kuraray

Continued Steady Progress

Annual Report 2013 For the year ended March 31, 2013

kuraray

Kuraray was established in 1926 to commercialize the chemical fiber rayon, which was state-of-the-art at the time. As a pioneer in Japan's emerging synthetic fiber production industry, the company moved to the industry forefront in 1950 with the accomplishment of commercial production of polyvinyl alcohol (PVA) fiber ***KURALON***.

Over the last half century, Kuraray's technological expertise has developed numerous distinctive products that have expanded its presence in markets worldwide. In particular, several of our current products command the top share in the global market, including **poval resin**, offering outstanding adhesive properties and water solubility; **optical-use poval film**, an indispensable element in liquid crystal displays (LCDs); ***EVAL*** resin, a high gas barrier resin used for food packaging and fuel tanks; and man-made leather ***CLARINO***.

MANAGEMENT PHILOSOPHY

For the Kuraray Group, corporate social responsibility means activities to fulfill our Corporate Mission, which is to discharge our responsibility to society, by ensuring that in the conduct of business all employees ground their attitudes and behaviors in the Corporate Philosophy and Guidelines for Action.

Contents

CORPORATE PHILOSOPHY
(Established in 1986)

- Respect for individuals
- Cooperation in shared goals
- Creation of values

GUIDELINES for ACTION
(Established in 1986)

- Act on customers' needs
- Act on ideas in the working place
- Act on your own initiative

CORPORATE MISSION
(Established in 2003)

We in the Kuraray Group are committed to opening new fields of business using pioneering technology and contributing to an improved natural environment and quality of life.

PRINCIPLES for BUSINESS CONDUCT (Established in 1998)

- We will develop and provide products and services, giving full consideration to safety.
- We will conduct businesses in a free, fair and transparent manner.
- We will maintain good communications and build a sound relationship with society.
- We will strive to preserve and improve the global environment and to secure safety and health.
- We will respect intellectual properties including trade secrets and control information properly.

- Please follow the link http://www.kuraray.co.jp/en/csr/ for information on our CSR activities.
- For all other information, please visit our website at http://www.kuraray.co.jp/en/

FORWARD-LOOKING STATEMENTS

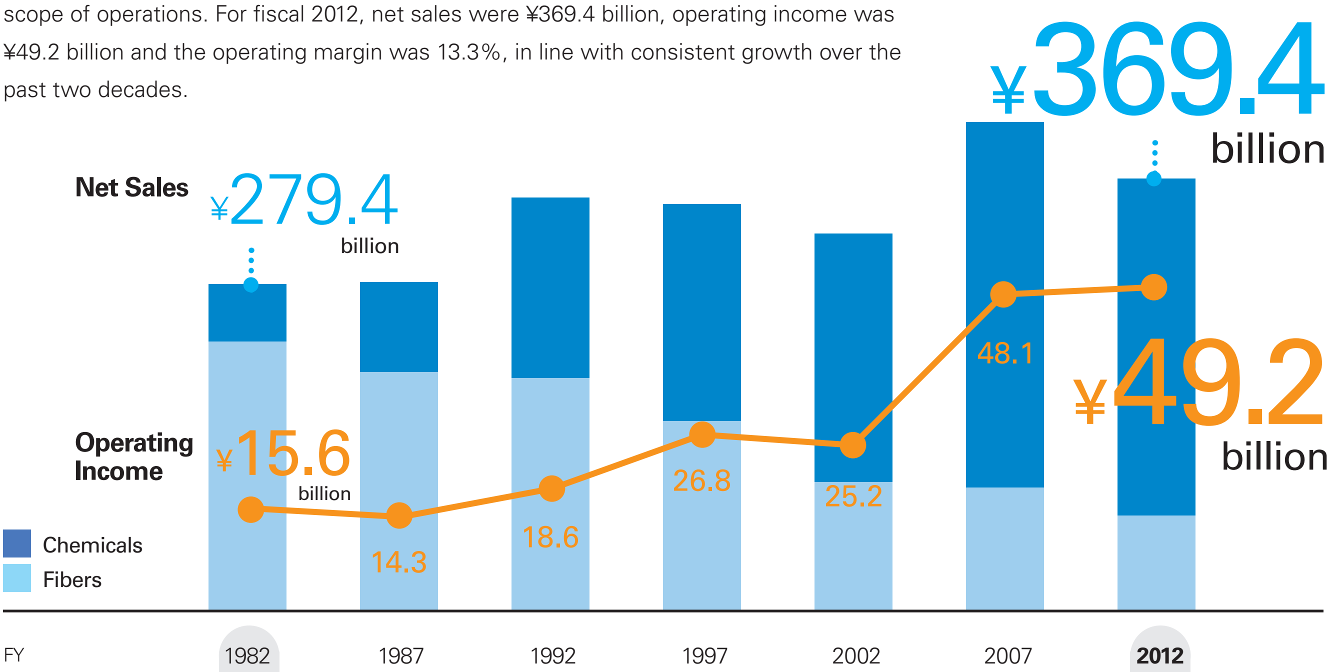
This annual report contains various forward-looking statements, which are based on the current expectations and assumptions of future events. All figures and statements with respect to the future performance, projections and business plans of Kuraray and its Group companies constitute forward-looking statements. Although Kuraray believes its expectations and assumptions are reasonable, actual results and trends of Kuraray's performance could differ materially from those expressed or implied by such figures or statements due to risks and uncertainties in future business circumstances. The factors that may cause such differences include, without limitation: (1) general market and economic conditions in Asia, including Japan, the United States, Europe and other regions; (2) fluctuations of currency exchange rates, especially between the Japanese yen and the U.S. dollar and other foreign currencies; (3) changes in raw material and fuel costs; (4) industrial competition and price fluctuations in Japan and international markets; (5) advances or delays in the construction of new plants and production lines; (6) successful development of new products and technologies; (7) changes in laws and regulations (including tax and environmental) and legal proceedings; and (8) unforeseeable risks, including natural disasters.

