

**Business Results for the
Third Quarter of the Fiscal Year Ending
December 31, 2017 (Unaudited)**

November 8, 2017

Kuraray Co., Ltd.

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Consolidated Earnings Report for the Third Quarter of the Fiscal Year Ending December 31, 2017

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

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Preparation of supplementary documentation for the quarterly earnings report: No

Holding of quarterly earnings results briefing: No

(Millions of yen rounded down unless otherwise stated)

1. Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending December 31, 2017 (January 1, 2017 to September 30, 2017)

(1) Consolidated Operating Results

(Percentages 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	
		(Change)		(Change)		(Change)		(Change)
Fiscal 2017 3Q	379,663	5.2%	58,411	11.1%	57,146	10.6%	37,512	9.2%
Fiscal 2016 3Q	360,787	(7.9)%	52,562	6.6%	51,682	6.2%	34,352	7.8%

Note: Comprehensive income: For the fiscal 2017 third quarter: ¥39,328 million —
 For the fiscal 2016 third quarter: (¥2,937 million) —

	Net Income per Share (Yen)	Fully Diluted Net Income per Share (Yen)
Fiscal 2017 3Q	106.63	106.34
Fiscal 2016 3Q	97.78	97.60

(2) Consolidated Financial Position

(Millions of yen)

	Total Assets	Net Assets	Equity Ratio (%)
As of September 30, 2017	756,062	546,659	71.2
As of December 31, 2016	725,433	520,978	70.7

[Reference] Equity attributable to owners of the parent: As of September 30, 2017: ¥538,329 million

As of December 31, 2016: ¥512,959 million

2. Dividends

(Yen)

Record Date	Cash Dividends per Share				
	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Annual
Fiscal 2016	—	20.00	—	21.00	41.00
Fiscal 2017	—	20.00	—		
Fiscal 2017 (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, 2017 (January 1, 2017 to December 31, 2017)

(Percentages 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	510,000	5.1	75,000	10.6	73,000	10.3	46,000	13.9	130.71

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, 2017	354,863,603 shares
As of December 31, 2016	354,863,603 shares
 2. Number of treasury stock as of the period-end:

As of September 30, 2017	2,799,732 shares
As of December 31, 2016	3,363,405 shares
 3. Average number of shares for the period (cumulative):

As of September 30, 2017	351,812,027 shares
As of March 31, 2016	351,325,829 shares

Indication of quarterly review procedure implementation status

This quarterly earnings report is exempt from the quarterly review procedure based upon the Financial Instruments and Exchange Act.

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.

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1. Qualitative Information and Financial Statements

(1) Qualitative Information and Overview of Consolidated Business Results

In the third quarter of fiscal 2017 (January 1, 2017–September 30, 2017), consumption and investment continued to expand despite lingering concerns about the economic impact of political instability, and the world economy remained favorable overall. The Japanese economy maintained its upward trend due to higher corporate profits backed by steady exports and a gradual recovery in overall consumption as employment levels improved. The U.S. economy continued to expand, buoyed by stable corporate profits and personal consumption. In Europe, the economy remained favorable as corporations and consumers maintained a bright outlook. In China, the economy continued to grow on the back of solid personal consumption despite worries about the economic impact of the government's tightening of monetary policy. Economies in emerging countries continued to gradually recover.

Under these circumstances, the Kuraray Group has been successively implementing the business strategies outlined in GS-STEP, its medium-term management plan that started in fiscal 2015, to realize “a high-profit specialty chemical company with a global presence.”

Consequently, cumulative consolidated operating results for the third quarter of fiscal 2017 are as follows: net sales rose ¥18,875 million, or 5.2%, compared with the corresponding period of the previous fiscal year to ¥379,663 million; operating income grew ¥5,848 million, or 11.1%, to ¥58,411 million; ordinary income increased ¥5,463 million, or 10.6%, to ¥57,146 million; and net income attributable to owners of the parent rose ¥3,160 million, or 9.2%, to ¥37,512 million.

In the previous fiscal year, the activated carbon business and energy materials business were included in the Other Business segment. However, due to the absorption-type merger of Kuraray Chemical Co., Ltd. on January 1, 2017, the Company decided to merge these businesses into the carbon materials business and move said business to the Functional Materials segment in fiscal 2017. Comparisons and analyses for the third quarter of fiscal 2017 are based on the segmentation following this change.

Results by Business Segment

Vinyl Acetate

Sales in this segment increased 2.5% year on year to ¥195,396 million, and segment income grew 6.4% year on year to ¥47,904 million.

