Business Results for the Fiscal Year Ended December 31, 2014 (Unaudited)

February 16, 2015
Kuraray Co., Ltd.

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Consolidated Earnings Report for the Fiscal Year Ended December 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
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(Millions of yen rounded down unless otherwise stated)

Preparation of supplementary materials for financial results: Yes
Holding of earning results briefing: Yes (for securities analysts and institutional investors)

1. Consolidated Financial Results for Fiscal 2014 (April 1, 2014 - December 31, 2014)

(1) Consolidated Operating Results

(Percentages displayed for net sales, operating income, ordinary income and net income are comparisons with the previous fiscal year.)

(Millions of yen)

	Net Sales		Operating Income		Ordinary Income		Net Income	
		(Change)		(Change)		(Change)		(Change)
Fiscal 2014	411,408	—	40,298	—	40,084	—	21,296	—
Fiscal 2013	413,485	11.9%	49,545	0.7%	49,343	1.6%	29,390	2.1%

Note: Comprehensive income: For fiscal 2014: ¥44,533 million (34.2%)
For fiscal 2013: ¥67,632 million 45.0%

	Net Income per Share (Yen)	Fully Diluted Net Income per Share (Yen)	Return on Equity (%)	Return on Total Assets (%)	Operating Income/Net Sales (%)
Fiscal 2014	60.77	60.65	4.6	6.0	9.8
Fiscal 2013	83.93	83.75	7.0	8.1	12.0

[Reference]
Equity in earnings of affiliates: For fiscal 2014: ¥1 million
For fiscal 2013: ¥1 million

The Company changed its fiscal year-end from March 31 to December 31 upon the approval of a "Partial Amendment of the Articles of Incorporation" at the General Meeting of Shareholders held on June 20, 2014. Accordingly, the consolidated reporting period for fiscal 2014, as a transitional period, is the nine-month period from April 1, 2014 to December 31, 2014 for the Company and subsidiaries that had a fiscal year-end of March 31. For subsidiaries with a fiscal year-end of December 31, the consolidated reporting period is the twelve-month period from January 1, 2014 to December 31, 2014 as usual.

[Reference] The following percentages (change after adjustment) are the rates of change for the Company and subsidiaries that had a fiscal year-end of March 31 compared with fiscal 2013 results adjusted for a nine-month period (April 1, 2013 to December 31, 2013).

Net Sales	Operating Income	Ordinary Income	Net Income	(Millions of yen)
411,408 21.0%	40,298 5.4%	40,084 4.5%	21,296 (7.9)%	

(2) Consolidated Financial Position

(Millions of yen)

	Total Assets	Net Assets	Equity Ratio (%)	Net Assets per Share (Yen)
Fiscal 2014	691,538	481,826	68.7	1,354.21
Fiscal 2013	634,252	452,459	70.3	1,272.68

[Reference]
Shareholders' equity: For fiscal 2014: ¥474,760 million
For fiscal 2013: ¥445,834 million

(3) Consolidated Cash Flows

(Millions of yen)

	Cash Flows from Operating Activities	Cash Flows from Investing Activities	Cash Flows from Financing Activities	Cash and Cash Equivalents at End of Period
Fiscal 2014	40,840	(105,690)	(3,650)	35,388
Fiscal 2013	61,175	22,293	(15,427)	100,642

2. Dividends

(Yen)

	Cash Dividends per Share					Total Dividends Paid (full year) (¥ million)	Payout Ratio (consolidated) (%)	Dividends/Net Assets (consolidated) (%)
Record Date	Jun. 30	Sept. 30	Dec. 31	Mar. 31	Annual			
Fiscal 2013	—	18.00	—	18.00	36.00	12,610	42.9	3.0
Fiscal 2014	—	18.00	9.00	—	27.00	9,463	44.4	2.1
Fiscal 2015 (Forecast)	18.00	—	18.00	—	36.00		35.1	

3. Forecasts of Consolidated Financial Results for the Fiscal Year Ending December 31, 2015 (January 1, 2015 - December 31, 2015)

(Percentages displayed for net sales, operating income, ordinary income and net income are comparisons with the corresponding interim period or fiscal year, as applicable)

(Millions of yen)

	Net Sales		Operating Income		Ordinary Income		Net Income		Net Income per Share (Yen)
Interim Period	265,000	—	28,000	—	27,500	—	17,000	—	48.49
Full Fiscal Year	540,000	—	63,000	—	62,000	—	36,000	—	102.69

Due to the change in the fiscal year-end, the consolidated reporting period for the Company and subsidiaries in Japan that had a fiscal year-end of March 31 in fiscal 2014 is the nine-month period from April 1, 2014 to December 31, 2014. As a result, change from the previous fiscal year and the previous interim period is not presented.

[Reference] The following percentages (change after adjustment) are the rates of change for forecast results for the Company and subsidiaries that had a fiscal year-end of March 31 compared with fiscal 2014 results adjusted for a twelve-month period (January 1, 2014 to December 31, 2014).

(Millions of yen)

	Net Sales	%	Operating Income	%	Ordinary Income	%	Net Income	%
Interim Period	265,000	17.7	28,000	0.7	27,500	0.1	17,000	8.1
Full Fiscal Year	540,000	11.3	63,000	22.6	62,000	21.7	36,000	31.1

4. Other

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

No

(2) Changes in Accounting Principles, Procedures and Presentation Methods in Connection with the Preparation of Year-End 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" on page 17 about the details.)

(3) Number of Shares Issued and Outstanding (Common Shares)

1. Number of shares issued and outstanding (including treasury stock) as of the year-end:

As of December 31, 2014	382,863,603 shares
As of March 31, 2014	382,863,603 shares

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

As of December 31, 2014	32,283,465 shares
As of March 31, 2014	32,551,718 shares

3. Average number of shares for the year:

As of December 31, 2014	350,424,196 shares
As of March 31, 2014	350,162,227 shares

[Reference]

Summary of Unconsolidated Results

1. Unconsolidated Results for Fiscal 2014 (April 1, 2014 – December 31, 2014)

(Percentages displayed for net sales, operating income, ordinary income and net income are comparisons with the previous fiscal year.)

(1) Unconsolidated Operating Results

(Millions of yen)

	Net Sales		Operating Income		Ordinary Income		Net Income	
		(Change)		(Change)		(Change)		(Change)
Fiscal 2014	165,931	—	26,623	—	28,130	—	14,631	—
Fiscal 2013	211,127	3.1%	32,674	(2.1%)	34,424	0.4%	21,989	22.7%

	Net Income per Share (Yen)	Fully Diluted Net Income per Share (Yen)
Fiscal 2014	41.75	41.67
Fiscal 2013	62.80	62.66

As a transitional period for the change in the fiscal year-end, fiscal 2014 is an irregular accounting period of nine months from April 1, 2014 to December 31, 2014. As a result, change from the previous fiscal year is not presented.

[Reference] The following percentages (change after adjustment) are the rate of change for the Company and subsidiaries that had a fiscal year-end of March 31 compared with fiscal 2013 results adjusted for a nine-month period (April 1, 2013 to December 31, 2013).

Net Sales		Operating Income		Ordinary Income		Net Income		(Millions of yen)
165,931	7.8%	26,623	9.3%	28,130	8.6%	14,631	(13.6)%	

(2) Unconsolidated Financial Position

(Millions of yen)

	Total Assets	Net Assets	Equity Ratio (%)	Net Assets per Share (Yen)
Fiscal 2014	510,375	331,036	64.7	941.47
Fiscal 2013	505,703	329,086	64.9	936.54

[Reference]

Shareholders' equity: For fiscal 2014: ¥330,059 million
For fiscal 2013: ¥328,080 million

Indication of audit procedure implementation status

This summary of consolidated results is exempt from the audit procedures based upon the Financial Instruments and Exchange Act. Audit procedures for the financial statements based on the Financial Instruments and Exchange Act had not been completed at the time of disclosure of this summary of consolidated results.