In this annual report, italicized product names are trademarks of Kuraray Co., Ltd.

Milestones

Kuraray's Progress

While drastically transforming its operating structure, Kuraray has steadily expanded its scope of operations. For fiscal 2012, net sales were ¥369.4 billion, operating income was ¥49.2 billion and the operating margin was 13.3%, in line with consistent growth over the past two decades.



Historical Change in Business Portfolio (Net Sales)

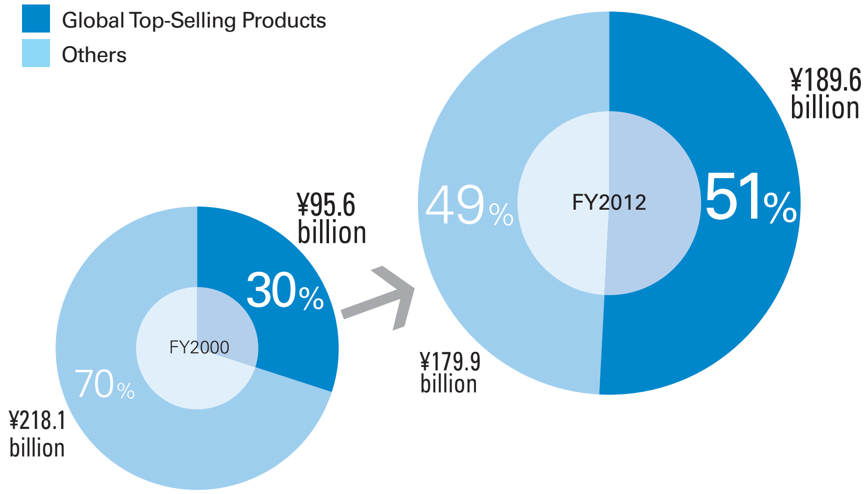
Kuraray's original strengths lay in the manufacture and sale of synthetic fibers, but it also had a strong specialization in polymer and synthetic technologies. From the 1980s, we began to innovate our operating structure and business portfolio in response to changing market needs. Capitalizing on our unrivaled chemical technologies, we accelerated our focused development of the resins and chemicals businesses.

