Business Results for the Third Quarter of the Fiscal Year Ending December 31, 2018 (Unaudited)

November 8, 2018

Kuraray Co., Ltd.

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Consolidated Earnings Report for the Third Quarter of the Fiscal Year Ending December 31, 2018

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

Representative:
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Preparation of supplementary documentation for the quarterly earnings report: 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, 2018 (January 1, 2018 to September 30, 2018)

(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 2018 3Q	449,929	18.5	57,177	(2.0)	54,832	(4.0)	35,066	(6.5)
Fiscal 2017 3Q	379,663	—	58,342	—	57,089	—	37,496	—

Note: Comprehensive income: For the fiscal 2018 third quarter: ¥32,707 million (−16.8%)
For the fiscal 2017 third quarter: ¥39,320 million (—%)

	Net Income per Share (Yen)	Fully Diluted Net Income per Share (Yen)
Fiscal 2018 3Q	100.28	100.09
Fiscal 2017 3Q	106.58	106.29

Note: Percentage change in comparison with the third quarter of the previous fiscal year is not stated because changes to accounting principles were applied retroactively.

(2) Consolidated Financial Position

(Millions of yen)

	Total Assets	Net Assets	Equity Ratio (%)
As of September 30, 2018	958,310	581,212	59.7
As of December 31, 2017	776,735	565,487	71.7

[Reference] Equity attributable to owners of the parent: As of September 30, 2018: ¥572,048 million
As of December 31, 2017: ¥556,966 million

2. Dividends

(Yen)

	Cash Dividends per Share				
Record Date	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Annual
Fiscal 2017	—	20.00	—	22.00	42.00
Fiscal 2018	—	20.00	—		
Fiscal 2018 (Forecast)				22.00	42.00

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

3. Forecasts of Consolidated Financial Results for the Fiscal Year Ending December 31, 2018 (January 1, 2018 to December 31, 2018)

(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)
		(%)		(%)		(%)		(%)	
Full Fiscal Year	610,000	17.7	77,000	0.8	75,000	1.0	49,000	(10.0)	139.66

Notes: 1. Revisions to forecasts of consolidated financial results during this period: No

2. The percentage changes in comparison with the previous interim period and the previous full fiscal year have been restated to reflect the retroactive application of changes in accounting principles.

[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: Yes
3. Changes in accounting estimates: Yes
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, 2018 354,863,603 shares
   As of December 31, 2017 354,863,603 shares

2. Number of treasury stock as of the period-end:
   As of September 30, 2018 6,189,991 shares
   As of December 31, 2017 4,040,182 shares

3. Average number of shares for the period (cumulative):
   As of September 30, 2018 349,671,638 shares
   As of September 30, 2017 351,812,027 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 “Basis for the Revision in Forecasts, Including Consolidated Operating Results Forecasts” on page 4 of the Attachment for the assumptions used.

Index of the Attachment

1. Qualitative Information regarding Business Results

(1) Overview of Consolidated Business Results

In the third quarter of fiscal 2018 (January 1, 2018–September 30, 2018), the world economy continued to enjoy stable growth due to firm investment and consumption, especially in Europe and the United States. We believe attention still needs to be paid to economic trends in emerging countries where the currency is being devalued and the economic impact of trade negotiations being pursued by the United States. In the chemicals industry, corporate profits were held down, partly due to higher raw material and fuel costs.

The Kuraray Group launched the medium-term management plan "PROUD 2020" from fiscal 2018. It aims to achieve its long-term vision of becoming a "Specialty Chemical Company, growing sustainably by incorporating new foundational platforms into its own technologies." We will steadily take specific measures related to the key management strategies underlined in the plan. We will also continue working to establish a new business portfolio from a medium- to long-term perspective.

Consequently, cumulative consolidated operating results for the third quarter of fiscal 2018 are as follows: net sales rose ¥70,266 million, or 18.5%, compared with the previous fiscal year to ¥449,929 million; operating income declined ¥1,164 million, or 2.0%, to ¥57,177 million; ordinary income decreased ¥2,256 million, or 4.0%, to ¥54,832 million; and net income attributable to owners of the parent fell ¥2,430 million, or 6.5%, to ¥35,066 million.

Furthermore, from the first quarter of fiscal 2018, we unified our method of evaluating products, raw materials, and work in process accounted for under inventories to the first-in, first-out method. Retroactively applying the new method, we have recalculated the previous year's results to facilitate comparisons with the previous year's business performance. In addition, we changed the depreciation method and estimated useful lives used for tangible fixed assets as well as the method of allocating corporate costs to each segment.