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 "Outlook for the Fiscal Year Ending December 31, 2015" on page 3 of the Attachment for the assumptions used.

Access to Documents and Other Materials Relating to the Year-End Results Briefing to Be Held on February 16, 2015

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

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1. Analysis of Results of Operations and Financial Position

(1) Analysis of Results of Operations

In the fiscal year ended December 31, 2014, the feared slowdown in the Japanese economy following the increase in the consumption tax rate became apparent. Overseas, while favorable conditions continued in the U.S. economy, recovery stalled in Europe. In addition, a slowdown in growth in China's economy also became clear, and conditions were patchy in other emerging countries. The drop in the price of crude oil at the end of the period had little effect on the Company's results for the fiscal year ended December 31, 2014.

Under 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.

Due to a change in the fiscal year-end, consolidated results for the fiscal year ended December 31, 2014 cover the nine-month period from April 1, 2014 to December 31, 2014 for the Company and subsidiaries that had a fiscal year-end of March 31, and the twelve-month period from January 1, 2014 to December 31, 2014 for subsidiaries with a fiscal year-end of December 31. Comparisons with the previous fiscal year use figures that have been adjusted to the same period as the fiscal year ended December 31, 2014.

The Kuraray Group's consolidated net sales for fiscal 2014 (April 1, 2014 to December 31, 2014) increased ¥71,483 million, or 21.0%, compared with the previous fiscal year to ¥411,408 million. Operating income increased ¥2,048 million, or 5.4%, to ¥40,298 million; ordinary income increased ¥1,721 million, or 4.5%, to ¥40,084 million; and net income decreased ¥1,829 million, or 7.9%, to ¥21,296 million.

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

	Fiscal 2013 (Adjusted) (April-December)	Fiscal 2014	Change (Adjusted)
Net Sales	339.9	411.4	+21.0%
Operating Income	38.3	40.3	+5.4%
Ordinary Income	38.4	40.1	+4.5%
Net Income	23.1	21.3	-7.9%

Note: Figures for Fiscal 2013 (Adjusted) are unaudited.

Results by Business Segment

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

	Net Sales		Operating Income	
	Fiscal 2013 (Adjusted) (April-December)	Fiscal 2014	Fiscal 2013 (Adjusted) (April-December)	Fiscal 2014
Vinyl Acetate	160.7	219.0	36.2	35.7
Isoprene	42.0	44.7	3.9	4.9
Functional Materials	38.8	44.0	1.1	1.5
Fibers and Textiles	34.7	35.4	2.1	2.3
Trading	80.9	91.1	2.5	2.8
Other Business	50.2	51.6	1.7	2.0
Elimination & Corporate	(67.3)	(74.4)	(9.3)	(8.9)
Total	339.9	411.4	38.3	40.3

Note: Figures for Fiscal 2013 (Adjusted) are unaudited.

<u>**Results by Business Segment**</u>

Vinyl Acetate

Sales in this segment grew 36.3% year on year to ¥219,041 million, while segment income fell 1.4% year on year to ¥35,724 million. Please note that the results of the glass laminating solutions/vinyls business (the "GLS business") of E. I. du Pont de Nemours and Company ("DuPont"), which the Company acquired on June 1, 2014, are included in this segment for the seven-month period from June to December 2014.

1) Sales volume of optical-use PVA film increased due to growth in the number of LCD panels sold and the trend toward larger panels. New production facilities came on line at the Saijo Plant in April. Demand for PVA resin was stagnant in Europe and Asia. PVB film was affected by the ongoing slowdown in the construction materials

market in Europe. Sales of water-soluble PVA film grew favorably on the back of brisk demand. In response, the Company decided to build a new plant in the United States, with start-up scheduled for January 2016.

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

3) In the GLS business, the integration of both manufacturing and marketing was completed without problems, but the business was unprofitable due to factors including amortization expenses for goodwill and others.

Isoprene
Sales in this segment grew 6.4% year on year to ¥44,674 million, and segment income increased 23.7% year on year to ¥4,874 million.

1) In isoprene chemicals, sales of fine chemicals were favorable and sales of *SEPTON* thermoplastic elastomer were firm. Demand for liquid rubber rebounded.

2) Sales of *GENESTAR* heat-resistant polyamide resin for LED reflector, connector and automotive applications were favorable.

Functional Materials
Sales in this segment grew 13.6% year on year to ¥44,037 million, and segment income increased 42.3% year on year to ¥1,523 million.

1) Methacrylic resin struggled in the first half due to sluggish market conditions, but shifted to growth in income in the second half as demand rebounded.

2) In the medical business, sales of dental materials were favorable.

3) *CLARINO* man-made leather became profitable, showing the effect of the Company's structural improvements such as the transfer of the conventional production process to China.

Fibers and Textiles
Sales of *KURALON* were brisk for use in automotive brake hose applications and as an asbestos substitute in fiber reinforced cement (FRC). As a result, sales in this segment grew 2.1% year on year to ¥35,385 million, and segment income increased 5.8% year on year to ¥2,250 million.

Trading
Sales were favorable in fiber-related businesses, especially for polyester, and in resin and chemical-related businesses. In addition, the Company expanded its overseas network. As a result, segment sales increased 12.7% year on year to ¥91,127 million, and segment income increased 11.9% to ¥2,791 million.

Other Business
Other businesses were firm overall. As a result, segment sales increased 2.7% year on year to ¥51,591 million, and segment income increased 15.1% to ¥1,993 million.

Outlook for the Fiscal Year Ending December 31, 2015
Regarding the operating environment in the fiscal year ending December 31, 2015, there are concerns about a downturn in personal consumption due to rising import prices as a result of the depreciation trend of the yen. Overseas, despite expectations for continuing favorable conditions in the United States economy, a delay in recovery from the economic downturn in Europe, slowing growth in China's economy and continuing patchy conditions in other emerging countries are forecast. In addition, the drop in the price of crude oil from the end of fiscal 2014 could have an impact on the global economy, in addition to increasing geopolitical risk and other effects, making the outlook for the global economy unclear, but over the short term it is expected to exert a positive effect on the Company's results.

The Company started its new medium-term management plan GS-STEP (FY2015-FY2017) from fiscal 2015. Under GS-STEP, the Company will achieve high profit and steadily build a business foundation for further growth. Measures include raising the Company's competitive advantages by creating a more solid foundation for its core business, creating new businesses using highly distinctive, original Kuraray technologies, establishing improved production processes and other new processes to further its lead in product quality and cost, and expanding into new business domains by making more effective use of external resources.

Based on these circumstances, the forecast of operating results for the fiscal year ending December 31, 2015 is as shown below.

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

	Fiscal 2014 (Adjusted) (January-December)	Forecast for Fiscal 2015	Change (Adjusted)
Net Sales	485.0	540.0	+11.3%
Operating Income	51.4	63.0	+22.6%
Ordinary Income	51.0	62.0	+21.7%
Net Income	27.5	36.0	+31.1%

Notes:
1. Figures for Fiscal 2014 (Adjusted) present results of the Company and its consolidated subsidiaries that had a fiscal year-end of March 31 adjusted for the twelve month period (January 1, 2014 to December 31, 2014).
2. Figures for Fiscal 2014 (Adjusted) are unaudited.