Resins & Chemicals: Share of Net Sales 18% → 78%

Expansion of Global Top-Selling Products

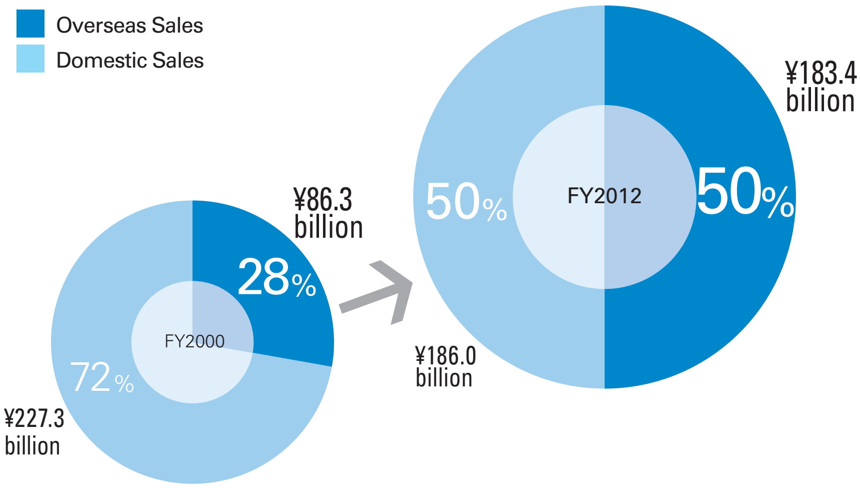
Kuraray has used its original polymer and synthetic technology-based capabilities to produce a series of innovative products. About ten Kuraray products currently hold the top market share of their markets globally, including optical-use poval film, which has an 80% share of the worldwide market.

Our social responsibility to "contribute to the world and individual well-being through actions that others are unable to produce" and our culture of pursuing proprietary technologies have nurtured these global top sellers. Today, global top-selling products have grown to account for over 50% of our net sales.



Overseas Sales Ratio

Centered on a product lineup developed using its proprietary technologies, Kuraray works to uncover new needs worldwide and further expand its market share. Sales to date have focused primarily on developed nations, but today we are committed to increasing sales in emerging markets such as the BRICs, where further demand growth is forecast.



Building a Global Presence

Since establishing a foothold in the United States with the launch of local production of *EVAL* at a U.S. joint venture in 1986, Kuraray has worked to localize production and sales in response to growing markets around the world. We also work to strengthen our international competitiveness by enhancing our sales offices and other initiatives in unexplored fields in countries and regions where Kuraray operates.

Main Production Facilities and Sales Facilities outside Japan (As of July 2013)

Consolidated Financial Highlights

Kuraray Co., Ltd. and its Consolidated Subsidiaries

	Millions of yen					Percent change	Millions of U.S. dollars (Note 1)	Millions of Euro (Note 2)
	FY2012	FY2011	FY2010	FY2009	FY2008	FY2012/2011	FY2012	FY2012
Net sales	¥369,431	¥368,975	¥363,191	¥332,880	¥376,777	0.1%	$3,930	€3,053
Cost of sales	249,485	246,538	243,564	237,198	275,912	1.2	2,654	2,061
Selling, general and administrative expenses	70,748	67,703	66,531	65,230	71,585	4.5	752	584
Operating income	49,197	54,733	53,095	30,451	29,280	(10.1)	523	406
Net income	28,798	31,469	28,742	16,315	12,984	(8.5)	306	238
Capital expenditures	¥ 45,519	¥ 39,006	¥ 20,558	¥ 19,879	¥ 38,925	16.7%	$ 484	€ 376
Depreciation and amortization	30,952	30,737	33,536	36,489	37,147	0.7	329	255
Gross cash flow	59,750	62,206	62,278	52,804	50,131	(3.9)	635	493
Total research and development expenses	16,431	16,175	15,772	15,292	16,358	1.6	174	135
Total assets	¥587,184	¥523,247	¥507,328	¥502,815	¥471,874	12.2%	$6,246	€4,852
Total current assets	257,212	269,083	310,594	249,326	201,358	(4.4)	2,736	2,125
Total tangible fixed assets	181,274	152,877	145,238	163,709	181,020	18.6	1,928	1,498
Total current liabilities	111,449	81,684	86,214	76,550	69,041	36.4	1,185	921
Total noncurrent liabilities	74,279	75,248	74,288	88,446	77,816	(1.3)	790	613
Total net assets	401,455	366,314	346,825	337,818	325,016	9.6	4,270	3,317
Segment information (Note 4)								
Resins								
Net sales	¥155,163	¥148,879	¥147,429	¥136,558	—	4.2 %	$1,650	€1,282
Operating income	48,882	49,904	50,848	39,153	—	(2.0)	520	403
Chemicals								
Net sales	78,986	74,872	75,700	66,680	—	5.5	840	652
Operating income	6,373	9,066	8,676	2,048	—	(29.7)	67	52
Fibers and Textiles								
Net sales	57,192	63,394	61,595	58,151	—	(9.8)	608	472
Operating income (loss)	1,193	1,103	(221)	(2,819)	—	8.2	12	9
Trading								
Net sales	108,760	112,218	115,161	102,643	—	(3.1)	1,157	898
Operating income	3,358	3,527	3,304	2,005	—	(4.8)	35	27
Others								
Net sales	64,442	66,362	58,894	50,166	—	(2.9)	685	532
Operating income	4,001	5,657	4,906	4,271	—	(29.3)	42	33