In the previous fiscal year, the Clarino business was included in the Functional Materials segment. However, due to the organizational reforms carried out on January 1, 2018, the Company decided to move this business to the Fibers and Textiles segment. Comparisons and analyses for the third quarter of fiscal 2018 are based on the segmentation following this change.

In addition, the acquisition of Calgon Carbon Corporation was completed on March 9, 2018, and said company has been included in the scope of consolidation from the first quarter of fiscal 2018.

Results by Business Segment

Vinyl Acetate

Sales in this segment increased 6.2% year on year to ¥207,514 million, and segment income fell 8.2% year on year to ¥43,395 million. In addition, while sales for each business have grown, the aforementioned changes to the depreciation method and estimated useful lives used for tangible fixed assets as well as the method for allocating corporate costs negatively impacted segment income.

(1) As for PVA resin, results remained favorable due to an improved product mix. At the same time, sales of optical-use poval film rose due to a steady expansion in demand. In addition, to respond to the growing display market and needs for larger panels, in the consolidated first quarter we decided to invest in new facilities at the Kurashiki Plant with operations expected to begin at the end of 2019. The sales volume of water-soluble PVA film increased, especially for unit dose detergent packet applications. Sales of PVB film expanded but were impacted by the higher raw material and fuel prices.

(2) Sales of *EVAL* ethylene vinyl alcohol copolymer (EVOH resin) were affected by shutdown maintenance and delays in construction to expand capacity at the U.S. plant.

Isoprene

Sales in this segment increased 2.1% year on year to ¥42,677 million, and segment income fell 2.6% year on year to ¥6,203 million. In addition, with joint funding from PTT Global Chemical Public Company Limited and Sumitomo Corporation, Kuraray established a joint venture company in the second quarter to manufacture and market butadiene derivatives in Thailand.

(1) In isoprene chemicals, the sales volume of fine chemicals, *SEPTON* thermoplastic elastomer, and liquid rubber expanded but were affected by higher raw material and fuel costs.

(2) The sales volume of *GENESTAR* heat-resistant polyamide resin expanded, especially for automotive and connector applications, but was impacted by higher raw material and fuel prices.

Functional Materials

Sales in this segment jumped 140.7% year on year to ¥99,049 million, and segment income climbed 33.4% year on year to ¥6,652 million. From the first quarter of fiscal 2018 forward, Calgon Carbon results are included in consolidation.

(1) In the methacrylic resin business, sales were favorable due to an expansion in sales of high-value added products in addition to continuing healthy market conditions.

(2) In the medical business, an expansion in sales of zirconia-based dental material products contributed to sales.

(3) Although Calgon Carbon's sales volumes increased, mainly in the United States, in the Carbon Materials business the sales volume of general purpose applications decreased.

Fibers and Textiles
Sales of *CLARINO* man-made leather for use in sports shoes declined but continued to expand for luxury item applications. In consumer goods and materials, sales of high-value-added *KURAFLEX* products expanded. However, sales of *KURALON* were affected by higher raw material and fuel costs. As a result, sales in this segment fell 2.5% year on year to ¥48,232 million while segment income decreased 11.6% year on year to ¥5,414 million.

Trading
In fiber-related businesses, clothing sales remained firm for sportswear and uniforms. Sales of overseas sewn products also expanded. In addition, sales of resins and chemicals, particularly exports, were favorable. As a result, segment sales increased 5.3% year on year to ¥101,962 million, and segment income climbed 4.2% to ¥2,993 million.

Others
In other businesses, segment sales grew 20.6% year on year to ¥42,757 million, and segment income fell 55.9% to ¥755 million due to increased R&D and other costs.

(2) Basis for the Revision in Forecasts, Including Consolidated Operating Results Forecasts
After reviewing the consolidated operating results forecasts released on May 15, 2018, Kuraray had decided not to make any revisions.