For the fiscal year ending December 31, 2015, we assume average exchange rates of ¥120 to the U.S. dollar and ¥130 to the euro, as well as a domestic naphtha price of ¥52,000 per kiloliter.

[Reference] Forecast Results by Segment for the Fiscal Year Ending December 31, 2015

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

	Net Sales		Operating Income	
	Fiscal 2014 (Adjusted) (January-December)	Forecast for Fiscal 2015	Fiscal 2014 (Adjusted) (January-December)	Forecast for Fiscal 2015
Vinyl Acetate	237.6	287.0	46.2	55.0
Isoprene	55.7	60.5	6.4	8.5
Functional Materials	53.8	57.0	2.0	4.0
Fibers and Textiles	47.7	48.0	2.9	3.5
Trading	119.2	120.0	3.8	4.0
Other Business	68.7	75.0	2.6	3.0
Elimination & Corporate	(97.8)	(107.5)	(12.5)	(15.0)
Total	485.0	540.0	51.4	63.0

Notes:
1. Figures for Fiscal 2014 (Adjusted) present results of the Company and its consolidated subsidiaries that had a fiscal year-end of March 31 adjusted for the twelve month period (January 1, 2014 to December 31, 2014).
2. Figures for Fiscal 2014 (Adjusted) are unaudited.

(2) Analysis of Financial Position

1) Assets, Liabilities and Net Assets

Total assets increased ¥57,286 million from the end of the previous fiscal year to ¥691,538 million, mainly because of increases in tangible and intangible fixed assets. Total liabilities increased ¥27,918 million to ¥209,712 million due to factors including issuance of commercial papers. Net assets rose ¥29,367 million to ¥481,826 million. Shareholders' equity amounted to ¥474,760 million, for an equity ratio of 68.7%.

2) Cash Flows

Cash Flows from Operating Activities:

Net cash provided by operating activities totaled ¥40,840 million. Cash provided included ¥31,533 million from income before income taxes and minority interests and ¥35,696 million from depreciation and amortization. Cash used included ¥12,631 million due to increases in notes and accounts receivable – trade and inventories, and ¥18,939 million in income taxes paid. Net cash provided by operating activities decreased ¥20,334 million compared with the previous fiscal year.

Cash Flows from Investing Activities:

Net cash used in investing activities totaled ¥105,690 million. A net decrease in invested assets provided cash of ¥6,354 million, while uses of cash included ¥43,380 million for purchase of tangible fixed assets and intangible fixed assets and ¥68,419 million for payments for acquisition of business.

Cash Flows from Financing Activities:

Net cash used in financing activities was ¥3,650 million. Uses of cash included cash dividends paid of ¥12,613 million while cash provided included net decreases in loans and issuance of commercial papers totaling ¥9,082 million.

In addition to the above factors, as a result of the effect of exchange rate changes on cash and cash equivalents, the increase in cash and cash equivalents from newly consolidated subsidiaries and the decrease in cash and cash equivalents from exclusion of subsidiaries from consolidation, cash and cash equivalents at the end of the fiscal year decreased ¥65,254 million from the end of the previous fiscal year to ¥35,388 million.

(Millions of yen)

	Fiscal year ended March 31, 2014	Fiscal year ended December 31, 2014
Net cash provided by operating activities	61,175	40,840
Net cash provided by investing activities	22,293	(105,690)
Net cash used in financing activities	(15,427)	(3,650)
Effect of exchange rate changes on cash and cash equivalents	2,688	3,255
Net increase (decrease) in cash and cash equivalents	70,730	(65,244)
Cash and cash equivalents, beginning of the period	29,885	100,642
Increase in cash and cash equivalents from newly consolidated subsidiaries	26	9
Decrease in cash and cash equivalents from exclusion of subsidiaries from consolidation	—	(19)
Cash and cash equivalents, end of the period	100,642	35,388

[Reference] Cash Flow Indicators for the Kuraray Group

	Fiscal Year Ended March 31, 2010	Fiscal Year Ended March 31, 2011	Fiscal Year Ended March 31, 2012	Fiscal Year Ended March 31, 2013	Fiscal Year Ended March 31, 2014	Fiscal Year Ended December 31, 2014
Equity ratio (%)	66.5	67.6	68.8	67.2	70.3	68.7
Equity ratio (%; market basis)	87.1	73.6	78.0	83.3	65.2	69.8
Cash flow to interest-bearing debt ratio (%)	0.9	0.9	1.5	1.0	1.1	1.8
Interest coverage ratio (times)	60.8	60.6	39.7	67.7	65.2	118.9

Notes:

Equity ratio: Net assets excluding both subscription rights to shares and minority interests/total assets

Equity ratio (market basis): Total market value of shares issued and outstanding/total assets

Ratio of cash flow to interest-bearing liabilities: Interest-bearing liabilities/net cash provided by (used in) operating activities

Interest coverage ratio: Net cash provided by (used in) operating activities/interest expenses

1. All indicators are calculated using the consolidated financial statements.
2. The total market value of shares issued and outstanding was calculated by multiplying the closing price at the end of the fiscal year by the total number of shares issued and outstanding (after subtracting treasury stock) at the end of the fiscal year.
3. The calculations use net cash provided by (used in) operating activities as reported in the consolidated statements of cash flows.
4. Interest-bearing liabilities are all liabilities reported in the consolidated balance sheets that require payment of interest.
5. From the fiscal year ended March 31, 2013, for some foreign subsidiaries, the Company applies "Employee Benefits" (International Accounting Standards Board, International Accounting Standard No. 19, June 16, 2011). As the changes to the corresponding accounting policies have been applied retroactively, the equity ratio for the fiscal year ended March 31, 2013 has been retroactively adjusted.

(3) Kuraray's Fundamental Dividend Policy and Dividends for the Fiscal Years Ended December 31, 2014 and Ending December 31, 2015

The distribution of profits to shareholders is one of the Company's top management issues. During GS-III, the previous medium-term management plan, the Company targeted a dividend payout ratio of 35% or more relative to consolidated net income, with a basic policy of shareholder returns by means of increases in dividends though continuous improvement in business results.

Pursuant to this dividend policy, a year-end dividend of ¥9 per share is planned for the fiscal year ended December 31, 2014 as announced at the beginning of fiscal2014. The total of this year-end dividend and the interim dividend will be ¥27 per share for the fiscal year ended December 31, 2014, and the dividend payout ratio will be 44.4%.

During GS-STEP, the medium-term management plan for fiscal 2015 through fiscal 2017, the Company has set a ratio of total return of 35% or more relative to consolidated net income and annual dividends per share of ¥36 or higher, with a basic policy of increasing allocation of profits though continuous improvement in business results. Based on this policy, for the fiscal year ending December 31, 2015, the Company plans annual dividends of ¥36 per share (payout ratio of 35.1%), consisting of an interim dividend of ¥18 per share and a year-end dividend of ¥18 per share, assuming a forecast for consolidated net income for the fiscal year of ¥36.0 billion.

(4) Risk Management

Risks that could have a significant impact on the Kuraray Group's performance (results of operations and financial position) are discussed below. Forward-looking statements in the following text represent the Kuraray Group's best judgment as of December 31, 2014.

1) Risks associated with the changes in business environment

The Kuraray Group has a diversified business portfolio and its products are geared to global markets with a variety of uses and applications. Many of our products are original specialty chemical materials that are less susceptible to the fluctuations in the commodity markets compared with those in other industries, but in recent years more and more of our products are geared to the growing business areas including electric and electronic materials, automotive and environmental applications on which our overall business performance is increasingly dependent. In these areas, market environment can undergo drastic changes as a result of a reverse in industry de facto standards for final products, shorter product cycles and worldwide competition in product development. Therefore, we may also face drastic changes in market environment and competitive conditions for our products.