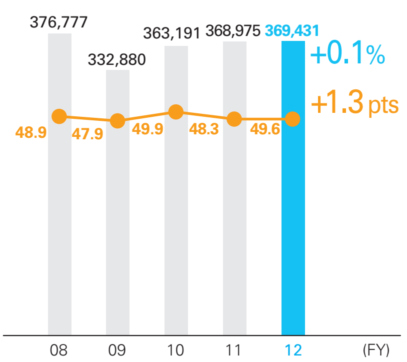
Amounts per share:	Yen						U.S. dollars (Note 1)	Euro (Note 2)
Net income:								
Basic net income per share	¥ 82.62	¥ 90.35	¥ 82.55	¥ 46.86	¥ 37.29	(8.6)%	$ 0.87	€0.68
Diluted net income per share	82.52	90.21	82.40	46.81	37.26	(8.5)	0.87	0.68
Cash dividends applicable to period	36.0	33.00	27.00	16.00	22.00	9.1	0.38	0.29
Shareholders' equity	1,132.07	1,033.48	985.22	961.24	924.48	9.5	12.04	9.35
Financial ratios:								
Cost of sales ratio (%)	67.5%	66.8	67.1	71.3	73.2			
Equity ratio (%)	67.3%	68.8	67.6	66.5	68.2			
Return on equity (ROE) (%)	7.6%	9.0	8.5	5.0	3.9			
Return on assets (ROA) (%) (Note 5)	8.9%	10.6	10.5	6.2	6.1			
Payout ratio (%)	43.6%	36.5	32.7	34.1	59.0			
Number of employees	7,332	6,776	6,544	6,630	6,861			

Notes: 1. The United States dollar amounts represent the translation of Japanese yen at the rate of ¥94 = $1.
2. Euro amounts represent the translation of Japanese yen at the rate of ¥121 = €1.
3. Certain reclassifications of previously reported amounts have been made to conform with current classifications.
4. Since fiscal 2010 (the year ended March 31, 2011), business segments have been reclassified from the three segments "Chemicals and Resins," "Fibers and Textiles" and "High-Performance Materials, Medical Products and Others" to the five segments "Resins," "Chemicals," "Fibers and Textiles," "Trading" and "Others."
The trading business has been allocated from each of the three former segments Chemicals and Resins, Fibers and Textiles, and High-Performance Materials, Medical Products and Others.
5. Return on assets = Operating income / Average total assets x 100 (%)

Figures have been rounded down to the nearest million of yen, U.S. dollars and Euro.

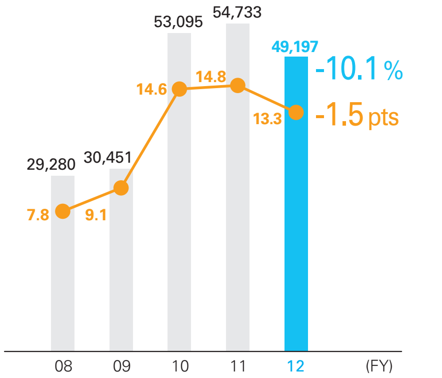
Net Sales & Overseas Sales Ratio

Net Sales
Overseas Sales Ratio
(¥ Million, %)



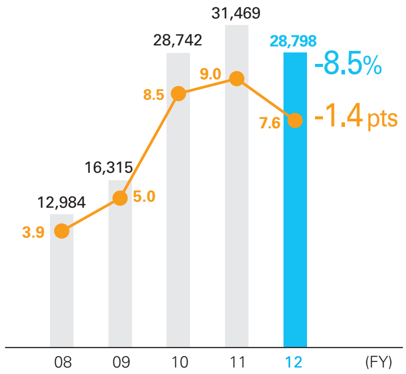
Operating Income & Operating Income Margin