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

(Millions of yen)

	December 31, 2017	September 30, 2018
ASSETS		
Current Assets		
Cash and cash deposits	60,904	60,211
Notes and accounts receivable—trade	113,876	130,824
Short-term investment securities	38,296	31,911
Merchandise and finished goods	86,041	104,001
Work in process	14,699	15,159
Raw materials and supplies	28,235	35,749
Deferred tax assets	7,198	7,665
Other	11,652	14,223
Allowance for doubtful accounts	(436)	(566)
Total current assets	360,468	399,179
Noncurrent Assets		
Tangible fixed assets		
Buildings and structures, net	59,267	70,723
Machinery, equipment and vehicles, net	164,803	190,307
Land	19,671	21,441
Construction in progress	38,187	53,684
Other, net	5,266	6,577
Total tangible fixed assets	287,196	342,735
Intangible fixed assets		
Goodwill	24,567	105,725
Customer-related assets	26,070	26,309
Other	26,387	31,880
Total intangible fixed assets	77,024	163,915
Investments and other assets		
Investment securities	35,420	35,751
Long-term loans receivable	229	237
Net defined benefit assets	1,963	1,906
Deferred tax assets	6,739	7,462
Others	7,734	7,162
Allowance for doubtful accounts	(42)	(40)
Total investments and other assets	52,045	52,480
Total noncurrent assets	416,266	559,131
Total assets	776,735	958,310

(Millions of yen)

	December 31, 2017	September 30, 2018
LIABILITIES		
Current Liabilities		
Notes and accounts payable—trade	39,864	44,594
Short-term loans payable	7,864	46,705
Accrued expenses	13,090	12,073
Income taxes payable	13,594	8,078
Provision for bonuses	6,000	9,436
Other provision	8	235
Other	27,631	28,538
Total current liabilities	108,053	149,661
Noncurrent Liabilities		
Bonds payable	10,000	50,000
Long-term loans payable	42,099	120,049
Deferred tax liabilities	15,251	17,290
Provision for directors' retirement benefits	224	224
Provision for environmental measures	6,184	5,876
Net defined benefit liabilities	14,597	18,164
Asset retirement obligations	4,469	4,917
Other	10,367	10,912
Total noncurrent liabilities	103,193	227,435
Total liabilities	211,247	377,097
NET ASSETS		
Shareholders' Equity		
Capital stock	88,955	88,955
Capital surplus	87,219	87,210
Retained earnings	344,653	366,338
Treasury stock	(6,110)	(9,762)
Total shareholders' equity	514,718	532,741
Accumulated Other Comprehensive Income		
Valuation difference on available-for-sale securities	13,007	12,124
Deferred gain or losses on hedges	(603)	(2)
Foreign currency translation adjustments	33,681	31,021
Remeasurements of defined benefit plans	(3,836)	(3,835)
Total accumulated other comprehensive income	42,248	39,307
Subscription Rights to Shares	539	591
Noncontrolling Interests	7,980	8,572
Total Net Assets	565,487	581,212
Total liabilities and net assets	776,735	958,310

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

Quarterly Consolidated Statements of Income

(Millions of yen)

	Fiscal 2017 3Q (January 1, 2017 – September 30, 2017)	Fiscal 2018 3Q (January 1, 2018 – September 30, 2018)
Net sales	379,663	449,929
Cost of sales	244,538	299,321
Gross profit	135,124	150,608
Selling, general and administrative expenses		
Selling expenses	20,858	25,139
General and administrative expenses	55,924	68,290
Total selling, general and administrative expenses	76,782	93,430
Operating income	58,342	57,177
Non-operating income		
Interest income	261	297
Dividend income	1,334	1,167
Equity in earnings of affiliates	22	247
Other	928	1,142
Total non-operating income	2,546	2,854
Non-operating expenses		
Interest expenses	543	965
Foreign exchange loss	1,042	1,653
Other	2,214	2,580
Total non-operating expenses	3,799	5,199
Ordinary income	57,089	54,832
Extraordinary income		
Compensation income	—	336
Gain on transfer of know-how	2,500	—
Gain on sale of investment securities	1,352	—
Total extraordinary income	3,852	336
Extraordinary loss		
Disaster loss	417	1,468
Acquisition expenses	901	1,030
Loss on disposal of tangible fixed assets	—	623
Loss on provision for environmental measures	3,146	—
Loss on anti-monopoly act	1,019	—
Loss on valuation of investment securities	556	—
Total extraordinary loss	6,041	3,121
Income before income taxes and noncontrolling interests	54,900	52,046
Income taxes—current	18,848	16,746
Income taxes—deferred	(2,146)	(594)

(Millions of yen)