Meanwhile, we manufacture products such as chemical products, synthetic resins, synthetic fibers and textiles out of the raw materials such as ethylene and other petrochemical products that are susceptible to the fluctuations in the markets of crude oil and natural gas. As a result, market fluctuations exceeding expectations could affect the Kuraray Group's business results.

The Kuraray Group is exposed to the risk that it will be forced to downsize or close down certain areas of its main businesses as a consequence of the changes in its business environment as described above.

2) Risks associated with accidents and disasters

The Kuraray Group has manufacturing facilities in Japan, Europe, North America and Asia. Many of these are large-scale chemical plants. We work to prevent accidents and disasters such as explosions, fires and leaks of toxic substances and to minimize injuries when they occur, and conduct risk management for important production plants by geographically spreading their locations and arranging property and casualty insurance on them. However, in the event of serious security incidents, release of pollutants or natural disasters, there are risks that could cause personal injury or property damage to employees or third parties, or damage to the assets of the Kuraray Group, or halt of manufacturing operations for long periods.

In the event of accidents or disasters at suppliers who discharge such functions as providing important raw materials, facilities, maintenance parts and services, there are risks that could affect our product supply.

3) Risks associated with litigation and violation of laws and regulations

The Kuraray Group operates numerous businesses based on its proprietary technologies, posing the risks of serious infringement of its intellectual properties, or litigation involving its rights in the future.

Meanwhile, we are supplying many products that play significant roles in assuring the quality of the final products in areas such as automotive products, electric and electronic materials, medical products and food packaging. We have introduced a product quality management system at each major production base of the Kuraray Group and work to improve product quality, but in the event of a large-scale product recall caused by defective quality, there are risks of major financial losses including liability losses that cannot be fully covered by existing product liability insurance.

Also, despite our construction of a compliance system and our utmost efforts to comply with laws and regulations at each of our operating facilities, there are risks that our business activities could be interrupted in the event of a major breach of legal compliance, changes in current laws and regulations or the addition of new laws and regulations.

4) Risks associated with changes in exchange rates

The Kuraray Group is expanding its manufacturing and sales operations in Japan and in various overseas regions, including Europe, North America and Asia. Export prices of the Kuraray Group's domestically manufactured products are affected by changes in exchange rates. In sales of products manufactured at our overseas bases, procurement and sales prices in different currency blocks and the value of foreign-currency-denominated assets and liabilities are affected by changes in exchange rates. It is possible that the Kuraray Group will be affected negatively by exchange rate fluctuations if they exceed the scope of our assumption.

5) Other risks

With the global development of our businesses, there are risks that fortuitous external events such as war, riot, terrorism or an epidemic could disrupt our business activities.

2. Management Policies

(1) Fundamental Management Policies

The Company continues to move toward the realization of "Long-Term Corporate Vision," which indicates the long-term direction the Kuraray Group will pursue.

The economic environment over the coming years is expected to undergo a long-term structural transformation as concerns grow regarding the global environment, resource conservation and the stalling of economies that remain centered on mass production and massive energy consumption. Other key issues that need to be addressed include the imbalance in the global economy, lower rates of economic growth and increasing competition. As individual values evolve, issues also arise concerning diversifying market needs, higher levels of sophistication and the rapid shift in demand trends. Furthermore, growing risks associated with Japan's fundamental structure such as its fiscal deficit, aging society and declining birthrate pose additional problems. In these circumstances, it is increasingly imperative for chemical companies to shift their management focus from quantity to quality. Against this backdrop, the Kuraray Group will exploit its longstanding corporate culture, which stresses "Contributing to the world and individual well-being through actions that others are unable to produce," and aim to become a sustainably growing, high-profit specialty chemical company as its Long-Term Corporate Vision.

(2) Management Indicator Targets and Medium- to Long-Term Strategies

To achieve the abovementioned Long-Term Corporate Vision, the Kuraray Group has been executing various measures including the acquisition of the GLS business of DuPont with the primary objectives of "Geographic expansion of core businesses" and "Creation and expansion of new businesses" under its previous medium-term management plan GS-III (fiscal 2012 to fiscal 2014). The Kuraray Group recognizes that it has established a foundation to aim for further business expansion and high profit through these measures. As performance targets for fiscal 2017, the final year of GS-STEP (fiscal 2015 to fiscal 2017), the medium-term management plan starting in fiscal 2015, the Kuraray Group has set net sales of ¥650.0 billion, operating income of ¥90.0 billion, an operating income margin of 13.8% and net income per share of ¥163. The Kuraray Group will promote the following five main management strategies under GS-STEP.

1) Deepening of core businesses
Increase competitive advantages by producing results from the effects of investments including business acquisitions and production capacity expansion for a more solid foundation in businesses where Kuraray product are number one in market share or the only ones of their kind. In addition, lay the groundwork for future growth.

2) Technological innovation
Create new businesses by using highly distinctive, original Kuraray technologies and accelerating their rollout to new domains and technologies. In addition, establish new and improved processes to achieve overwhelming superiority in product quality and cost.

3) Next-generation growth model
Work to expand into new business domains by making more effective use of external resources, including M&A and alliances. In addition, take on the challenge of establishing an innovative business model for corporate activities including research and development, technical services, manufacturing and sales, and indirect operations.

4) Optimum allocation of management resources
Raise the quality of global management through the optimal allocation and proactive use of management resources such as the expanded bases and human resources resulting from the integration of the GLS business and other initiatives.

5) Contribution to the environment
Expand provision of products that contribute to the global environment. In addition, use production processes that reduce environmental load.

(3) Issues to Be Addressed

The theme of the medium-term management plan GS-STEP is to achieve high profit by steadily executing various measures based on its management strategies. Specifically, the Kuraray Group will achieve high profit by strengthening its competitiveness through measures such as expanding the high-value-added products that are the essence of a specialty chemical company, raising profitability by developing new products and optimizing the product mix, establishing new and improved processes to improve product quality and drastically reduce costs, and strengthening supply chain management.

The Kuraray Group believes that steady execution of GS-STEP will lead to the realization of "a high-profit specialty chemical company with a global presence", which it aims to become, as stated in its Long-Term Corporate Vision.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	March 31, 2014	December 31, 2014
ASSETS		
Current assets:		
Cash and cash deposits	49,746	33,939
Notes and accounts receivable – trade	91,119	104,988
Short-term investment securities	58,301	2,504
Merchandise and finished goods	60,984	74,201
Work in process	11,992	13,788
Raw materials and supplies	15,658	19,107
Deferred tax assets	5,889	4,694
Other	9,175	16,546
Allowance for doubtful accounts	(465)	(571)
Total current assets	302,402	269,200
Noncurrent assets:		
Tangible fixed assets:		
Buildings and structures, net	44,707	52,729
Machinery, equipment and vehicles, net	91,921	120,298
Land	21,481	21,999
Construction in progress	59,139	62,590
Other (net)	4,970	4,770
Total tangible fixed assets	222,219	262,388
Intangible fixed assets:		
Goodwill	26,598	31,217
Customer relation assets	20,065	34,745
Other	10,534	22,877
Total intangible fixed assets	57,198	88,840
Investments and other assets:		
Investment securities	39,285	54,342
Long-term loans receivable	297	302
Net defined benefit assets	2,031	816
Deferred tax assets	6,260	8,701
Other	4,604	6,993
Allowance for doubtful accounts	(47)	(48)
Total investments and other assets	52,431	71,108
Total noncurrent assets	331,849	422,338
Total assets	634,252	691,538

