

**Consolidated Earnings Report for the
Third Quarter of the Fiscal Year Ending
December 31, 2016 (Unaudited)**

November 8, 2016

Kuraray Co., Ltd.

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

Representative:

Title: Representative Director and President
Name: Masaaki Ito

Contact:

Title: Manager, Corporate Management Planning Office,
Corporate Communications Department
Name: Akiko Ide
Tel: +81-3-6701-1070

(Millions of yen rounded down unless otherwise stated)

Preparation of supplementary documentation for the quarterly earnings report: No

Holding of quarterly earnings results briefing: No

1. Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending December 31, 2016 (January 1, 2016 to September 30, 2016)

(1) Consolidated Operating Results (Cumulative)

(Percentages displayed for net sales, operating income, ordinary income and net income 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 2016 3Q	360,787	(7.9%)	52,562	6.6%	51,682	6.2%	34,352	7.8%
Fiscal 2015 3Q	391,905	—	49,308	—	48,686	—	31,858	—

Note: Comprehensive income: For the fiscal 2016 third quarter: (¥2,937 million) —
For the fiscal 2015 third quarter: ¥26,870 million —

	Net Income per Share (Yen)	Fully Diluted Net Income per Share (Yen)
Fiscal 2016 3Q	97.78	97.60
Fiscal 2015 3Q	90.77	90.52

(2) Consolidated Financial Position

(Millions of yen)

	Total Assets	Net Assets	Shareholders' Equity Ratio (%)
As of September 30, 2016	660,131	485,471	72.3%
As of December 31, 2015	701,770	503,589	70.7%

(Reference)

Shareholders' equity: As of September 30, 2016: ¥477,522 million
As of December 31, 2015: ¥496,062 million

2. Dividends

(Yen)

Record Date	Cash Dividends per Share				
	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Annual
Fiscal 2015	—	18.00	—	22.00	40.00
Fiscal 2016	—	20.00	—		
Fiscal 2016 (Forecast)				20.00	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, 2016 (January 1, 2016 to December 31, 2016)

(Percentages displayed for net sales, operating income, ordinary income and net income 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	500,000	(4.2%)	70,000	5.9%	68,000	5.4%	40,000	11.9%	113.84

Note: Revisions to forecasts of consolidated financial results during this period: No

4. Other

(1) Changes in Important Subsidiaries during the Period (Changes in Special Subsidiaries Involving Changes in the Scope of Consolidation)

No

(2) Adoption of Special Accounting Practices in the Preparation of Quarterly Consolidated Financial Statements

No

(3) Changes in Accounting Policies, Accounting Estimates and Restatement in Connection with the Preparation of Quarterly Consolidated Financial Statements

1. Changes following revision of accounting standards: Yes

2. Changes besides 1. above: No

3. Changes of accounting estimates: No

4. Restatement: No

Note: For details, refer to page 4 of the Attached Materials under the heading, "Items Regarding Summary

Data (and Notes): Changes in Accounting Policies, Accounting Estimates and Restatement.”

(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, 2016	354,863,603 shares
As of December 31, 2015	354,863,603 shares
2. Number of treasury stock as of the period-end:

As of September 30, 2016	3,486,599 shares
As of December 31, 2015	3,658,647 shares
3. Average number of shares for the period (cumulative):

As of September 30, 2016	351,325,829 shares
As of September 30, 2015	350,961,019 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. Furthermore, this report was undergoing the review procedure process at the time of this release.

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 3 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 2016 (January 1, 2016–September 30, 2016), the Japanese economy remained stalled as personal consumption stagnated and the yen began appreciating since the beginning of the period. In the global economy, economic conditions in the United States were favorable with consumer spending and exports leading the way, and the economy in Europe continued to gradually improve. Although the United Kingdom's decision to leave the European Union cast a shadow on Europe's outlook, there has currently been no major impact. Meanwhile, the deceleration in China's economy was halted by the government's successful measures to stimulate consumption. The economies in most emerging nations continued to slow.

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 2016 are as follows: net sales fell ¥31,117 million, or 7.9%, compared with the corresponding period of the previous fiscal year to ¥360,787 million; operating income grew ¥3,254 million, or 6.6%, to ¥52,562 million; ordinary income increased ¥2,996 million, or 6.2%, to ¥51,682 million; and net income attributable to owners of the parent rose ¥2,494 million, or 7.8%, to ¥34,352 million.