- (1) Sales of PVA resin were brisk, increasing mainly in the U.S. market. Sales of optical-use poval film rose. In addition, newly installed equipment at the Saijo Plant commenced operations from the second quarter. Sales of water-soluble PVA film were healthy due mainly to continued robust demand for unit dose detergent applications. In PVB film, sales of high added-value products expanded.
- (2) The sales volume of *EVVAL* ethylene vinyl alcohol copolymer (EVOH resin) grew for both automotive gas tank and food packaging applications.

Isoprene

Sales in this segment increased 8.8% year on year to ¥41,782 million, and segment income rose 16.8% year on year to ¥6,449 million.

- (1) In isoprene chemicals, the sales volume of fine chemicals, *SEPTON* thermoplastic elastomer and liquid rubber expanded and was favorable.
- (2) The sales volume of *GENESTAR* heat-resistant polyamide resin for automotive, connector and LED reflector applications expanded and was healthy.

Functional Materials

Sales in this segment climbed 3.7% year on year to ¥52,055 million, and segment income jumped 67.7% year on year to ¥5,729 million.

- (1) Sales of methacrylic were healthy mainly due to improvement in earnings backed by healthy market conditions.
- (2) In the medical business, sales remained favorable with contributions from sales of new zirconia-based dental materials.
- (3) For *CLARINO* man-made leather, sales of products made with both the conventional and the new production process remained favorable.
- (4) In the carbon materials business, sales remained favorable as the sales volume of high-value-added activated carbon products increased.

Fibers and Textiles

Although sales of *KURALON* continued to expand, the effects of higher raw material and fuel costs were felt. Sales of consumer goods and materials were favorable as sales of the high value-added product *KURAFLEX* continued to rise. As a result, sales in this segment rose 8.7% year on year to ¥38,558 million while segment income fell 1.0% year on year to ¥4,632 million.

Trading

In fiber-related businesses, domestic clothing sales were firm for sportswear and uniforms, but exports struggled. The overseas sewn products business expanded due to the effects of increased investment in Vietnam in the previous year. In addition, sales of materials were steady overall, and sales of resins and chemicals were favorable, particularly for exports. As a result, segment sales increased 8.5% year on year to ¥94,636 million, and segment income climbed 8.7% to ¥2,863 million.

Others

In other businesses, overall performance remained healthy. As a result, segment sales grew 11.3% year on year to ¥37,576 million, and segment income jumped 127.6% to ¥2,003 million.

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

Kuraray has revised its consolidated operating results forecasts for the full fiscal year ending December 31, 2017 as shown below in the table to reflect the trend in business performance up to the third quarter of fiscal 2017.

The revised cumulative consolidated operating results forecasts for the full fiscal year ending December 31, 2017 (January 1, 2017 to December 31, 2017) are as follows.

	(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) (Announced August 9, 2017)	530,000	75,000	73,000	46,000	130.71
Revised Forecast (B)	510,000	75,000	73,000	46,000	130.71
Amount Adjusted (B - A)	(20,000)	-	-	-	
Percent Adjusted	(3.8)	-	-	-	

[Reference] Results Forecasts by Segment for the Fiscal Year Ending December 31, 2017

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

	Net Sales	Operating Income
Vinyl Acetate	2,630	625
Isoprene	550	85
Functional Materials	700	75
Fibers and Textiles	500	55
Trading	1,280	40
Other Business	520	25
Elimination & Corporate	(1,080)	(155)
Total	5,100	750

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, 2016	September 30, 2017
ASSETS		
Current Assets		
Cash and cash deposits	51,437	43,415
Notes and accounts receivable—trade	105,010	110,044
Short-term investment securities	39,064	52,329
Merchandise and finished goods	73,504	83,438
Work in process	12,260	14,233
Raw materials and supplies	25,504	25,703
Deferred tax assets	5,974	7,065
Other	12,669	11,600
Allowance for doubtful accounts	(451)	(475)
Total current assets	324,974	347,354
Noncurrent Assets		
Tangible fixed assets		
Buildings and structures, net	54,343	58,865
Machinery, equipment and vehicles, net	162,963	165,544
Land	19,526	19,577
Construction in progress	29,904	33,284
Other, net	5,090	5,388
Total tangible fixed assets	271,827	282,659
Intangible fixed assets		
Goodwill	26,256	24,921
Customer-related assets	28,880	26,495
Other	24,401	25,308
Total intangible fixed assets	79,537	76,726
Investments and other assets		
Investment securities	34,023	32,726
Long-term loans receivable	260	246
Net defined benefit assets	827	1,041
Deferred tax assets	7,097	7,995
Others	6,929	7,354
Allowance for doubtful accounts	(43)	(43)
Total investments and other assets	49,093	49,321
Total noncurrent assets	400,458	408,707
Total assets	725,433	756,062