Operating Income
Operating Income Margin
(¥ Million, %)



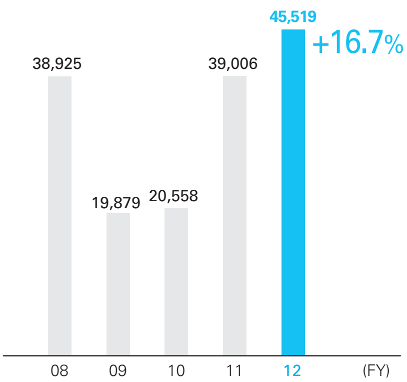
Net Income & ROE

Net Income
ROE
(¥ Million, %)



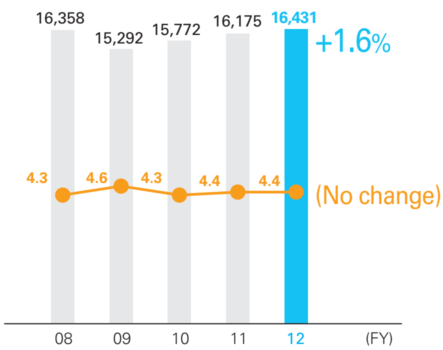
Capital Expenditures

(¥ Million)



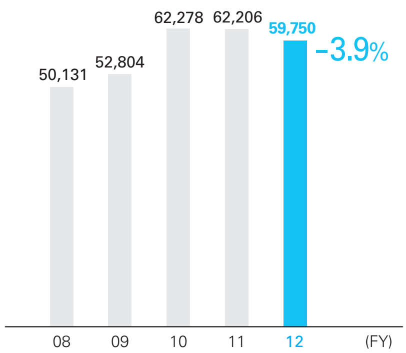
R&D Expenses & R&D Expenses Ratio

R&D Expenses
R&D Expenses Ratio
(¥ Million, %)



Gross Cash Flow*

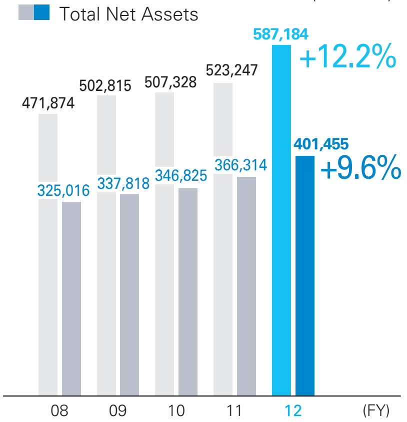
(¥ Million)



* Gross Cash Flow
= Net income + Depreciation and amortization

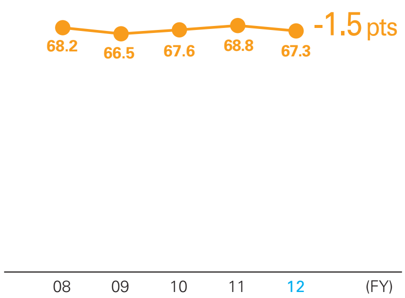
Total Assets & Total Net Assets

Total Assets
Total Net Assets
(¥ Million)



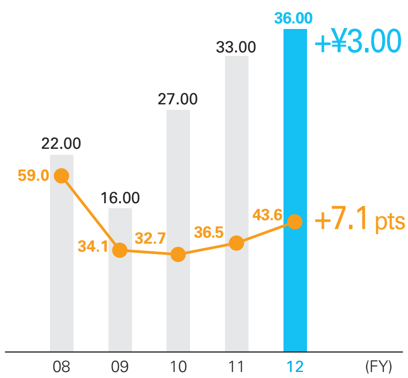
Equity Ratio

(%)



Cash Dividends per Share & Payout Ratio

Cash Dividends per Share
Payout Ratio
(¥, %)



To Our Shareholders

I would like to begin by thanking all our shareholders for their support.

The Japanese economy weakened during fiscal 2012, the year ended March 31, 2013. Unresolved nuclear power plant and energy issues accompanied reconstruction after the Great East Japan Earthquake. The yen remained strong overall during the fiscal year, although it weakened in the fourth quarter. Overseas, the protracted recession in Europe resulting from financial uncertainty and the lack of improvement in fiscal soundness and unemployment in the United States precluded full-scale economic recovery. In emerging countries, economic growth in the ASEAN nations was strong, slowed temporarily in China, and stalled in India, Brazil and Russia.

