

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

October 29, 2013

Kuraray Co., Ltd.

October 29, 2013

Kuraray Co., Ltd.

Consolidated Earnings Report for the second Quarter of the Fiscal Year Ending March 31, 2014

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

Representative:
Title: Representative Director and President
Name: Fumio Ito

Contact:
Title: Manager, Corporate Management Planning Division,
Corporate Communications Department
Name: Tomoyuki Shimamoto
Tel: +81-3-6701-1071

(Millions of yen rounded down unless otherwise stated)

Preparation of supplementary documentation for the quarterly earnings report: Yes

Holding of quarterly earnings results briefing: Yes (For securities analysts and institutional investors)

1. Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending March 31, 2014 (April 1, 2013 to September 30, 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 2Q	199,269	10.2%	24,657	3.2%	24,895	13.8%	15,765	23.7%
Fiscal 2012 2Q	180,888	(2.6%)	23,899	(18.6%)	21,884	(24.5%)	12,745	(26.0%)

Note: Comprehensive income: For the fiscal 2013 second quarter: ¥37,064 million 199.0%

For the fiscal 2012 second quarter: ¥12,398 million (40.7%)

	Net Income per Share (Yen)	Fully Diluted Net Income per Share (Yen)
Fiscal 2013 2Q	45.04	44.91
Fiscal 2012 2Q	36.57	36.53

(2) Consolidated Financial Position

(Millions of yen)

	Total Assets	Net Assets	Shareholders' Equity Ratio (%)
As of September 30, 2013	617,046	433,002	69.1
As of March 31, 2013	587,254	401,307	67.2

(Reference)

Shareholders' equity: As of September 30, 2013: ¥426,624 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)

	Net Sales		Operating Income		Ordinary Income		Net Income		Net Income per Share	
Full Fiscal Year	420,000	13.7%	55,000	11.8%	53,500	10.1%	32,000	11.1%	91.35	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 and, Accounting Estimates and Restatement” on page 5 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 September 30, 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 September 30, 2013 32,573,911 shares

As of March 31, 2013 34,029,727 shares

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

As of September 30, 2013 350,029,057 shares

As of September 30, 2012 348,490,740 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.

Access to Documents and Other Materials Relating to the Quarterly Results Briefing to Be

Held on October 29, 2013

Related documents and materials, including the video of the briefing, will be posted on the Company's website immediately after the briefing is closed.

Index of the Attachment

1. Qualitative Information and Financial Statements.....	2
(1) Qualitative Information and Overview of Consolidated Business Results.....	2
(2) Basis for (the Revision in) Forecasts, Including Consolidated Operating Results Forecasts	4
2. Items regarding Summary Information (and Notes).....	5
Changes in Accounting Policies, Accounting Estimates and Restatement.....	5
3. Quarterly Consolidated Financial Statements.....	6
(1) Quarterly Consolidated Balance Sheets.....	6
(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income.....	8
Quarterly Consolidated Statements of Income.....	8
Quarterly Consolidated Statements of Comprehensive Income.....	10
(3) Quarterly Consolidated Statements of Cash Flows.....	11
(4) Notes regarding Quarterly Consolidated Financial Statements.....	13
Notes regarding Going Concern Assumptions.....	13
Material Changes in Shareholders' Equity.....	13
Segment and Other Information.....	14

1. Qualitative Information and Financial Statements

(1) Qualitative Information and Overview of Consolidated Business Results

In the first half of fiscal 2013 (April 1, 2013 to September 30, 2013), although there was a correction in the overvaluation of the yen and the U.S. economy was strong, the European and Chinese economies remained stagnant while economic growth in emerging countries slowed. Reflecting this, overall demand in the Company's operating environment remained weak. On the domestic front, there is a sense of expectation with regard to "Abenomics," but significant effects on the market conditions surrounding the Company have yet to materialize.

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

Consequentially, cumulative consolidated operating results for the first half of the current fiscal year are as follows: net sales rose ¥18,380 million, or 10.2%, compared with the corresponding period of the previous fiscal year to ¥199,269 million; operating income grew ¥757 million, or 3.2%, to ¥24,657 million; ordinary income increased ¥3,010 million, or 13.8%, to ¥24,895 million; and net income rose ¥3,020 million, or 23.7%, to ¥15,765 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 half 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 19.9% year on year to ¥90,051 million, and operating income rose 0.5% year on year to ¥24,527 million.