(Millions of yen)

	December 31, 2016	September 30, 2017
LIABILITIES		
Current Liabilities		
Notes and accounts payable—trade	36,424	31,961
Short-term loans payable	7,626	7,703
Accrued expenses	10,719	10,862
Income taxes payable	7,635	9,475
Provision for bonuses	5,296	8,543
Other provision	4	6
Other	28,430	29,645
Total current liabilities	96,136	98,198
Noncurrent liabilities		
Bonds payable	10,000	10,000
Long-term loans payable	42,172	42,100
Deferred tax liabilities	25,442	24,310
Provision for directors' retirement benefits	209	207
Provision for environmental measures	3,580	6,561
Net defined benefit liabilities	11,542	13,066
Asset retirement obligations	4,192	4,393
Other	11,178	10,565
Total noncurrent liabilities	108,318	111,203
Total liabilities	204,454	209,402
NET ASSETS		
Shareholders' equity		
Capital stock	88,955	88,955
Capital surplus	87,178	87,223
Retained earnings	304,277	327,573
Treasury stock	(3,972)	(3,309)
Total shareholders' equity	476,439	500,444
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	10,913	11,313
Deferred gain or losses on hedges	(110)	(883)
Foreign currency translation adjustments	30,054	31,371
Remeasurements of defined benefit plans	(4,336)	(3,915)
Total accumulated other comprehensive income	36,520	37,885
Subscription rights to shares	719	555
Noncontrolling interests	7,300	7,774
Total net assets	520,978	546,659
Total liabilities and net assets	725,433	756,062

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

Quarterly Consolidated Statements of Income

(Millions of yen)

	Fiscal 2016 3Q (January 1, 2016 – September 30, 2016)	Fiscal 2017 3Q (January 1, 2017 – September 30, 2017)
Net sales	360,787	379,663
Cost of sales	234,581	244,469
Gross profit	126,206	135,194
Selling, general and administrative expenses		
Selling expenses	19,992	20,858
General and administrative expenses	53,650	55,924
Total selling, general and administrative expenses	73,643	76,782
Operating income	52,562	58,411
Non-operating income		
Interest income	169	261
Dividend income	2,491	1,334
Equity in earnings of affiliates	12	10
Other	1,362	928
Total non-operating income	4,035	2,534
Non-operating expenses		
Interest expenses	587	543
Foreign exchange loss	532	1,042
Other	3,795	2,214
Total non-operating expenses	4,915	3,799
Ordinary income	51,682	57,146
Extraordinary income		
Gain on transfer of know-how	—	2,500
Gain on sale of investment securities	—	1,352
Total extraordinary income	—	3,852
Extraordinary loss		
Loss on provision for environmental measures	—	3,146
Loss on anti-monopoly act	—	1,019
Acquisition expenses	—	901
Loss on valuation of investment securities	—	556
Disaster loss	—	417
Total extraordinary loss	—	6,041

(Millions of yen)

	Fiscal 2016 3Q (January 1, 2016 – September 30, 2016)	Fiscal 2017 3Q (January 1, 2017 – September 30, 2017)
Income before income taxes and noncontrolling interests	51,682	54,957
Income taxes—current	16,345	18,848
Income taxes—deferred	289	(2,097)
Total income taxes	16,635	16,751
Net income	35,047	38,205
Net income attributable to noncontrolling interests	694	692
Net income attributable to owners of the parent	34,352	37,512

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	Fiscal 2016 3Q (January 1, 2016 – September 30, 2016)	Fiscal 2017 3Q (January 1, 2017 – September 30, 2017)
Net income	35,047	38,205
Other comprehensive income		
Valuation difference on available-for-sale securities	(2,909)	400
Deferred gains or losses on hedges	(15)	(764)
Foreign currency translation adjustment	(35,729)	1,065
Remeasurements of defined benefit plans	669	421
Total other comprehensive income	(37,984)	1,122
Quarterly comprehensive income	(2,937)	39,328
Comprehensive income attributable to:		
Owners of the parent	(3,631)	38,626
Noncontrolling interests	693	701

(3) Notes regarding Quarterly Consolidated Financial Statements

Notes regarding Going Concern Assumptions

None

Material Changes in Shareholders' Equity

None

Additional Information

Application of the Guidance on Recoverability of Deferred Tax Assets

The Accounting Standards Board of Japan (ASBJ) issued ASBJ Guidance No. 26 “Guidance on Recoverability of Deferred Tax Assets” on March 28, 2016. This guidance is applied from the first quarter of the fiscal year ending December 31, 2017.