	Fiscal 2017 2Q (January 1, 2017 – September 30, 2017)	Fiscal 2018 2Q (January 1, 2018 – September 30, 2018)
Total income taxes	16,701	16,151
Net income	38,198	35,895
Net income attributable to noncontrolling interests	701	829
Net income attributable to owners of the parent	37,496	35,066

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	Fiscal 2017 3Q (January 1, 2017 – September 30, 2017)	Fiscal 2018 3Q (January 1, 2018 – September 30, 2018)
Net income	38,198	35,895
Other comprehensive income (loss)		
Valuation difference on available-for-sale securities	400	(884)
Deferred gains or losses on hedges	(764)	600
Foreign currency translation adjustment	1,065	(2,905)
Remeasurements of defined benefit plans	421	1
Total other comprehensive income (loss)	1,122	(3,188)
Quarterly comprehensive income	39,320	32,707
Comprehensive income attributable to:		
Owners of the parent	38,610	31,878
Noncontrolling interests	710	828

(3) Notes regarding Quarterly Consolidated Financial Statements

Notes regarding Going Concern Assumptions
None

Material Changes in Shareholders' Equity
On May 15, 2018, Kuraray's Board of Directors resolved to acquire treasury stock and, accordingly, the Company purchased 2,200,000 shares. As a result, in the cumulative consolidated third quarter, treasury stock increased ¥3,652 million, totaling ¥9,762 million as of September 30, 2018.

Changes in Accounting Principles, etc.
1. Changes in Accounting Principles
● Changes in the Inventory Evaluation Method
Previously, Kuraray and some consolidated subsidiaries generally applied the total average method to evaluate products, raw materials and work in process within inventories. However, from the first quarter of fiscal 2018, this method was replaced for the most part with the first-in, first-out method. The change in the relevant accounting principle has been retroactively applied and the consolidated financial statements for the previous fiscal year have been restated accordingly.

Due to accelerating global business expansion, over the last few years Kuraray's overseas inventory and net sales ratios have been growing. Prompted by this trend, we reconsidered our inventory evaluation method, taking into account the need to ensure both proper evaluation procedures and Group-wide unity regarding accounting principles and income calculations. To facilitate the evaluation of inventories and more accurately calculate income, Kuraray and some of its consolidated subsidiaries therefore adopted the first-in, first-out method to better track the movement of inventory. We also determined that this method would more accurately reflect the Group's operating situation.

Because of this change, in the third quarter of the previous fiscal year, operating income decreased ¥69 million and ordinary income and net income before income taxes decreased ¥56 million compared to previous results calculated by applying the new method retroactively. In addition, due to the cumulative effect of changes to accounting principles on the book value of net assets at the beginning of the previous fiscal year, the balance of retained earnings at the beginning of the previous fiscal year after the retroactive application of these changes increased ¥129 million.

2. Changes in Accounting Estimates and Changes in Accounting Principles That Are Difficult to Differentiate from Changes in Accounting Estimates
● Changes in the Depreciation Method and the Estimated Useful Lives of Tangible Fixed Assets
In principle, Kuraray and its domestic consolidated subsidiaries originally used the declining-balance method to depreciate tangible fixed assets, except for buildings, structures acquired after April 1, 2016, and leased assets. From the first quarter of fiscal 2018, however, the straight-line method is applied.

As a result of the accelerating global business expansion over the last few years, the ratio of production accounted for by overseas facilities has been growing. Prompted by this trend, we reconsidered the depreciation method used for tangible fixed assets, taking into account the need to both properly calculate income and unify the Group's accounting principles. Kuraray and its domestic consolidated subsidiaries therefore adopted the straight-line method for the depreciation of tangible fixed assets because said tangible fixed assets are stable, making the rate of depreciation also stable. We also determined that this method would more accurately reflect the Group's operating situation.

In addition, the Group has long depreciated machinery and equipment on the basis of estimated useful lives of between 4 and 20 years. However, from the first quarter of fiscal 2018, the Group switched to generally using 10 years.

This switch was prompted by the aforementioned changes in the operating environment, leading us to reconsider the estimated useful life of machinery and equipment in order to more accurately calculate income as well as unify the Group's accounting practices. The new estimate assumes an economically viable period for machinery and equipment that reflects actual usage based on the global supply structure. On this basis, a 10-year useful life is a logical period for depreciation when calculating income. We also determined that the change would more accurately reflect the Group's operating situation.

Because of the abovementioned changes, in the third quarter of the previous fiscal year, operating income, ordinary income, and net income before income taxes each increased ¥849 million compared with amounts calculated under the previous method.