(1) Water-soluble PVA films favorably expanded on the back of active demand. Sales of optical-use poval film grew only slightly as demand for LCD TVs stagnated. While sales of poval resins expanded in the United States and Europe, they continue to be impacted by intensifying

competition in Asia. Sales of PVB films were strongly affected by the economic stagnation in Europe.

The Company decided to expand its water-soluble PVA film facilities in the United States to meet the active expansion of demand for detergent applications 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 13.2% year on year to ¥25,388 million, and operating income rose 99.0% year on year to ¥2,068 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 for LED reflector applications and connector applications as well as automotive applications.

Functional Materials

Sales in this segment rose 5.8% year on year to ¥23,126 million, and operating income fell 43.1% from the previous fiscal year to ¥471 million.

- (1) The 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) *CLARINO* man-made leather saw overall demand remain sluggish as sales of products created using new processes were not as brisk as expected.

Fibers and Textiles

The performance of *KURALON* was steady for automotive brake hose applications and use as an asbestos substitute in fiber reinforced cement (FRC). As a result, sales in this segment fell 5.4% year on year to ¥21,275 million, and operating income grew 37.2% year on year to ¥1,328 million.

Trading

Although some businesses stagnated amid the weak economy, sales in such fiber-related businesses as polyester were stable. As a result, sales in this

segment were down 2.3% year on year to ¥53,009 million, and operating income increased 6.2% to ¥1,719 million.

Others

Sales of activated carbon and its use in water purification and energy-related applications grew steadily. Other items were affected overall by the weak economy. As a result, sales in this segment decreased 3.6% year on year to ¥30,513 million, and operating income declined 36.0% year on year to ¥1,391 million.

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

Kuraray has revised its cumulative consolidated forecast of the fiscal year ending March 31, 2014 (April 1, 2013–September 30, 2014), as shown in the following table in light of the stagnant economies of Europe and China, stalled economic recovery in Japan, and slowing economic growth in emerging countries.

Revised cumulative consolidated forecast of the fiscal year ending March 31, 2014 (April 1, 2013–March 30, 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 August 1, 2013)	430,000	60,000	58,500	35,000	100.33
Revised forecast (B)	420,000	55,000	53,500	32,000	91.35
Change (B – A)	(10,000)	(5,000)	(5,000)	(3,000)	
Change (%)	(2.3)	(8.3)	(8.5)	(8.5)	
(Reference) Fiscal 2013 results	369,431	49,197	48,590	28,798	82.62

Assumptions for the third quarter and later are as follows:

- ¥100=US\$1
- ¥130=1 euro
- Domestic naphtha price ¥65,000 per kiloliter

<Reference> Consolidated result forecast for the fiscal year ending March 31, 2014 (Breakdown of segment sales and income)

(Billions of yen)

	Net Sales	Operating Income
Vinyl Acetate	187	50
Isoprene	53	6
Functional Materials	50	2
Fibers and Textiles	47	3
Trading	110	3.5
Others	67	3
Elimination on Consolidation and Corporate	(94)	(12.5)
Total	420	55

2. Items Regarding Summary Information (and Notes)

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 half of the previous fiscal year have already been retroactively adjusted. The effect of this retroactive adjustment on the previous fiscal year and the first half of the previous fiscal year is minor.

3. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	March 31, 2013	September 30, 2013
ASSETS		
Current Assets		
Cash and cash deposits	46,151	36,981
Notes and accounts receivable—trade	83,843	86,408
Short-term investment securities	31,696	54,498
Merchandise and finished goods	57,823	58,902
Work in process	10,332	12,337
Raw materials and supplies	15,138	15,685
Deferred tax assets	5,732	6,080
Other	7,237	6,855
Allowance for doubtful accounts	(742)	(607)
Total current assets	257,212	277,143
Noncurrent Assets		
Tangible fixed assets		
Buildings and structures, net	41,938	43,045
Machinery, equipment and vehicles, net	82,298	85,386
Land	20,425	21,201
Construction in progress	32,326	42,908
Other, net	4,285	4,387
Total tangible fixed assets	181,274	196,928
Intangible fixed assets		
Goodwill	24,659	26,126
Other	26,664	29,411
Total intangible fixed assets	51,324	55,537
Investments and other assets		
Investment securities	83,543	74,204
Long-term loans receivable	679	375
Deferred tax assets	2,744	2,842
Prepaid pension costs	5,437	5,297
Others	5,114	4,766
Allowance for doubtful accounts	(76)	(48)
Total investments and other assets	97,442	87,437
Total noncurrent assets	330,041	339,903
Total assets	587,254	617,046