Results by Business Segment

Vinyl Acetate

Sales in this segment fell 8.3% year on year to ¥190,599 million, and segment income grew 8.8% year on year to ¥45,012 million.

- (1) Sales of PVA resins were not able to absorb the depreciation and other costs of the new U.S. plant as there was some trouble at the start of operations. Sales of optical-use poval film showed signs of recovery as adjustments in the production of LCD panels reached an appropriate levels. Sales of water-soluble PVA film remained firm. Sales of PVB film stayed brisk.
- (2) Sales of *EVVAL* ethylene vinyl alcohol copolymer (EVOH resin) continued to be healthy for both automotive gas tank and food packaging applications.

Isoprene

Sales in this segment declined 7.7% year on year to ¥38,419 million, and segment income grew 0.7% year on year to ¥5,520 million.

- (1) In isoprene chemicals, sales of fine chemicals, *SEPTON* thermoplastic elastomer and liquid rubber remained firm.

- (2) Sales of *GENESTAR* heat-resistant polyamide resin continued to expand for automotive applications and rebounded for connector applications, but sales for LED reflector applications were still struggling.

Functional Materials

Sales in this segment decreased 8.6% year on year to ¥38,595 million, and segment income fell 17.6% year on year to ¥3,471 million.

- (1) For methacrylic resins, signs of recovery emerged in demand for certain resin applications and monomers that had been affected by poor market conditions.
- (2) In the medical business, sales of dental materials remained brisk due to an expanded range of new product offerings and greater synergies through business integration on the sales front.
- (3) For *CLARINO* man-made leather, the impact of the stronger yen on sales became clear.

Fibers and Textiles

In addition to increased sales of *KURALON* for high value-added applications, sales of consumer goods and materials, especially *KURAFLEX*, remained favorable. As a result, sales in this segment increased 3.4% year on year to ¥35,474 million while segment income grew 56.1% year on year to ¥4,677 million.

Trading

Results from chemical-related businesses remained firm, while sales in fiber-related businesses bore the effects of weak domestic demand. As a result, segment sales decreased 1.7% year on year to ¥87,257 million, and segment income fell 4.4% to ¥2,634 million.

Others

In other businesses, development costs rose due to the addition of the energy materials business in the first consolidated quarter. As a result, segment sales fell 10.0% year on year to ¥46,569 million, and segment income declined 21.7% to ¥1,356 million.

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

Kuraray has not revised full-year consolidated operating results forecast released on August 4, 2016.

2. Items Regarding Summary Data (and Notes)

Changes in Accounting Policies, Accounting Estimates and Restatement

(Changes in Accounting Policies)

1. Adoption of Accounting Standard for Business Combinations

The Accounting Standards Board of Japan (ASBJ) issued ASBJ Statement No. 21 “Revised Accounting Standard for Business Combinations,” ASBJ Statement No. 22 “Revised Accounting Standard for Consolidated Financial Statements,” and ASBJ Statement No. 7 “Revised Accounting Standard for Business Divestitures.” These revised accounting standards are applied from the first quarter of the fiscal year ending December 31, 2016. Accordingly, differences resulting from changes in ownership interest in a subsidiary when control over the subsidiary is retained are recorded under capital surplus, and costs related to acquisition of increased ownership interest are recognized in the period in which they arise. Also, transitional accounting is applied to business combinations performed on or after the beginning of the first quarter of the fiscal year ending December 31, 2016, with revision of purchase price allocation applied to the quarterly consolidated financial statements during the quarter in which the date of the business combination occurs. The presentation method of net income was amended, and “minority interests” were changed to “noncontrolling interests.” For comparison purposes, information for the third quarter of the fiscal year ended December 31, 2015, and for the fiscal year ended December 31, 2015, is shown in accordance with the new standards in the accompanying consolidated financial statements.

Transitional accounting in accordance with Article 58, Paragraph 2, Item 4, of ASBJ Statement No. 21, Article 44, Paragraph 5, Item 4, of ASBJ Statement No. 22, and Article 57, Paragraph 4, Item 4, of ASBJ Statement No. 7 is applied from the beginning of the first quarter of the fiscal year ending December 31, 2016.

These changes have no effect on the consolidated financial statements for the third quarter of the fiscal year ending December 31, 2016.

2. Change in depreciation method due to tax reforms

The ASBJ issued PITF No. 32 “Practical Solution on a change in depreciation method due to Tax Reform 2016” on June 17, 2016. This revised accounting standard is applied from the second quarter of the fiscal year ending December 31, 2016. The Company has switched the method of depreciation for buildings purchased on or after April 1, 2016, from the declining-balance method to the straight-line method.