(Millions of yen)

	March 31, 2014	December 31, 2014
LIABILITIES		
Current liabilities:		
Notes and accounts payable – trade	35,393	43,027
Short-term loans payable	13,143	12,087
Commercial papers	—	10,000
Accrued expenses	8,073	7,957
Income taxes payable	7,272	2,575
Provision for bonuses	6,931	4,957
Other provision	51	19
Other	18,280	29,311
Total current liabilities	89,145	109,936
Noncurrent liabilities:		
Bonds payable	10,000	10,000
Long-term loans payable	42,187	42,326
Deferred tax liabilities	18,343	20,526
Provision for directors' retirement benefits	161	175
Provision for environmental measures	886	852
Net defined benefit liabilities	5,448	10,053
Asset retirement obligations	2,656	3,500
Other	12,962	12,341
Total noncurrent liabilities	92,647	99,775
Total liabilities	181,793	209,712
NET ASSETS		
Shareholders' equity:		
Capital stock	88,955	88,955
Capital surplus	87,147	87,181
Retained earnings	279,616	285,561
Treasury stock	(38,425)	(38,110)
Total shareholders' equity	417,293	423,588
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	6,944	9,276
Deferred gains or losses on hedges	(4)	65
Foreign currency translation adjustments	27,025	46,899
Remeasurements of defined benefit plans	(5,424)	(5,069)
Total accumulated other comprehensive income	28,541	51,172
Subscription rights to shares	1,005	977
Minority interests	5,618	6,087
Total net assets	452,459	481,826
Total liabilities and net assets	634,252	691,538

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

Consolidated Statements of Income

(Millions of yen)

	Fiscal 2013 (April 1, 2013 – March 31, 2014)	Fiscal 2014 (April 1, 2014 – December 31, 2014)
Net sales	413,485	411,408
Cost of sales	286,179	294,261
Gross profit	127,306	117,147
Selling, general and administrative expenses:		
Selling expenses	19,666	20,573
General and administrative expenses	58,094	56,275
Total selling, general and administrative expenses	77,760	76,848
Operating income	49,545	40,298
Non-operating income:		
Interest income	583	220
Dividends income	2,437	1,711
Equity in earnings of affiliates	1	1
Other	1,215	996
Total non-operating income	4,236	2,930
Non-operating expenses:		
Interest expenses	936	251
Personnel expenses for seconded employees	684	592
Other	2,816	2,300
Total non-operating expenses	4,438	3,143
Ordinary income	49,343	40,084
Extraordinary income:		
Gain on liquidation of subsidiaries	—	695
Total extraordinary income	—	695
Extraordinary loss:		
Loss on transfer of business	—	5,698
Expenses incurred upon acquisition	2,174	2,125
Retirement benefit expenses	—	622
Loss on disposal of tangible fixed assets	621	345
Impairment loss	118	277
Loss on valuation of investment securities	—	177
Expenses for suspension of operation	829	—
Total extraordinary loss	3,744	9,247
Income before income taxes and minority interests	45,598	31,533
Income taxes – current	16,292	10,704
Income taxes – deferred	(519)	(1,073)
Total income taxes	15,772	9,631
Income before minority interests	29,826	21,902
Minority interests	435	605
Net income	29,390	21,296

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Fiscal 2013 (April 1, 2013 – March 31, 2014)	Fiscal 2014 (April 1, 2014 – December 31, 2014)
Income before minority interests	29,826	21,902
Other comprehensive income:		
Valuation difference on available-for-sale securities	868	2,332
Deferred gains or losses on hedges	13	69
Foreign currency translation adjustment	36,902	19,874
Remeasurements of defined benefit plans	21	355
Total other comprehensive income	37,806	22,631
Comprehensive income	67,632	44,533
Comprehensive income attributable to		
Owners of the parent	67,196	43,928
Minority interests	436	605

(3) Consolidated Statements of Changes in Net Assets

Fiscal 2013 (April 1, 2013 – March 31, 2014)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total share-holders' equity
Balance at April 1, 2013	88,955	87,147	263,262	(40,169)	399,195
Changes of items during the period					
Cash dividends			(12,584)		(12,584)
Net income			29,390		29,390
Change of scope of consolidated			(402)		(402)
Purchase of treasury stock				(10)	(10)
Disposal of treasury stock		(49)		1,754	1,705
Transfer to capital surplus from retained earnings		49	(49)		–
Net changes of items other than shareholders' equity					–
Total changes of items during the period	–	–	16,353	1,743	18,097
Balance at March 31, 2014	88,955	87,147	279,616	(38,425)	417,293

	Accumulated other comprehensive income					Subscription rights to shares	Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasure-ment of defined benefit plans	Total accumulated other compre-hensive income			
Balance at April 1, 2013	6,076	(17)	(9,877)	(622)	(4,440)	1,221	5,330	401,307
Changes of items during the period								
Cash dividends					–			(12,584)
Net income					–			29,390
Change of scope of consolidated					–			(402)
Purchase of treasury stock					–			(10)
Disposal of treasury stock					–			1,705
Transfer to capital surplus from retained earnings					–			–
Net changes of items other than shareholders' equity	868	13	36,902	(4,802)	32,982	(215)	287	33,054
Total change of items during the period	868	13	36,902	(4,802)	32,982	(215)	287	51,152
Balance at March 31, 2014	6,944	(4)	27,025	(5,424)	28,541	1,005	5,618	452,459

Fiscal 2014 (April 1, 2014 – December 31, 2014)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total share-holders' equity
Balance at April 1, 2014	88,955	87,147	279,616	(38,425)	417,293
Cumulative effect of changes in accounting policies			(2,712)		(2,712)
Restated balance	88,955	87,147	276,903	(38,425)	414,580
Changes of items during the period					
Cash dividends			(12,613)		(12,613)
Net income			21,296		21,296
Change in scope of consolidated			(24)		(24)
Purchase of treasury stock				(7)	(7)
Disposal of treasury stock		33		323	356
Net changes of items other than shareholders' equity					–
Total changes of items during the period	–	33	8,658	315	9,007
Balance at December 31, 2014	88,955	87,181	285,561	(38,110)	423,588

	Accumulated other comprehensive income					Subscription rights to shares	Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasure-ment of defined benefit plans	Total accumulated other compre-hensive income			
Balance at April 1, 2014	6,944	(4)	27,025	(5,424)	28,541	1,005	5,618	452,459
Cumulative effect of changes in accounting policies					–			(2,712)
Restated balance	6,944	(4)	27,025	(5,424)	28,541	1,005	5,618	449,746
Changes of items during the period								
Cash dividends					–			(12,613)
Net income					–			21,296
Change in scope of consolidated					–			(24)
Purchase of treasury stock					–			(7)
Disposal of treasury stock					–			356
Net changes of items other than shareholders' equity	2,332	69	19,874	355	22,631	(27)	469	23,072
Total change of items during the period	2,332	69	19,874	355	22,631	(27)	469	32,080
Balance at December 31, 2014	9,276	65	46,899	(5,069)	51,172	977	6,087	481,826

(4) Consolidated Statements of Cash Flows

(Millions of yen)