Segment Information, etc.

● Segment Information

I. Third Quarter of Fiscal 2017 (January 1, 2017 to September 30, 2017)

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	171,695	22,427	29,738	36,787	93,511	354,160	25,502	379,663	—	379,663
(2) Inter-segment sales and transfers	23,701	19,354	11,420	12,667	3,293	70,437	9,956	80,394	(80,394)	—
Total	195,396	41,782	41,158	49,455	96,804	424,598	35,459	460,057	(80,394)	379,663
Segment income (loss)	47,279	6,370	4,987	6,126	2,871	67,635	1,711	69,347	(11,005)	58,342

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 ¥11,005 million is the elimination of intersegment transactions of ¥1,018 million and corporate expenses of ¥12,023 million. Corporate expenses mainly comprise headquarters' general and administrative expenses and the submitting company's basic research expenses.
3. Segment income is adjusted to agree with operating income in the consolidated statements of income.

II. Third Quarter of Fiscal 2018 (January 1, 2018 to September 30, 2018)

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	174,205	22,667	84,553	35,557	99,936	416,920	33,009	449,929	—	449,929
(2) Inter-segment sales and transfers	33,309	20,009	14,496	12,675	2,025	82,515	9,747	92,263	(92,263)	—
Total	207,514	42,677	99,049	48,232	101,962	499,436	42,757	542,193	(92,263)	449,929
Segment income (loss)	43,395	6,203	6,652	5,414	2,993	64,658	755	65,414	(8,236)	57,177

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 ¥8,236 million is the elimination of intersegment transactions of ¥1,077 million and corporate expenses of ¥9,313 million. Corporate expenses mainly comprise the submitting company's basic research expenses. Furthermore, although the headquarters' main general and administrative expenses are still recognized as corporate expenses, Kuraray has adopted the method of allocating them to each reporting segment from the first quarter of fiscal 2018.
3. Segment income is adjusted to agree with operating income in the consolidated statements of income.

2. Information regarding the Assets of Each Reporting Segment

In the first quarter of fiscal 2018, with the acquisition of all of Calgon Carbon Corporation's shares and the company's inclusion in the scope of consolidation, the Functional Materials segment's assets increased ¥175,053 million in comparison with December 31, 2017.

3. Information regarding Goodwill or Impairment Loss of Tangible Fixed Assets for Each Reporting Segment

Important Changes in the Amount of Goodwill

In the Functional Materials segment, with the acquisition of all of Calgon Carbon Corporation's shares and said company's inclusion in the scope of consolidation, ¥85,688 million in goodwill was generated in the first quarter of fiscal 2018. Please note, because purchase price allocation has not been completed, the calculation of the amount of goodwill remains tentative.

4. Matters related to changes in reporting segments

Changes in reporting segments

From the first quarter of fiscal 2018, the Clarino business was reclassified into the Fibers and Textiles segment from its original place in the Functional Materials segment following organizational revisions. The segment information for the third quarter of the previous fiscal year has been restated to reflect the change in classification.

Changes in the inventory evaluation method

As mentioned above in the Changes in Accounting Principles section, Kuraray and some of its consolidated subsidiaries originally applied the total average method to evaluate products, raw materials and works in process under inventories. However, from the first quarter of fiscal 2018, the Group switched to using the first-in, first-out method. A comparison with the third quarter results of the previous fiscal year after the retroactive application of the new method shows that segment income for vinyl acetate decreased ¥625 million, segment income for isoprene decreased ¥78 million, segment income for functional materials increased ¥146 million, segment income for fibers and textiles increased ¥605 million, and segment income for other decreased ¥283 million.

Changes in the depreciation method of tangible fixed assets

In principle, the declining-balance depreciation method has been applied to tangible fixed assets, except for buildings, structures acquired after April 1, 2016, and leased assets. However, from the first quarter of fiscal 2018, the Group has switched to the straight-line method. In addition, the Group previously depreciated its machinery and equipment using estimated useful lives of between 4 and 20 years. However, from the first quarter of fiscal 2018, the Group has generally switched to using 10 years instead.

As a result, in the cumulative consolidated third quarter of fiscal 2018, segment income for vinyl acetate decreased ¥1,842 million, segment income for isoprene increased ¥248 million, segment income for functional materials increased ¥691 million, segment income for fibers and textiles increased ¥1,004 million, and segment income for other increased ¥58 million.