This change has minimal effect on the operating income, ordinary income and net income before taxes for the third quarter of the fiscal year ending December 31, 2016.

3. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	December 31, 2015	September 30, 2016
ASSETS		
Current Assets		
Cash and cash deposits	36,996	39,339
Notes and accounts receivable–trade	102,079	99,121
Short-term investment securities	18,805	33,045
Merchandise and finished goods	77,582	71,472
Work in process	11,293	11,412
Raw materials and supplies	23,310	22,532
Deferred tax assets	7,598	7,210
Other	19,430	10,202
Allowance for doubtful accounts	(611)	(447)
Total current assets	296,486	293,889
Noncurrent Assets		
Tangible fixed assets		
Buildings and structures, net	53,959	53,629
Machinery, equipment and vehicles, net	127,962	148,287
Land	18,508	19,179
Construction in progress	56,609	26,188
Other, net	4,978	4,752
Total tangible fixed assets	262,019	252,036
Intangible fixed assets		
Goodwill	28,564	23,833
Customer relation assets	32,244	25,658
Other	23,167	20,408
Total intangible fixed assets	83,976	69,900
Investments and other assets		
Investment securities	46,057	29,756
Long-term loans receivable	239	258
Net defined benefit assets	791	1,013
Deferred tax assets	6,361	6,618
Others	5,887	6,703
Allowance for doubtful accounts	(50)	(45)
Total investments and other assets	59,287	44,304
Total noncurrent assets	405,284	366,241
Total assets	701,770	660,131

(Millions of yen)

	December 31, 2015	September 30, 2016
LIABILITIES		
Current Liabilities		
Notes and accounts payable–trade	38,331	30,247
Short-term loans payable	7,187	7,783
Accrued expenses	10,468	10,070
Income taxes payable	14,692	5,972
Provision for bonuses	5,259	7,852
Other provision	31	6
Other	19,480	15,747
Total current liabilities	95,450	77,681
Long-term liabilities		
Bonds payable	10,000	10,000
Long-term loans payable	42,257	42,174
Deferred tax liabilities	24,102	20,539
Provision for directors' retirement benefits	185	193
Provision for environmental measures	353	351
Net defined benefit liabilities	11,247	10,006
Asset retirement obligations	3,615	3,326
Other	10,966	10,385
Total noncurrent liabilities	102,729	96,978
Total liabilities	198,180	174,659
NET ASSETS		
Shareholders' equity		
Capital stock	88,955	88,955
Capital surplus	87,147	87,160
Retained earnings	278,899	298,230
Treasury stock	(4,319)	(4,117)
Total shareholders' equity	450,682	470,228
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	10,808	7,899
Deferred gain or losses on hedges	(4)	(20)
Foreign currency translation adjustments	39,377	3,546
Remeasurements of defined benefit plans	(4,801)	(4,132)
Total accumulated other comprehensive income	45,380	7,293
Subscription rights to shares	831	750
Noncontrolling interests	6,695	7,197
Total net assets	503,589	485,471
Total liabilities and net assets	701,770	660,131

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

(Millions of yen)

	Fiscal 2015 3Q (January 1, 2015 – September 30, 2015)	Fiscal 2016 3Q (January 1, 2016 – September 30, 2016)
Net sales	391,905	360,787
Cost of sales	267,280	234,581
Gross profit	124,624	126,206
Selling, general and administrative expenses		
Selling expenses	20,168	19,992
General and administrative expenses	55,147	53,650
Total selling, general and administrative expenses	75,316	73,643
Operating income	49,308	52,562
Non-operating income		
Interest income	179	169
Dividends income	2,392	2,491
Equity in earnings of affiliates	2	12
Other, net	837	1,362
Total non-operating income	3,411	4,035
Non-operating expenses		
Interest expenses	545	587
Other expenses	3,487	4,328
Total non-operating expenses	4,033	4,915
Ordinary income	48,686	51,682
Extraordinary income		
Gain on sales of tangible fixed assets	278	—
Total extraordinary income	278	—
Extraordinary loss		
Loss on disposal of tangible fixed assets	267	—
Loss on valuation of investment securities	195	—
Total extraordinary loss	463	—
Income before income taxes and minority interests	48,501	51,682
Income taxes—current	16,987	16,345
Income taxes—deferred	(884)	289
Total income taxes	16,102	16,635
Net income	32,398	35,047
Net income attributable to noncontrolling interests	540	694
Net income attributable to owners of the parent	31,858	34,352

