307	4,210
Provision for bonuses	6,578	9,107
Other provision	226	192
Other	41,317	32,184
Total current liabilities	201,670	198,124
Noncurrent Liabilities		
Bonds payable	50,000	70,000
Long-term loans payable	128,001	206,366
Deferred tax liabilities	13,743	13,060
Provision for directors' retirement benefits	347	368
Provision for environmental measures	3,692	3,496
Net defined benefit liabilities	22,203	23,661
Asset retirement obligations	4,671	4,572
Other	28,273	27,306
Total noncurrent liabilities	250,933	348,833
Total Liabilities	452,604	546,957
NET ASSETS		
Shareholders' Equity		
Capital stock	88,955	88,955
Capital surplus	87,197	87,178
Retained earnings	348,289	348,627
Treasury stock	(16,286)	(16,006)
Total shareholders' equity	508,156	508,755
Accumulated Other Comprehensive Income		
Valuation difference on available-for-sale securities	7,922	5,908
Deferred gain or losses on hedges	(263)	(230)
Foreign currency translation adjustments	14,575	3,331
Remeasurements of defined benefit plans	(5,238)	(4,839)
Total accumulated other comprehensive income	16,995	4,169
Subscription Rights to Shares	663	328
Noncontrolling Interests	12,729	14,837
Total Net Assets	538,545	528,089
Total Liabilities and Net Assets	991,149	1,075,047

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

Quarterly Consolidated Statements of Income

(Millions of yen)

	Fiscal 2019 3Q (January 1, 2019 – September 30, 2019)	Fiscal 2020 3Q (January 1, 2020 – September 30, 2020)
Net sales	428,914	393,778
Cost of sales	292,167	272,473
Gross profit	136,746	121,305
Selling, general and administrative expenses		
Selling expenses	25,136	22,666
General and administrative expenses	69,274	66,111
Total selling, general and administrative expenses	94,411	88,777
Operating income	42,334	32,527
Non-operating income		
Interest income	231	198
Dividend income	448	370
Equity in earnings of affiliates	253	142
Other	702	961
Total non-operating income	1,636	1,673
Non-operating expenses		
Interest expenses	1,076	1,081
Foreign exchange loss	1,697	171
Other	3,256	3,123
Total non-operating expenses	6,029	4,377
Ordinary income	37,941	29,823
Extraordinary income		
Gain on sale of investment securities	1,568	787
Insurance income	10,691	391
Gain on reversal of share acquisition rights to shares	—	285
Total extraordinary income	12,260	1,464
Extraordinary loss		
Loss on litigation	14,727	5,183
Costs related to the suspension of operations	511	3,249
Loss on disposal of tangible fixed assets	1,131	571
Impairment loss	3,358	—
Disaster loss	858	—
Loss on liquidation of subsidiaries and associates	567	—
Total extraordinary loss	21,156	9,004
Income before income taxes and noncontrolling interests	29,045	22,283
Income taxes—current	11,238	8,780
Income taxes—deferred	(2,409)	(2,323)
Total income taxes	8,828	6,457

	Fiscal 2019 3Q (January 1, 2019 – September 30, 2019)	Fiscal 2020 3Q (January 1, 2020 – September 30, 2020)
Net income	20,216	15,826
Net income attributable to noncontrolling interests	859	679
Net income attributable to owners of the parent	19,357	15,147

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	Fiscal 2019 3Q (January 1, 2019 – September 30, 2019)	Fiscal 2020 3Q (January 1, 2020 – September 30, 2020)
Net income	20,216	15,826
Other comprehensive income		
Valuation difference on available-for-sale securities	(731)	(2,015)
Deferred gains or losses on hedges	30	(73)
Foreign currency translation adjustment	(15,246)	(11,612)
Remeasurements of defined benefit plans	39	399
Total other comprehensive income	(15,908)	(13,300)
Quarterly comprehensive income	4,308	2,525
Comprehensive income attributable to:		
Owners of the parent	3,369	2,320
Noncontrolling interests	938	204

(3) Notes regarding Quarterly Consolidated Financial Statements

Notes regarding Going Concern Assumptions

None

Material Changes in Shareholders' Equity

None

Segment Information, etc.

● Segment Information

I. Third Quarter of Fiscal 2019 (January 1, 2019 to September 30, 2019)

1. Net sales, income and loss by reporting segment

(Millions of yen)

	Reporting Segment						Other Business ¹	Total	Adjustment ²	Consolidated Statements ³ of Income
	Vinyl Acetate	Isoprene	Functional Materials	Fibers and Textiles	Trading	Total				
Net sales										
(1) Outside customers	169,599	21,992	80,453	36,382	94,751	403,179	25,735	428,914	—	428,914
(2) Intersegment sales and transfers	31,837	18,000	14,072	11,202	2,039	77,152	12,558	89,711	(89,711)	—
Total	201,437	39,992	94,525	47,584	96,791	480,332	38,293	518,626	(89,711)	428,914
Segment income (loss)	36,037	4,107	3,192	4,361	3,001	50,700	582	51,282	(8,947)	42,334

Notes:

1. The “Other Business” category incorporates operations not included in business segment reporting, including the environmental business and engineering business.
2. Adjustment is as follows: Included within segment loss of ¥8,947 million is the elimination of intersegment transactions ended as a profit of ¥1,622 million and corporate expenses ended as a loss of ¥10,570 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.

2. Information related to goodwill or impairment loss of fixed assets for each reportable segment

● Important impairment losses related to fixed assets

In the vinyl acetate segment, Kuraray recorded an impairment loss. Furthermore, the amount recorded for said impairment loss was ¥3,358 million in the third quarter of the fiscal year.

II. Third Quarter of Fiscal 2020 (January 1, 2020 to September 30, 2020)

1. Net sales, income and loss by reporting segment

(Millions of yen)

	Reporting Segment						Other Business ¹	Total	Adjustment ²	Consolidated Statements of Income ³
	Vinyl Acetate	Isoprene	Functional Materials	Fibers and Textiles	Trading	Total				
Net sales										
(1) Outside customers	156,675	19,382	77,593	30,335	87,381	371,369	22,409	393,778	—	393,778
(2) Intersegment sales and transfers	30,083	16,760	13,081	9,684	1,940	71,551	9,641	81,192	(81,192)	—
Total	186,759	36,143	90,675	40,020	89,322	442,920	32,051	474,971	(81,192)	393,778
Segment income (loss)	27,996	2,130	2,891	2,703	2,817	38,539	347	38,886	(6,358)	32,527

Notes:

1. The “Other Business” category incorporates operations not included in business segment reporting, including the environmental business and engineering business.
2. Adjustment is as follows: Included within segment loss of ¥6,358 million is the elimination of intersegment transactions ended as a profit of ¥1,448 million and corporate expenses of ended as a loss ¥7,807 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.