The Kuraray Group's consolidated net sales for fiscal 2012 increased marginally compared with the previous fiscal year to ¥369,431 million. Operating income decreased 10.1% to ¥49,197 million; ordinary income dropped 9.9% to ¥48,590 million; and net income decreased 8.5% to ¥28,798 million.

We were not daunted by the challenges of our global markets. The Kuraray Group based initiatives to generate sustained growth on the core management strategies of medium-term management plan GS-III for the three years from fiscal 2012 to fiscal 2014. We accelerated our global strategies for core businesses with significant investments, mergers and acquisitions. We also aggressively developed next-generation businesses including aqua and environment, energy, and optics and electronics.

Concerns about the ongoing recession in the European economy affects our outlook. However, we also expect economic recovery in the United States, ASEAN and other emerging countries. In Japan, we expect that government policies to correct the strong yen and end deflation will be effective.

We will execute the key management strategies of GS-III with the goal of achieving record sales and income. For fiscal 2013, we therefore forecast net sales of ¥430.0 billion, operating income of ¥60.0 billion, ordinary income of ¥58.5 billion and net income of ¥35.0 billion.

Shareholder returns are a top priority for Kuraray under our basic policy of increasing dividends through ongoing improvement in results. During medium-term management plan GS-III, we are targeting a payout ratio of 35% of consolidated net income. We will pay a year-end dividend of ¥18 per share for fiscal 2012, as initially forecast. The total of this year-end dividend and the interim dividend will be ¥36 per share, and the payout ratio will be 43.6%.

For fiscal 2013, we intend to pay an annual dividend of ¥36 per share for a payout ratio of 35.9%, assuming consolidated income of ¥35.0 billion.

The Kuraray Group is counting on the continued understanding and support of its shareholders.

August 2013

F. Ito

Fumio Ito
Representative Director and President

Objective: A Specialty Chemical Company with a Global Presence

Steadily Executing Medium-Term Management Plan GS-III

Question 01

Please discuss the first year of medium-term management plan GS-III (from fiscal 2012 to fiscal 2014).

We steadily executed initiatives based on the key management strategies of GS-III during fiscal 2012, the year ended March 31, 2013, although we did not achieve record income for the third consecutive year because the global economy slowed due to the financial instability in Europe. Still, we did a good job of initiating the growth needed to achieve our Long-Term Corporate Vision of becoming a specialty chemical company with a global presence.

Question 02

What were the key initiatives during fiscal 2012?

First, we decided to build a poval resin production facility in the U.S. state of Texas. We produce poval resin at facilities in the three locations of Japan, Germany and Singapore. As a leader in the poval market, we want to accelerate our global strategy. We are therefore committed to expanding in the United States because we expect the boom in shale oil and gas production to provide advantageous access to natural resources.

Second, we acquired the U.S. company MonoSol, LLC, the number one manufacturer of water-soluble PVA film for individually packaged laundry and dishwashing detergents. This acquisition meshes with our drive to become a global leader in poval film for industrial applications to complement our strength in optical-use poval film. MonoSol's operations are expanding because of growth in the market for individually packaged detergents in the United States.

Third, we decided to expand production capacity for liquid rubber. Demand for this product is growing for use as a tire additive.

Finally, we energetically developed businesses that will carry us into the future. These include the development of liquid rubber made from biomaterials that we expect to be used in fuel-efficient tires, and the start of full-scale sales of our ballast water management system.

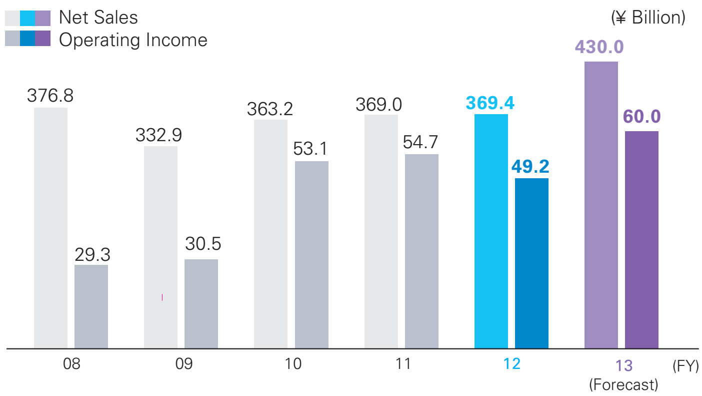
Question 03

What is the outlook for fiscal 2013, the year ending March 31, 2014?

