

**Consolidated Earnings Report for the
Third Quarter of the Fiscal Year Ending
March 31, 2014 (Unaudited)**

February 5, 2014

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.co.jp/en>

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(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 March 31, 2014 (April 1, 2013 to December 31, 2013)

(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	
		(Change)		(Change)		(Change)		(Change)
Fiscal 2013 3Q	301,970	11.0%	36,670	0.8%	36,934	3.6%	22,151	3.5%
Fiscal 2012 3Q	272,044	(1.3%)	36,388	(15.4%)	35,655	(16.0%)	21,400	(15.9%)

Note: Comprehensive income: For the fiscal 2013 third quarter: ¥44,854 million 129.1%
For the fiscal 2012 third quarter: ¥19,581 million (11.2%)

	Net Income per Share (Yen)	Fully Diluted Net Income per Share (Yen)
Fiscal 2013 3Q	63.27	63.11
Fiscal 2012 3Q	61.40	61.34

(2) Consolidated Financial Position

(Millions of yen)

	Total Assets	Net Assets	Shareholders' Equity Ratio (%)
As of December 31, 2013	604,433	434,485	70.8
As of March 31, 2013	587,254	401,307	67.2

(Reference)

Shareholders' equity: As of December 31, 2013: ¥428,022 million
As of March 31, 2013: ¥394,754 million

2. Dividends

(Yen)

Record Date	Cash Dividends per Share				
	Jun. 30	Sept. 30	Dec. 31	Mar. 31	Annual
Fiscal 2012	—	18.00	—	18.00	36.00
Fiscal 2013	—	18.00	—		
Fiscal 2013 (Forecast)				18.00	36.00

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

3. Forecasts of Consolidated Financial Results for the Fiscal Year Ending March 31, 2014 (April 1, 2013 to March 31, 2014)

(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)

Full Fiscal Year	Net Sales		Operating Income		Ordinary Income		Net Income		Net Income per Share	
	Value	%	Value	%	Value	%	Value	%	Value	Unit
	410,000	11.0%	50,000	1.6%	49,000	0.8%	29,000	0.7%	82.79	Yen

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

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 Principles, Procedures and Presentation Methods 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: Please see “Changes in Accounting Policies, Accounting Estimates and Restatement” on page 6 about the details.)

(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 December 31, 2013	382,863,603 shares
As of March 31, 2013	382,863,603 shares

2. Number of treasury stock as of the period-end:

As of December 31, 2013	32,573,700 shares
As of March 31, 2013	34,029,727 shares

3. Average number of shares for the period (Cumulative):

As of December 31, 2013	350,116,013 shares
As of December 31, 2012	348,509,499 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, it 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 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

Throughout the first three quarters of fiscal 2013 (April 1, 2013–December 31, 2013), the depreciation of the yen, which began near the end of 2012, continued, while the economy in the United States was robust. However, economies in Europe as well as China and other emerging countries remained stagnant, causing the level of overall demand to fall short of expectations. On the domestic front, although there are signs of economic recovery, significant effects on the market conditions surrounding the Company have yet to materialize.

Confronting these circumstances, the Kuraray Group accelerated the global expansion of its core business to achieve sustained growth while proactively developing new businesses in the water treatment, environment, energy, optical and electronics fields to secure future growth.

Consequently, cumulative consolidated operating results for the first third quarters of fiscal 2013 are as follows: net sales rose ¥29,925 million, or 11.0%, compared with the corresponding period of the previous fiscal year to ¥301,970 million; operating income grew ¥281 million, or 0.8%, to ¥36,670 million; ordinary income increased ¥1,279 million, or 3.6%, to ¥36,934 million; and net income rose ¥751 million, or 3.5%, to ¥22,151 million.

In line with the structural reorganization carried out on April 1, 2013, the Company has changed its reporting segments, starting from the first quarter of the current fiscal year. Comparisons and analyses for the first third quarters of the current fiscal year are based on the segment divisions following the change.

Results by Business Segment

Vinyl Acetate

Sales in this segment grew 16.6% year on year to ¥133,599 million, while operating income fell 3.8% year on year to ¥35,800 million. In addition, Kuraray reached an agreement with U.S.-based DuPont to purchase DuPont's vinyl acetate-related operations, with the aim of securing sustainable growth in the Company's Vinyl Acetate segment.

(1) Sales of optical-use poval films edged down due to sluggish demand for

LCD TVs and continued LCD panel inventory adjustment. Although sales of poval resins expanded, this business saw a temporary cost increase resulting from the prolonged operational shutdown at certain plants in Europe aimed at improving the facilities' energy efficiency. Sales of PVB films were strongly affected by economic stagnation in Europe and bore increased costs related to developing products for automotive applications. On the other hand, sales of water soluble PVA films grew favorably on the back of active expansion of demand. In response, the Company decided to expand its water soluble PVA film facilities in the United States and is moving ahead with construction.