	Fiscal 2013 (April 1, 2013 – March 31, 2014)	Fiscal 2014 (April 1, 2014 – December 31, 2014)
Net cash provided by (used in) operating activities:		
Income before income taxes and minority interests	45,598	31,533
Depreciation and amortization	34,972	35,696
Increase (decrease) in allowance for doubtful accounts	(320)	90
Loss (gain) on transfer of business	—	5,698
Expenses incurred upon acquisition	2,174	2,125
Loss on disposal of tangible fixed assets	621	345
Impairment loss	118	277
Foreign exchange losses (gains)	(2,063)	(2,721)
Interest and dividends income	(3,020)	(1,932)
Interest expenses	936	251
Decrease (increase) in notes and accounts receivable – trade	(2,473)	(11,166)
Decrease (increase) in inventories	1,835	(1,465)
Increase (decrease) in notes and accounts payable – trade	(3,894)	6,500
Loss (gain) on valuation of investment securities	—	177
Increase (decrease) in provision for bonuses	115	(2,137)
Increase (decrease) in net defined benefit liabilities	1,070	987
Decrease (increase) in net defined benefit assets	300	(69)
Contribution to employee's retirement benefits trust	(7,000)	—
Other, net	7,294	(6,265)
Subtotal	76,265	57,926
Interest and dividends received	3,121	1,941
Interest expenses paid	(937)	(343)
Income taxes (paid) refund	(17,273)	(18,939)
Other	—	255
Net cash provided by (used in) operating activities	61,175	40,840
Net cash provided by (used in) investment activities:		
Net decrease (increase) in time deposits	22,559	1,354
Net decrease (increase) in short-term investment securities	18,000	5,000
Purchase of investment securities	(5,158)	(1,850)
Proceeds from sales and redemption of investment securities	50,442	257
Purchase of tangible fixed assets and intangible fixed assets	(58,414)	(43,380)
Payments for disposal of tangible fixed assets and intangible fixed assets	(1,303)	(670)
Proceeds from sales of tangible fixed assets and intangible fixed assets	189	22
Payments for acquisition of business	(1,379)	(68,419)
Other, net	(2,643)	1,996
Net cash provided by (used in) investment activities	22,293	(105,690)
Net cash provided by (used in) financing activities:		
Net increase (decrease) in short-term loans payable	120	4,950
Net increase (decrease) in commercial papers	—	10,000
Proceeds from long-term loans payable	20,129	233
Repayment of long-term loans payable	(24,008)	(6,100)
Purchase of treasury stock	(10)	(7)
Proceeds from sales of treasury stock	1,366	249
Cash dividends paid	(12,584)	(12,613)
Cash dividends paid to minority shareholders	(147)	(136)
Other, net	(291)	(224)
Net cash provided by (used in) financing activities	(15,427)	(3,650)
Effect of exchange rate changes on cash and cash equivalents	2,688	3,255
Net increase (decrease) in cash and cash equivalents	70,730	(65,244)
Cash and cash equivalents, beginning of year	29,885	100,642
Increase in cash and cash equivalents from newly consolidated subsidiaries	26	9
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	—	(19)
Cash and cash equivalents, end of year	100,642	35,388

(5) Notes Regarding the Consolidated Financial Statements

Notes Regarding Going Concern Assumptions
None

Significant Matters That Form the Basis for Preparation of Consolidated Financial Statements

1. Change in Consolidated Fiscal Year-End
The Company's fiscal year-end was originally set at March 31. However, to improve the Company's global business management efficiency and management transparency through the timely and appropriate disclosure of accounting information, the Company has changed its consolidated fiscal year-end to December 31 through the resolution of the 133rd Ordinary General Meeting of Shareholders held on June 20, 2014.

Accordingly, as a transitional period for the change of the consolidated fiscal year-end, the fiscal year under review is the nine-month period from April 1, 2014 to December 31, 2014.

2. Accounting Period of Consolidated Subsidiaries
The fiscal year-end of consolidated subsidiaries corresponds to the consolidated fiscal year-end, with the exception of consolidated subsidiaries in the process of liquidation.

In preparing consolidated financial documents, the consolidated reporting period of consolidated subsidiaries in Japan that had a fiscal year-end of March 31 is based on the nine-month period from April 1, 2014 to December 31, 2014. The consolidated reporting period of consolidated subsidiaries outside Japan is January 1, 2014 to December 31, 2014, as usual.

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

From the fiscal year ended December 31, 2014, the Company applies "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan (ASBJ) Statement No. 26, May 17, 2012; hereinafter the "Accounting Standard for Retirement Benefits") and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012; hereinafter the "Guidance on Retirement Benefits") with regard to the provisions set forth in the text of Clause 35 of the Accounting Standard for Retirement Benefits and Clause 67 of the Guidance on Retirement Benefits and has revised its calculation method for retirement benefit obligation and service cost. As a result, attribution of expected retirement benefit payments has been changed from a straight-line basis to a benefit formula basis. In addition, the method for determining discount rates was changed from the use of the period approximate to the expected average remaining working lives of employees to the use of a single weighted average discount rate reflecting the estimated timing and amount of benefit payment.

At the application of the Accounting Standard for Retirement Benefits, the Company recognized the effect of this change to the calculation method for retirement benefit obligation and service cost in retained earnings at the beginning of the fiscal year ended December 31, 2014 in accordance with the transitional accounting treatment set forth in Clause 37 of the Accounting Standard for Retirement Benefits.

As a result, net defined benefit liabilities increased by ¥2,366 million and net defined benefit assets and retained earnings decreased by ¥1,826 million and ¥2,712 million, respectively, at the beginning of the fiscal year ended December 31, 2014. The effect on operating income, ordinary income and income before income taxes and minority interests in net income of consolidated subsidiaries for the fiscal year was immaterial.

Changes in Presentation Method
1. Related to the Consolidated Balance Sheets
From the fiscal year ended December 31, 2014, "Customer-related assets," which were included in "Other" under "Intangible fixed assets," have been presented separately due to their increased materiality. The financial statements for the previous fiscal year have been restated to reflect this change in presentation method.

As a result, ¥30,600 million presented on the Consolidated Balance Sheet for the previous fiscal year as "Other" under "Intangible fixed assets" was reclassified as ¥20,065 million in "Customer-related assets" and ¥10,534 million in "Other."

2. Related to the Consolidated Statements of Income
"Loss on disposal of tangible fixed assets," which was presented separately under "Non-operating expenses" in the previous fiscal year, is included in "Other" because it was less than 10/100th of total non-operating expenses. The financial statements for the previous fiscal year have been restated to reflect this change in presentation method.

As a result, ¥564 million presented on the Consolidated Statement of Income for the previous fiscal year as "Loss on disposal of tangible fixed assets" under "Non-operating expenses" was reclassified in "Other."

Business Combinations, etc.
(Business Combination through Acquisition)

On November 21, 2013, Kuraray concluded a Sale and Purchase Agreement with DuPont to acquire its glass laminating solutions/vinyls business, which consists of vinyl acetate monomer (VAM), polyvinyl alcohol (PVA) resin, polyvinyl butyral (PVB) resin and film ("the Acquisition"), and completed its acquisition on June 1, 2014..