The ongoing recession in the European economy is a concern, but we expect economic recovery in the United States and in emerging countries. In Japan, we forecast that the economic environment will improve as government policies to end deflation start to take effect. We expect outcomes to include a recovery in demand and increased sales of high-value-added products. We are therefore targeting record net sales of ¥430.0 billion and record operating income of ¥60.0 billion for fiscal 2013.

Building on the progress we made during the past fiscal year, during fiscal 2013 we will steadily execute policies and measures based on three of the core management strategies of GS-III: technological innovation, geographical expansion and utilization of external resources. We want to fulfill our Long-Term Corporate Vision of becoming a specialty chemical company with a global presence.

Net Sales & Operating Income



Question 04

How will Kuraray approach technological innovation?

Differentiating our optical-use poval film products to expand sales will be a primary initiative. We will therefore begin operating a new manufacturing line for products in the five-meter-wide class, and we will develop and expand sales of thinner products. We are also targeting growth in sales of *GENESTAR* heat-resistant resin in a number of applications. These include automotive applications, where *GENESTAR* has successfully supported the trend toward lighter vehicles as a replacement for metal parts, and LED reflectors for general lighting applications.

Kuraray will be busy in other areas as well. We will increase production capacity for and expand sales of *VECSTAR*, a material for the latest high-speed transmission circuits that we expect devices such as smartphones and tablet computers to increasingly use. We also intend to develop an innovative *KURALON* production process that will shorten manufacturing.

Question 05

What are Kuraray's initiatives for geographical expansion?

We want to expand poval resin sales in North America prior to starting operation of the plant we are building in the United States in order to accelerate our global poval resin strategy. We are also concentrating on expanding markets for *EVAL* gas barrier resin in emerging countries, where we forecast demand will increase in tandem with the growing presence of the food processing and automotive industries.

Question 06

What will utilization of external resources involve?

The Kuraray Group integrated the dental materials business of Noritake Dental Supply Co., Limited in 2011 and will capture additional synergies. We also have an alliance with the U.S. company Amyris, Inc. for the supply of the biomaterials for making our new liquid rubber, which we expect to begin selling during 2013. The market for lithium-ion batteries for electric vehicles is likely to expand. We are therefore jointly developing anode materials for these batteries with Kureha Corporation and building a plant.

Steady Progress in Executing Our Three-Year Medium-Term Management Plan

GS-III

In fiscal 2012, the Kuraray Group launched its new medium-term management plan, GS-III, for the three years ending March 2015. GS-III is based on Kuraray's corporate culture of "contributing to the world and individual well-being through actions that others are unable to produce" and is designed to make Kuraray the "specialty chemical company with a global presence" called for in its Long-Term Corporate Vision. We steadily executed initiatives based on the core strategies of GS-III during fiscal 2012, the first year of the plan.

This section presents case studies of progress in executing GS-III.

Establish a production base in North America

Poval Resin

Fiscal 2012 Achievements

Kuraray has been a global leader in commercializing polyvinyl alcohol (poval) resin, which is water soluble and can be formed into a film. It also features adhesive and emulsifying properties along with oil and chemical resistance. Applications range from a paper processing agent, adhesive and polyvinyl chloride polymer stabilizer to an intermediate material for films for automobile windshields.

Exemplifying the Kuraray Group's global business strategy in the core Vinyl Acetate business, in fiscal 2012 we decided to construct a poval resin manufacturing facility with an annual production capacity of 40,000 tons in the United States. We plan to complete this facility in September 2014, and it will serve demand in North America and economically vibrant Central and South America. The facility will be our fourth production base joining facilities in Japan, Singapore and Germany, and we expect it to have raw material and fuel cost advantages such as access to North American shale gas. Our four manufacturing bases will draw on our production technologies to provide a stable supply of high-quality products to global markets.

Key Initiatives for Fiscal 2013

The Kuraray Group will prepare for the smooth start of operations at the new production facilities by accelerating expanded sales in global markets.

Develop technologies that differentiate products

Optical-Use Poval Film

Fiscal 2012 Achievements

Poval film is used as the base film for the polarizing film that is essential for LCD displays such as large flat-screen televisions, monitors, personal computers, tablets and smartphones. Our poval film has served the LCD market for more than three decades. Other applications include water soluble films and garment packaging that takes advantage of poval film's transparency.