(Millions of yen)

	March 31, 2013	September 30, 2013
LIABILITIES		
Current Liabilities		
Notes and accounts payable–trade	37,048	28,786
Short-term loans payable	30,918	36,779
Income taxes payable	7,687	7,370
Provision for bonuses	6,590	6,660
Other provision	21	23
Other	29,182	22,415
Total current liabilities	111,449	102,035
Long-term liabilities		
Corporate bonds payable	10,000	10,000
Long-term loans payable	28,171	32,280
Deferred tax liabilities	14,872	16,738
Provision for retirement benefits	6,665	7,575
Provision for directors' retirement benefits	178	128
Provision for environmental measures	1,051	1,051
Asset retirement obligations	2,336	2,405
Other	11,221	11,829
Total noncurrent liabilities	74,497	82,009
Total liabilities	185,947	184,044
NET ASSETS		
Shareholders' equity		
Capital stock	88,955	88,955
Capital surplus	87,147	87,147
Retained earnings	263,262	272,293
Treasury stock	(40,169)	(38,452)
Total shareholders' equity	399,195	409,944
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	6,076	6,539
Deferred gain or losses on hedges	(17)	(20)
Foreign currency translation adjustments	(9,877)	10,960
Pension liability adjustments	(622)	(798)
Total accumulated other comprehensive income	(4,440)	16,680
Subscription rights to shares	1,221	1,017
Minority interests	5,330	5,359
Total net assets	401,307	433,002
Total liabilities and net assets	587,254	617,046

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

(Millions of yen)

	Fiscal 2012 2Q	Fiscal 2013 2Q
	(April 1, 2012 –	(April 1, 2013 –
	Sept. 30, 2012)	Sept. 30, 2013)
Net sales	180,888	199,269
Cost of sales	122,560	136,210
Gross profit	58,328	63,058
Selling, general and administrative expenses		
Selling expenses	9,255	9,904
General and administrative expenses	25,172	28,496
Total selling, general and administrative expenses	34,428	38,400
Operating income	23,899	24,657
Non-operating income		
Interest income	190	337
Dividends income	1,021	1,197
Equity in earnings of affiliates	0	0
Other, net	451	662
Total non-operating income	1,664	2,197
Non-operating expenses		
Interest expenses	494	505
Other expenses	3,184	1,454
Total non-operating expenses	3,679	1,959
Ordinary income	21,884	24,895
Extraordinary loss		
Loss on disposal of tangible fixed assets	120	280
Impairment loss	—	118
Acquisition-related cost	748	—
Loss on valuation of investment securities	562	—
Provision for environmental measures	111	—
Total extraordinary expenses	1,544	399
Income before income taxes and minority interests in net income of consolidated subsidiaries	20,340	24,495
Income taxes—current	6,766	8,894
Income taxes—deferred	543	(342)

(Millions of yen)

	Fiscal 2012 2Q	Fiscal 2013 2Q
	(April 1, 2012 –	(April 1, 2013 –
	Sept. 30, 2012)	Sept. 30, 2013)
Total income taxes	7,309	8,552
Income before minority interests in net income of consolidated subsidiaries	13,030	15,942
Minority interests	285	177
Net income	12,745	15,765

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	Fiscal 2012 2Q	Fiscal 2013 2Q
	(April 1, 2012 –	(April 1, 2013 –
	Sept. 30, 2012)	Sept. 30, 2013)
Income before minority interests in net income of consolidated subsidiaries	13,030	15,942
Other comprehensive income		
Valuation difference on available-for-sale securities	(174)	464
Deferred gain or losses on hedges	10	(3)
Foreign currency translation adjustments	(394)	20,837
Pension liability adjustments	(73)	(176)
Total other comprehensive income	(632)	21,121
Quarterly comprehensive income	12,398	37,064
Comprehensive income attributable to:		
Owners of the parent	12,113	36,886
Minority interests	284	177