1. Summary of the transfer of business
   (1) Company name and description of acquired business
      Company name: E. I. du Pont de Nemours and Company
      Description of acquired business: Manufacture and sale of vinyl acetate-related products (VAM, PVA, PVB, etc.)
   (2) Main reason for the transfer of business
      Kuraray executed the Acquisition as part of its expansion plan in the vinyl acetate-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, PVA film, PVB resin and film, EVOH (ethylene vinyl alcohol) resin, which is trademarked as *EVAL*, and PVA fiber (*KURALON*). Through the Acquisition, the fusion of DuPont's technology, R&D, sales capabilities, and manufacturing and sales network with Kuraray's operations will be a key driver of Kuraray's sustainable growth.
   (3) Closing date
      June 1, 2014
   (4) Legal form of business combination
      Cash purchase of assets and shares
   (5) Name of acquired company after business combination
      Kuraray America, Inc.
   (6) Reason for decision of the acquiring company
      Mainly subsidiaries of Kuraray acquired assets and shares with cash

2. Period of earnings of the acquired business included in the consolidated statement of income for the fiscal year ended December 31, 2014
   From June 1, 2014 to December 31, 2014

3. Acquisition cost of the acquired business and breakdown

Amount of acquisition	USD 637 million	(64,847 million yen)
Acquisition cost	USD 637 million	(64,847 million yen)

Note: The yen amounts in parentheses are conversions based on the exchange rate as of May 31, 2014. Payment was denominated in US dollars, euro, etc., in each country where business was transferred.

4. Goodwill recognized, reason for its recognition, amortization method and amortization period
   (1) Goodwill recognized
      USD 72 million (7,349 million yen)
      Note: The yen amount in parentheses is a conversion based on the exchange rate as of May 31, 2014.
   (2) Reason for recognition of goodwill
      Expected future excess earning power
   (3) Amortization method and period
      Straight-line method over 20 years

5. Amounts and breakdown of assets acquired and liabilities assumed as of the business combination date

Current assets	USD 122 million	(12,432 million yen)
Noncurrent assets	USD 452 million	(45,975 million yen)
Total assets	USD 574 million	(58,408 million yen)
Current liabilities	USD 0 million	(92 million yen)
Noncurrent liabilities	USD 8 million	(817 million yen)
Total liabilities	USD 8 million	(910 million yen)

Note: The yen amounts in parentheses are conversions based on the exchange rate as of May 31, 2014.
Assets acquired by nonconsolidated companies are included in noncurrent assets because they are capital for financing or investment by consolidated companies.

6. Amounts allocated to noncurrent assets other than goodwill, breakdown of main classifications and weighted average amortization periods

Customer-related assets	USD 125 million	(12,712 million yen)	Amortization period	15 years
Technology-related assets	USD 58 million	(5,940 million yen)	Amortization period	14 years

Note: The yen amounts in parentheses are conversions based on the exchange rate as of May 31, 2014.

7. Estimated impact on the consolidated statement of income for the fiscal year ended December 31, 2014 if the business combination had been completed on the first day of the fiscal year
   Not presented due to the difficulty of a reasonable calculation of the amount of impact.

Approval of the Acquisition by the European Commission was conditional on the transfer of the European polyvinyl butyral (PVB) sheet business (the "Business") to a third party. Accordingly, on October 17, 2014, Kuraray concluded an agreement to transfer all of the shares of Kuraray Deutschland GmbH and Kuraray Belgium N.V., which operate the Business, to GVC S.A., a subsidiary of GVC Holdings, Inc. Based on this agreement, the transfer of the Business was completed on January 31, 2015. Estimated losses generated by this transfer are recorded as "Loss on business transfer" on the Consolidated Statements of Income.

Segment Information, etc.
(Segment Information)

1. Segment Overview

The business segments reported by Kuraray are the business units for which the Company is able to obtain respective financial information separately in order for the Board of Directors to conduct periodic investigations to determine distribution of management resources and evaluate their business results.

Kuraray adopts an in-house company system where each in-house company conducts business activities and establishes its own comprehensive strategy, both for Japan and for overseas markets, for the products it handles. In addition, among Kuraray subsidiaries, Kuraray Trading Co., Ltd. independently conducts propriety planning and sales activities, including the processing and sale of Kuraray Group products as well as other companies' products.

Consequently, Kuraray has created five business segments for reporting – "Vinyl Acetate," "Isoprene," "Functional Materials," "Fibers and Textiles" and "Trading" – categorized by product group based on the respective in-house companies and the Trading segment.

The Vinyl Acetate segment manufactures and markets functional resins and film, including PVA, PVB and *EVAL*. The Isoprene segment manufactures and markets *SEPTON thermoplastic elastomers* and *KURARITY*, isoprene-related products and *GENESTAR*. The Functional Materials segment manufactures and markets methacrylic resin, man-made leather *CLARINO* and medical products. The Fibers and Textiles segment manufactures and sells synthetic fibers and textiles, non-woven fabrics and others. The Trading segment mainly processes and sells synthetic fibers and man-made leather, and conducts planning and marketing for other products produced by the Kuraray Group and other companies.

2. Methods for Calculating Reporting Segment Net Sales, Income and Loss, Assets and Other Items

The accounting method applied to reported business segments is the same as that stated in "Significant Matters That Form the Basis for Preparation of Consolidated Financial Statements." Profits from reported segments are operating income, and intersegment sales and transfers are based on the prevailing market prices.

3. Information Related to Net Sales, Income and Loss, Net Assets and Other Items by Reporting Segment
Fiscal 2013 (April 1, 2013 – March 31, 2014)

(Millions of yen)

	Reporting Segments						Other Business	Total	Elimination & Corporate	Consolidated Financial Statements
	Vinyl Acetate	Isoprene	Functional Materials	Fibers and Textiles	Trading	Total				
Net sales										
(1) Outside customers	155,503	31,388	32,795	36,339	106,553	362,580	50,905	413,485	—	413,485
(2) Inter-segment sales and transfers	23,757	21,638	15,757	10,593	2,437	74,183	16,429	90,612	(90,612)	—
Total	179,261	53,027	48,552	46,932	108,991	436,764	67,334	504,098	(90,612)	413,485
Segment income (loss)	46,658	5,471	1,500	2,633	3,582	59,847	2,493	62,340	(12,795)	49,545
Segment assets	278,042	57,221	44,088	41,689	35,645	456,688	54,180	510,869	123,383	634,252
Other items										
Depreciation and amortization (other than goodwill)	16,721	4,636	3,670	3,421	37	28,487	1,934	30,422	1,332	31,754
Impairment loss	—	—	—	—	—	—	—	—	118	118
Amortization of goodwill	3,118	—	98	—	—	3,217	—	3,217	—	3,217
Balance of goodwill at end of current period	25,411	—	1,187	—	—	26,598	—	26,598	—	26,598
Gain on negative goodwill	—	—	—	—	—	—	0	0	—	0
Investments in equity method affiliates	—	—	—	106	—	106	—	106	—	106
Increase in tangible fixed assets and intangible fixed assets	41,191	5,236	3,807	4,241	93	54,570	3,561	58,131	1,608	59,740

Notes:
1. The "Other Business" category incorporates operations not included in business segment reporting, including the activated carbon business, aqua business and engineering business.
2. Elimination & Corporate is as follows: Included within segment loss of ¥12,795 million is the elimination of intersegment transactions of ¥1,025 million and corporate expenses of ¥13,820 million. Corporate expenses mainly comprise the submitting company's basic research expenses and headquarters' general and administrative expenses.
3. Segment income is adjusted with operating income under consolidated statements of income.
4. Elimination & Corporate is as follows: Included with segment assets of ¥123,383 million is the elimination of intersegment transactions of ¥28,674 million and unallocated corporate assets of ¥152,057 million.