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	Fiscal 2015 3Q (January 1, 2015 – September 30, 2015)	Fiscal 2016 3Q (January 1, 2016 – September 30, 2016)
Net income	32,398	35,047
Other comprehensive income		
Valuation difference on available-for-sale securities	1,015	(2,909)
Deferred gain or losses on hedges	(71)	(15)
Foreign currency translation adjustments	(6,847)	(35,729)
Pension liability adjustments	374	669
Total other comprehensive income	(5,528)	(37,984)
Quarterly comprehensive income	26,870	(2,937)
Comprehensive income attributable to:		
Owners of the parent	26,329	(3,631)
Noncontrolling interests	541	693

(3) Notes Regarding Quarterly Consolidated Financial Statements

Notes Regarding Going Concern Assumptions

None

Additional Information

Third Quarter Cumulative Consolidated Period
(January 1, 2016–September 30, 2016)

Kuraray's Belgian subsidiary, which had received preferential taxation under the Belgian tax code in the previous fiscal year, was ordered by the Belgian government to pay taxes for the amount that had been previously exempted when, in January 2016, the European Commission determined that Belgium's tax system constituted illegal state aid. In response, the Belgian government has already filed a lawsuit to invalidate the European Commission's decision, and the Belgian subsidiary also filed a lawsuit to invalidate the decision in July 2016.

In fiscal 2015, Kuraray's Belgian subsidiary estimated its taxes at ¥2,994 million and recorded this amount in its statements, taking into consideration its final tax burden risk rate.

Material Changes in Shareholders' Equity

None

Segment and Other Information

Segment Information

I. Third Quarter of Fiscal 2015 (January 1, 2015 to September 30, 2015)

1. Net sales, income and loss by reporting segment

(Millions of yen)

	Reporting Segment						Others ¹	Total	Elimination on Consolidation and Corporate ²	Consolidated Statements of Income ³
	Vinyl Acetate	Isoprene	Functional Materials	Fibers and Textiles	Trading	Total				
Net Sales										
Outside customers	184,356	24,119	28,858	26,139	87,165	350,639	41,266	391,905	—	391,905
Inter-segment sales and transfers	23,474	17,525	13,365	8,159	1,631	64,155	10,502	74,657	(74,657)	—
Total	207,831	41,644	42,223	34,299	88,796	414,794	51,768	466,562	(74,657)	391,905
Segment Income	41,375	5,480	4,214	2,996	2,756	56,823	1,731	58,555	(9,247)	49,308

Notes:

1. The “Other Business” category incorporates operations not included in business segments reported, including activated carbon, environmental business and engineering.
2. Elimination on Consolidation and Corporate is as follows: Included within negative segment income of ¥9,247 million is the elimination of intersegment transactions of ¥1,298 million and corporate expenses of ¥10,545 million. Corporate expenses mainly comprise headquarters’ general and administrative expenses and the submitting company’s basic research expenses not usually attributed to segments.
3. Segment income is adjusted to agree with operating income in the consolidated statements of income.

II. 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						Others ¹	Total	Elimination on Consolidation and Corporate ²	Consolidated Statements of Income ³
	Vinyl Acetate	Isoprene	Functional Materials	Fibers and Textiles	Trading	Total				
Net Sales										
Outside customers	168,860	20,832	25,144	27,128	85,068	327,034	33,753	360,787	—	360,787
Inter-segment sales and transfers	21,739	17,586	13,451	8,345	2,189	63,312	12,815	76,128	(76,128)	—
Total	190,599	38,419	38,595	35,474	87,257	390,347	46,569	436,916	(76,128)	360,787
Segment Income	45,012	5,520	3,471	4,677	2,634	61,316	1,356	62,673	(10,110)	52,562

Notes:

1. The “Other Business” category incorporates operations not included in business segments reported, including activated carbon, environmental business and engineering.
2. Elimination on Consolidation and Corporate is as follows: Included within negative segment income of ¥10,110 million is the elimination of intersegment transactions of ¥1,195 million and corporate expenses of ¥11,305 million. Corporate expenses mainly comprise headquarters’ general and administrative expenses and the submitting company’s basic research expenses not usually attributed to segments.
3. Segment income is adjusted to agree with operating income in the consolidated statements of income.