- (2) Sales of *EVVAL* ethylene vinyl alcohol copolymer (EVOH resin) favorably expanded, particularly in the United States and Asia.

Isoprene

Sales in this segment grew 16.3% year on year to ¥39,224 million, and operating income rose 64.1% year on year to ¥3,655 million.

- (1) In isoprene chemicals, although demand was sluggish for liquid rubber, demand for fine chemicals and *SEPTON* thermoplastic elastomer rebounded.
- (2) Sales of *GENESTAR* heat-resistant polyamide resin progressed amid favorable demand related to LED reflector, connector and automotive applications.

Functional Materials

Sales in this segment rose 7.8% year on year to ¥34,931 million, and operating income fell 24.1% year on year to ¥730 million.

- (1) The business performance of methacrylic resin was affected by weak market conditions and increased costs for raw materials and fuel.
- (2) In the medical business, sales of dental materials remained stable.
- (3) The business performance of *CLARINO* man-made leather remained sluggish as sales of products created using new processes were not as brisk as expected.

Fibers and Textiles

The business performance of *KURALON* was favorable in automotive brake hose applications and use as an asbestos substitute in fiber reinforced cement

(FRC). As a result, sales in this segment came to ¥33,287 million, slightly surpassing sales of ¥33,280 million in the corresponding period of the previous fiscal year. Operating income grew 64.4% year on year to ¥2,026 million.

Trading

Although sales in such businesses as fiber-related materials were stable, some businesses stagnated in the weak economy. As a result, sales in this segment were down 1.5% year on year to ¥79,788 million, while operating income increased 1.3% to ¥2,458 million.

Others

Sales of activated carbon for use in water purification and energy-related applications grew steadily. Other items were affected overall by the weak economy. In addition, the performance of this segment was affected by rises in development costs in the aqua business and electronics components business. As a result, sales in this segment increased 2.1% year on year to ¥47,846 million, and operating income declined 44.7% year on year to ¥1,619 million.

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

Kuraray has revised its cumulative consolidated forecast for the fiscal year ending March 31, 2014 (April 1, 2013–March 31, 2014), as shown in the following table. These revisions were made in light of a decrease in earnings from optical-use poval films due to continued LCD panel inventory adjustment, stagnant demand in the European PVB film market, a cost increase resulting from operational problems in poval resin facilities in Europe and rising costs for new business development.

Revised cumulative consolidated forecast for the fiscal year ending March 31, 2014
(April 1, 2013–March 31, 2014)

(Millions of yen, unless otherwise stated)

	Net Sales	Operating Income	Ordinary Income	Net Income	Net Income per Share (yen)
Previous forecast (A) (Announced on October 29, 2013)	420,000	55,000	53,500	32,000	91.35
Revised forecast (B)	410,000	50,000	49,000	29,000	82.79
Change (B – A)	(10,000)	(5,000)	(4,500)	(3,000)	
Change (%)	(2.4)	(9.1)	(8.4)	(9.4)	
(Reference) Fiscal 2012 results	369,431	49,197	48,590	28,798	82.62

Assumptions for the fourth quarter and later are as follows:

- ¥104=US\$1
- ¥140=1 euro
- Domestic naphtha price: ¥72,000 per kiloliter

<Reference> Consolidated results forecast for the fiscal year ending March 31, 2014

(Breakdown of segment sales and income)

(Billions of yen)

	Net Sales	Operating Income
Vinyl Acetate	180	47
Isoprene	53	6
Functional Materials	49	1.5
Fibers and Textiles	47	3
Trading	110	3.5
Others	66	2
Elimination on Consolidation and Corporate	(95)	(13)
Total	410	50

2. Items Regarding Summary (and Notes) Information Changes in Accounting Policies, Accounting Estimates and Restatement

(Changes in Accounting Policies Accompanying Revisions or Other Changes in Accounting and Other Standards)

From the first quarter of the current fiscal year, for some foreign subsidiaries, Kuraray is applying “IAS 19 Employee Benefits,” announced on June 16, 2011 by the International Accounting Standards Board. Accordingly, the Company will conduct adjustments to recognition and disclosure methods for past service costs, net interest costs, actuarial adjustments and other items.

The changes to the corresponding accounting policies will be applied retroactively. The consolidated financial statements for the previous fiscal year and the first three quarters of the previous fiscal year have already been retroactively adjusted. The effect of this retroactive adjustment on results of the previous fiscal year and the first three quarters of the previous fiscal year is minor.

3. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	March 31, 2013	December 31, 2013
ASSETS		
Current Assets		
Cash and cash deposits	46,151	56,926
Notes and accounts receivable–trade	83,843	85,256
Short-term investment securities	31,696	54,604
Merchandise and finished goods	57,823	58,652
Work in process	10,332	12,535
Raw materials and supplies	15,138	16,773
Deferred tax assets	5,732	4,506
Other	7,237	6,288
Allowance for doubtful accounts	(742)	(397)
Total current assets	257,212	295,145
Noncurrent Assets		
Tangible fixed assets		
Buildings and structures, net	41,938	43,343
Machinery, equipment and vehicles, net	82,298	85,629
Land	20,425	21,312
Construction in progress	32,326	51,293
Other, net	4,285	4,659
Total tangible fixed assets	181,274	206,237
Intangible fixed assets		
Goodwill	24,659	25,408
Other	26,664	28,802
Total intangible fixed assets	51,324	54,210
Investments and other assets		
Investment securities	83,543	35,395
Long-term loans receivable	679	317
Deferred tax assets	2,744	3,281
Prepaid pension costs	5,437	5,241
Others	5,114	4,651
Allowance for doubtful accounts	(76)	(46)
Total investments and other assets	97,442	48,839
Total noncurrent assets	330,041	309,287
Total assets	587,254	604,433

(Millions of yen)

	March 31, 2013	December 31, 2013
LIABILITIES		
Current Liabilities		
Notes and accounts payable–trade	37,048	34,882
Short-term loans payable	30,918	16,769
Income taxes payable	7,687	3,072
Provision for bonuses	6,590	4,183
Other provision	21	7
Other	29,182	28,727
Total current liabilities	111,449	87,643
Long-term liabilities		
Corporate bonds payable	10,000	10,000
Long-term loans payable	28,171	32,338
Deferred tax liabilities	14,872	16,489
Provision for retirement benefits	6,665	8,125
Provision for directors' retirement benefits	178	136
Provision for environmental measures	1,051	1,051
Asset retirement obligations	2,336	2,428
Other	11,221	11,735
Total noncurrent liabilities	74,497	82,305
Total liabilities	185,947	169,948
NET ASSETS		
Shareholders' equity		
Capital stock	88,955	88,955
Capital surplus	87,147	87,147
Retained earnings	263,262	272,373
Treasury stock	(40,169)	(38,451)
Total shareholders' equity	399,195	410,025
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	6,076	7,384
Deferred gain or losses on hedges	(17)	(5)
Foreign currency translation adjustments	(9,877)	11,464
Pension liability adjustments	(622)	(846)
Total accumulated other comprehensive income	(4,440)	17,997
Subscription rights to shares	1,221	1,015
Minority interests	5,330	5,446
Total net assets	401,307	434,485
Total liabilities and net assets	587,254	604,433

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

(Millions of yen)

	Fiscal 2012 3Q (April 1, 2012 – Dec. 31, 2012)	Fiscal 2013 3Q (April 1, 2013 – Dec. 31, 2013)
Net sales	272,044	301,970
Cost of sales	183,461	207,690
Gross profit	88,582	94,280
Selling, general and administrative expenses		
Selling expenses	13,764	14,716
General and administrative expenses	38,428	42,893
Total selling, general and administrative expenses	52,193	57,609
Operating income	36,388	36,670
Non-operating income		
Interest income	335	467
Dividends income	1,365	1,419
Equity in earnings of affiliates	15	7
Other, net	1,088	1,170
Total non-operating income	2,805	3,064
Non-operating expenses		
Interest expenses	727	749
Other expenses	2,812	2,049
Total non-operating expenses	3,539	2,799
Ordinary income	35,655	36,934
Extraordinary loss		
Acquisition-related cost	753	1,349
Cost for idle operation	—	743
Loss on disposal of tangible fixed assets	222	445
Impairment loss	187	118
Loss on valuation of investment securities	559	—
Provision for environmental measures	111	—
Business structure improvement losses	67	—
Total extraordinary expenses	1,901	2,656
Income before income taxes and minority interests in net income of consolidated subsidiaries	33,753	34,277

(Millions of yen)

	Fiscal 2012 3Q (April 1, 2012 – Dec. 31, 2012)	Fiscal 2013 3Q (April 1, 2013 – Dec. 31, 2013)
Income taxes—current	10,393	11,644
Income taxes—deferred	1,670	217
Total income taxes	12,064	11,861
Income before minority interests in net income of consolidated subsidiaries	21,689	22,415
Minority interests	289	264
Net income	21,400	22,151