Fiscal 2014 (April 1, 2014 – December 31, 2014)

(Millions of yen)

	Reporting Segments						Other Business	Total	Elimination & Corporate	Consolidated Financial Statements
	Vinyl Acetate	Isoprene	Functional Materials	Fibers and Textiles	Trading	Total				
Net sales										
(1) Outside customers	196,949	26,779	30,746	27,236	89,537	371,249	40,158	411,408	—	411,408
(2) Inter-segment sales and transfers	22,091	17,895	13,290	8,149	1,590	63,016	11,432	74,449	(74,449)	—
Total	219,041	44,674	44,037	35,385	91,127	434,266	51,591	485,857	(74,449)	411,408
Segment income (loss)	35,724	4,874	1,523	2,250	2,791	47,164	1,993	49,158	(8,860)	40,298
Segment assets	398,631	59,352	45,835	43,698	40,642	588,160	54,334	642,494	49,043	691,538
Other items										
Depreciation and amortization (other than goodwill)	20,949	3,615	2,543	2,517	36	29,617	1,465	31,082	956	32,039
Impairment loss	211	—	—	—	—	211	66	277	—	277
Amortization of goodwill	3,581	—	74	—	—	3,656	1	3,657	—	3,657
Balance of goodwill at end of current period	30,095	—	1,112	—	—	31,208	9	31,217	—	31,217
Investments in equity method affiliates	—	—	—	107	—	107	—	107	—	107
Increase in tangible fixed assets and intangible fixed assets	27,343	2,681	2,802	2,668	53	35,549	1,744	37,294	2,168	39,463

Notes:

1. The "Other Business" category incorporates operations not included in business segment reporting, including the activated carbon business, aqua business and engineering business.
2. Elimination & Corporate is as follows: Included within segment loss of ¥8,860 million is the elimination of intersegment transactions of ¥1,192 million and corporate expenses of ¥10,052 million. Corporate expenses mainly comprise headquarters' general and administrative expenses and the submitting company's basic research expenses.
3. Segment income is adjusted with operating income under consolidated statements of income.
4. 2.Elimination & Corporate is as follows: Included with segment assets of ¥49,043 million is the elimination of intersegment transactions of ¥31,640 million and unallocated corporate assets of ¥80,684 million.

Related Information
Fiscal 2013 (April 1, 2013 - March 31, 2014) Information of Each Product and Service

(Millions of yen)

	Vinyl Acetate	Isoprene	Functional Materials	Fibers and Textiles	Other Business	Total
Net sales for outside customers	179,632	50,187	52,704	69,771	61,190	413,485

Notes:
Principal products of each segment are as follows:
Vinyl Acetate: PVA resin and film, *EVAL* resin and others
Isoprene: Thermoplastic elastomers *SEPTON* and *KURARITY*, isoprene chemicals, *GENESTAR* heat-resistant polyamide resin and others
Functional Materials: Methacrylic resin, *CLARINO* man-made leather, medical products and others
Fibers and Textiles: *KURALON*, *KURAFLEX* non-woven fabrics, *MAGIC TAPE* hook and loop fasteners, polyester and others
Other Business: Activated carbon, aqua business and engineering business and others

2. Performance by Geographical Segment
(1) Net Sales (Millions of yen)

Japan	United States	China	Europe	Asia	Other Area	Total
186,504	38,315	37,525	81,309	56,545	13,285	413,485

Note: Net sales are classified by country or area based on customer location.

(2) Tangible Fixed Assets (Millions of yen)

Japan	United States	Germany	Other Overseas	Total
135,950	51,600	24,544	10,124	222,219

3. Major Customers
No information is available as there is no single outside customer accounting for 10% or more of the Company's total net sales.

Fiscal 2014 (April 1, 2014 - December 31, 2014) Information of Each Product and Service

(Millions of yen)

	Vinyl Acetate	Isoprene	Functional Materials	Fibers and Textiles	Other Business	Total
Net sales for outside customers	219,803	43,615	46,795	52,974	48,219	411,408

Notes:
Principal products of each segment are as follows:
Vinyl Acetate: Poval resin and film, *EVAL* resin and others
Isoprene: *SEPTON* and *KURARITY* thermoplastic elastomers, isoprene chemicals, *GENESTAR* heat-resistant polyamide resin and others
Functional Materials: Methacrylic resin, *CLARINO* man-made leather, medical products and others
Fibers and Textiles: *KURALON*, *KURAFLEX* non-woven fabrics, *MAGIC TAPE* hook and loop fasteners, polyester and others
Other Business: Activated carbon, aqua business and engineering and others

2. Performance by Geographical Segment
(1) Net Sales (Millions of yen)

Japan	United States	China	Europe	Asia	Other Area	Total
137,913	59,476	42,453	97,236	57,326	17,001	411,408

Note: Net sales are classified by country or area based on customer location.

Change in presentation method
From the fiscal year ended December 31, 2014, net sales to outside customers in United States and China accounted for more than 10% of the Company's total sales. Geographical segments for the previous fiscal year have been restated to reflect this change.

(2) Tangible Fixed Assets (Millions of yen)

Japan	United States	Germany	Other Overseas	Total
132,570	90,442	27,839	11,535	262,388

3. Major Customers
No information is available as there is no single outside customer accounting for 10% or more of the Company's total net sales.

Per Share Information

	Fiscal 2013 (April 1, 2013 - March 31, 2014)	Fiscal 2014 (April 1, 2014 – December 31, 2014)
Net assets per share	1,272.68	1,354.21
Basic net income per share	83.93	60.77
Diluted net income per share	83.75	60.65

Note: The basis for computation of basic and diluted income per share is as follows:

	Fiscal 2013 (April 1, 2013 - March 31, 2014)	Fiscal 2014 (April 1, 2014 – December 31, 2014)
Basic net income per share		
Net income	29,390	21,296
Net income unallocated to common stock	—	—
Net income allocated to common stock	29,390	21,296
Average number of common stock outstanding during the fiscal year (thousand shares)	350,162	350,424
Diluted net income per share		
Adjustment made on net income	—	—
Increase of common stocks (thousand shares)	775	734
[Subscription rights to shares included in above]	[775]	[734]
Outline of the residual securities which were not included in the calculation of the diluted net income	—	

Note. As noted in "Changes in Accounting Policies," the application of the Accounting Standard for Retirement Benefits and the Guidance on Retirement Benefits is subject to the transitional accounting treatment set forth in Clause 37 of the Accounting Standard for Retirement Benefits. As a result, net assets per share for the fiscal year ended March 31, 2014 decreased by ¥13.77

Significant Subsequent Information

None applicable

Omission of Disclosure

Disclosure of Unapplied Accounting Standard, Unconsolidated Financial Statements and the notes related to the following items are omitted, as they are considered unnecessary for disclosing such items for earnings report.

- Notes to consolidated balance sheets, consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in net assets, and consolidated statements of cash flows.
- Notes to lease transactions
- Notes to financial instruments
- Notes to investment securities
- Notes to derivatives transaction
- Notes to retirement benefits
- Notes to stock options
- Notes to tax effect accounting
- Notes to asset retirement obligation

4. Reference Information

Appendix for Geographical Segment Information

Fiscal 2014 (April 1, 2014 to December 31, 2014) (Millions of yen)

	Japan	North America	Europe	Asia	Total	Elimination & Corporate	Consolidated
Net sales							
Net sales to outside customers	206,915	77,060	87,966	39,465	411,408	—	411,408
Intersegment sales and transfers	29,930	16,931	7,437	5,956	60,256	(60,256)	—
Total	236,845	93,991	95,404	45,422	471,664	(60,256)	411,408
Segment income	42,711	5,351	1,655	830	50,549	(10,251)	40,298

Notes:

1. The segmentation of country or region is based on the geographical proximity.
2. Major countries and regions included in each category are as follows:

(1) North America…...United States
(2) Europe…………...Germany, Belgium
(3) Asia………………Singapore, Hong Kong and China