(3) Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	Six-month period ended Sept. 30, 2012 (April 1, 2012 – Sept. 30, 2012)	Six-month period ended Sept. 30, 2013 (April 1, 2013 – Sept. 30, 2013)
Cash Flows from Operating Activities		
Income before income taxes and minority interests in net	20,340	24,495
Depreciation and amortization	13,829	16,430
Impairment loss	—	118
Provision for environmental measures	111	—
Loss on disposal of tangible fixed assets	120	280
Acquisition-related cost	748	—
Loss on valuation of investment securities	562	—
Decrease in notes and accounts receivable—trade	1,489	670
Decrease (increase) in inventories	(2,183)	243
Increase (decrease) in notes and accounts payable—trade	(1,950)	(10,492)
Other, net	249	(221)
Subtotal	33,318	31,525
Income taxes paid	(9,192)	(9,261)
Other	685	1,027
Net Cash Provided by Operating Activities	24,811	23,291
Cash Flows from Investing Activities		
Net decrease in time deposits	606	7,754
Net decrease(increase) in short-term investment securities	49,989	(22,993)
Proceeds from sales and redemption of marketable securities	1,310	10,290
Purchase of tangible fixed assets and intangible assets	(19,390)	(24,900)
Purchase of investments in subsidiaries resulting in change	(31,051)	—
Other, net	(1,784)	(1,003)
Net Cash Used in Investing Activities	(319)	(30,852)

(Millions of yen)

	Six-month period ended Sept. 30, 2012 (April 1, 2012 – Sept. 30, 2012)	Six-month period ended Sept. 30, 2013 (April 1, 2013 – Sept. 30, 2013)
Cash Flows from Financing Activities		
Net decrease in short-term loans payable	(4,642)	(30)
Proceeds from long-term loans	230	10,054
Repayment of long-term loans payable	(2,922)	(55)
Cash dividends paid	(5,922)	(6,279)
Other, net	(103)	1,031
Net Cash Used in Financing Activities	(13,359)	4,721
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(652)	1,197
Net Increase(decrease) in Cash and Cash Equivalents	10,480	(1,642)
Cash and Cash Equivalents, Beginning of the Period	34,811	29,885
Increase in cash and cash equivalents from newly consolidated subsidiary	—	26
Cash and Cash Equivalents, End of the Period	45,291	28,269

(4) Notes regarding Quarterly Consolidated Financial Statements

Notes regarding Going Concern Assumptions

None

Material Changes in Shareholders' Equity

None

Segment and Other Information

[Segment Information]

I. Second Quarter of Fiscal 2012 (April 1, 2012 to September 30, 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 Materials	Fibers and Textiles	Trading	Total				
Net Sales										
Outside customers	60,544	14,318	12,872	17,168	52,479	157,383	23,504	180,888	—	180,888
Inter-segment sales and transfers	14,569	8,114	8,992	5,328	1,765	38,770	8,145	46,916	(46,916)	—
Total	75,113	22,433	21,865	22,496	54,244	196,153	31,650	227,804	(46,916)	180,888
Segment Income	24,410	1,039	828	968	1,619	28,866	2,175	31,041	(7,142)	23,899

Notes:

1. The “Other Business” category incorporates operations not included in business segments reported, including activated carbon, environmental business and engineering.
2. Elimination and Consolidation and Corporate is as follows: Included within segment income of ¥7,142 million is the elimination of intersegment transactions of ¥205 million and corporate expenses of ¥6,936 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. Second Quarter of Fiscal 2013 (April 1, 2013 to September 30, 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	77,610	15,046	15,404	15,988	51,739	175,789	23,479	199,269	—	199,269
Inter-segment sales and transfers	12,440	10,341	7,721	5,287	1,270	37,062	7,033	44,095	(44,095)	—
Total	90,051	25,388	23,126	21,275	53,009	212,851	30,513	243,364	(44,095)	199,269
Segment Income	24,527	2,068	471	1,328	1,719	30,115	1,391	31,507	(6,850)	24,657

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 segment income of ¥6,850 million is the elimination of intersegment transactions of ¥38 million and corporate expenses of ¥6,812 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

From the first quarter of fiscal 2013, Kuraray carried out a structural reorganization. As a result, the former reporting segments of “Resins,” “Chemicals,” “Fibers and Textiles” and “Trading” have now been changed to “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 second quarter of the previous fiscal year has been published to reflect the change in reporting segments.