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	Fiscal 2012 3Q (April 1, 2012 – Dec. 31, 2012)	Fiscal 2013 3Q (April 1, 2013 – Dec. 31, 2013)
Income before minority interests in net income of consolidated subsidiaries	21,689	22,415
Other comprehensive income		
Valuation difference on available-for-sale securities	807	1,309
Deferred gain or losses on hedges	0	11
Foreign currency translation adjustments	(2,851)	21,341
Pension liability adjustments	(65)	(224)
Total other comprehensive income	(2,108)	22,438
Quarterly comprehensive income	19,581	44,854
Comprehensive income attributable to:		
Owners of the parent	19,291	44,589
Minority interests	289	264

(3) Notes regarding Quarterly Consolidated Financial Statements

Notes regarding Going Concern Assumptions

None

Additional Information

[Business combination through acquisition]

Kuraray Co., Ltd. (“Kuraray”) reached to an agreement and concluded a Sale and Purchase Agreement to acquire the Vinyl Acetated related business which consists of vinyl acetate monomer (VAM), Poval (PVA) resin, polyvinyl butyral (PVB) resin and film from E. I. du Pont de Nemours and Company (“DuPont”) on November 21st, 2013 (“the Acquisition”). The Acquisition will be done mainly by subsidiaries of Kuraray.

1. Summary of the Acquisition

(1) Company name and description of acquired Business

Company name: E. I. du Pont de Nemours and Company

Description of acquired Business: The manufacture and sale of Vinyl Acetate related products(VAM, PVA, PVB etc)

(2) Purpose for the Acquisition

Kuraray executes the Acquisition as part of its expansion plan in VA related business, which is one of its core businesses.

Ahead of its global competitors, Kuraray successfully industrialized PVA resin and it has a leading global presence in PVA resin which applies vinyl acetate as its raw material, Poval film, PVB resin and film, EVOH (ethylene vinyl alcohol) resin which is trademarked as *EVVAL*, and PVA fiber (*KURALON*). Through the Acquisition, the fusion of the technology, R&D, sales capabilities, and manufacturing and sales network with DuPont is the key driver of Kuraray’s sustainable growth.

(3) Closing date

The completion of the Acquisition is targeted in the first half of 2014, pending customary regulatory approvals including antitrust clearance in USA and so on.

(4) Legal form of business combination

Cash purchase of assets and shares

(5) Name of acquired company after business combination

The Acquisition will be done mainly by subsidiaries of Kuraray.

(6) Reason for decision on the acquiring company

Mainly subsidiaries of Kuraray proposed to acquire assets and shares with cash

2. Acquisition cost of the acquired business

Acquisition price is expected to be US\$543 million, plus the value of the inventories.

Material Changes in Shareholders' Equity

None

Segment and Other Information

[Segment Information]

I. Third Quarter of Fiscal 2012 (April 1, 2012 to December 31, 2012)

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 Material	Fibers and Textiles	Trading	Total				
Net Sales										
Outside customers	92,826	21,262	19,690	25,505	78,431	237,715	34,328	272,044	—	272,044
Inter-segment sales and transfers	21,715	12,454	12,699	7,775	2,582	57,227	12,526	69,754	(69,754)	—
Total	114,541	33,716	32,390	33,280	81,013	294,943	46,855	341,798	(69,754)	272,044
Segment Income	37,210	2,227	962	1,232	2,425	44,058	2,929	46,988	(10,599)	36,388

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 ¥10,599 million is the elimination of intersegment transactions of ¥281 million and corporate expenses of ¥10,317 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 with operating income under consolidated statements of income.

II. Third Quarter of Fiscal 2013 (April 1, 2013 to December 31, 2013)

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	115,683	23,154	23,784	25,343	77,881	265,846	36,123	301,970	—	301,970
Inter-segment sales and transfers	17,916	16,069	11,147	7,943	1,906	54,984	11,723	66,707	(66,707)	—
Total	133,599	39,224	34,931	33,287	79,788	320,831	47,846	368,678	(66,707)	301,970
Segment Income	35,800	3,655	730	2,026	2,458	44,670	1,619	46,289	(9,619)	36,670

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 ¥9,619 million is the elimination of intersegment transactions of ¥611 million and corporate expenses of ¥10,231 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 with operating income under consolidated statements of income.

2. Regarding Changes in Reporting Segments

In the first quarter of fiscal 2013, Kuraray carried out structural reorganization. As a result, the former reporting segments of “Resins,” “Chemicals,” “Fibers and Textiles” and “Trading” have been reorganized into “Vinyl Acetate,” “Isoprene,” “Functional Materials,” “Fibers and Textiles” and “Trading.”

A retroactively adjusted version of the “Segment and Other Information” presented in the earnings report for the first three quarters of the previous fiscal year has been published to reflect this change in reporting segments.