Provision for Environmental Measures

From the second quarter, Kuraray records within the provision for environmental measures the estimated costs associated with soil protection measure-related construction and the disposal of PCBs and other waste.

Furthermore, in the cumulative consolidated second quarter, Kuraray recorded an estimated ¥3,146 million for relevant construction as a loss on provision for environmental measures within extraordinary loss.

Business Combination through Acquisition

Kuraray and Calgon Carbon Corporation (Headquarters: Pennsylvania, USA; listed on NYSE) signed an agreement on September 21, 2017, whereby Kuraray will acquire all the shares of Calgon Carbon (“the Purchase”), making it a wholly owned subsidiary.

1. Summary of the business combination

(1) Company name and description of acquired business

Company name: Calgon Carbon Corporation

Description of acquired business: Manufacture and sale of activated carbon and water processing equipment

(2) Main reason for the business combination

Kuraray is developing its activated carbon business, focusing on high-performance activated carbon for such applications as energy, water resources, and air purification.

Calgon Carbon is a global leader in activated carbon with production bases in seven countries worldwide and sales bases in 16 countries, providing cutting-edge solutions for a wide variety of applications and industries.

After the Purchase, Kuraray will position the activated carbon business as one of its future core businesses and steadily implement a raft of strategic measures, including further expanding its business by leveraging Calgon Carbon's solid worldwide business base, accelerating the technological revolution by bringing together both companies' technical and developmental capabilities, and paring down costs by optimizing production systems. Through its supply of high-performance activated carbon materials, Kuraray will continue to contribute to people's health and comfort as well as the sustainability of the planet's environment and resources.

(3) Closing date

To implement the Purchase, it is necessary to gain approval at Calgon Carbon's general meeting of shareholders as well as the approval of the regulatory authorities. The Purchase is expected to be completed by the end of 2017.

(4) Legal form of business combination

Cash purchase of shares

(5) Name of acquired company after business combination

Undecided

(6) Percentage of voting rights acquired

100%

(7) Structure of acquisition

A Kuraray-established merger subsidiary will acquire 100% of the voting rights through the acquisition of shares in exchange for cash payment.

2. Cost of acquisition for the acquired business and breakdown

Acquisition price (estimate): US\$1,107 million (¥121,755 million)

Note: The yen figure was calculated at a rate of ¥110 per U.S. dollar.

**Segment and Other Information
(Segment Information)**

I. Third Quarter of Fiscal 2016 (January 1, 2016 to September 30, 2016)

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	168,860	20,832	36,008	27,128	85,068	337,898	22,889	360,787	—	360,787
(2) Inter-segment sales and transfers	21,739	17,586	14,208	8,345	2,189	64,069	10,865	74,935	(74,935)	—
Total	190,599	38,419	50,217	35,474	87,257	401,968	33,754	435,722	(74,935)	360,787
Segment income (loss)	45,012	5,520	3,417	4,677	2,634	61,262	880	62,142	(9,579)	52,562

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 ¥9,579 million is the elimination of intersegment transactions of ¥1,195 million and corporate expenses of ¥10,774million. 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 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										
(3) Outside customers	171,695	22,427	36,980	29,545	91,800	352,449	27,213	379,663	—	379,663
(4) Inter-segment sales and transfers	23,701	19,354	15,074	9,013	2,836	69,980	10,363	80,343	(80,343)	—
Total	195,396	41,782	52,055	38,558	94,636	422,429	37,576	460,006	(80,343)	379,663
Segment income (loss)	47,904	6,449	5,729	4,632	2,863	67,578	2,003	69,581	(11,170)	58,411

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 ¥11,170 million is the elimination of intersegment transactions of ¥1,018 million and corporate expenses of ¥12,189 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.

2. Change in Reporting Segments

On January 1, 2017, Kuraray absorbed its consolidated subsidiary Kuraray Chemical Co., Ltd. Following this, the Company revised the organization of its business segments in the first quarter of fiscal 2017. The activated carbon business and energy materials business, which had been included in Other Business, were merged into the Carbon Materials Business. This business is now listed under Functional Materials.

Segment information for the third quarter of fiscal 2017 is based on the segmentation following the revision.