During fiscal 2012, the Kuraray Group differentiated its lineup by developing technologies that enable thinner and wider optical-use poval film products.

Key Initiatives for Fiscal 2013

We will support sales growth in the optical-use poval film business by operating a manufacturing line for products in the five-meter-wide class and by developing thinner products.

Acquisition of MonoSol

Water-Soluble PVA Film

Fiscal 2012 Achievements

Demonstrating our strategy of expanding our vinyl acetate and poval businesses, we broadened our presence in the market for water-soluble applications in June 2012 by acquiring MonoSol, LLC, a U.S. manufacturer and marketer of PVA film. MonoSol is a leading manufacturer of PVA film for industrial applications including individual packaging for detergents, agrochemicals and dyes as well as mold-release films for synthetic marble. The acquisition gives the Kuraray Group global leadership in a broad array of industrial markets that complements the Group's strength in the optical-use market for polarizing film that is a key component of LCDs.

Key Initiatives for Fiscal 2013

We decided to construct a new production line at U.S. subsidiary MonoSol for industrial-use PVA film for products such as individual packaging for detergents, agrochemicals and dyes to meet rapidly growing demand centered in the U.S. and European markets. Investment will total approximately $35 million and the line will begin operating in July 2014.

Highlights

The Procter and Gamble Company (P&G) selected MonoSol from among its many partners as its 2012 Connect + Develop Partner of the Year for accelerating innovation breakthroughs that drive P&G's business results. This honor is evidence of the intense collaboration between the two companies. P&G partnered with MonoSol to develop Tide Pods,* which were launched this year and have already achieved a 68% share of the U.S. unit dose laundry segment as of December 2012 because of their unique look and feel, excellent performance and superior customer convenience.

* P&G brand of individually packaged laundry detergent launched in 2012

Subsidiary established in Thailand for expansion in emerging countries

EVAL Gas Barrier Resin

Fiscal 2012 Achievements

Kuraray pioneered the development of *EVAL*, a functional resin with the most effective gas barrier of any plastic. *EVAL* is widely used for food packaging materials such as mayonnaise and ketchup because it prevents degradation by shutting oxygen out. It is also used to make plastic gasoline tanks because it prevents the leakage of evaporated hydrocarbons and helps reduce automobile weight. In addition, demand for *EVAL* is growing for products such as refrigerator vacuum insulating panels that conserve electricity. Developed countries have been the primary market for *EVAL*, but demand is also expanding in emerging countries as their economies grow.

Thailand is a global food processing center and continues to develop as the hub of the automobile manufacturing industry in Southeast Asia, making it strategically important in Kuraray's global strategy. We therefore established a subsidiary in Thailand that began operations in August 2012 as a sales and market development base, initially for *EVAL*.

Subsidiary Overview

Name	Kuraray (Thailand) Co., Ltd.
Location	Bangkok
Paid-in capital	THB 8 million
Principal business	Sale and market development of Kuraray Group products

Key Initiatives for Fiscal 2013

We will use overseas subsidiaries in Thailand, China, Brazil and elsewhere to develop markets in emerging countries.

Expand automotive applications

GENESTAR Heat-Resistant Polyamide Resin

Fiscal 2012 Achievements

Kuraray developed *GENESTAR* in-house using monomer raw materials. This unique polyamide-based engineering plastic features superior heat and chemical resistance, and it is a molding material with excellent slidability that withstands repeated friction. Its broad array of applications includes connectors for mobile phones and personal computers, LED reflectors and automotive components.

In fiscal 2012, recognition of *GENESTAR*'s heat resistance, low water absorption, chemical resistance, gas barrier properties and high slidability drove full-fledged application in automotive components. Ongoing

GENESTAR automotive market development had centered mainly on various small gears and fuel-related components. However, an increasing number of parts are now made of plastic instead of metal because of the growing trend in various countries over the past few years toward increased fuel efficiency through exhaust emissions regulation and reduced vehicle weight. Demand for *GENESTAR* is therefore increasing, primarily for use in fuel- and cooling-system components and sliding parts.

Key Initiatives for Fiscal 2013

Kuraray currently focuses on the Japanese market for automotive applications but will expand applications and the regions it serves worldwide. In fiscal 2014, we forecast that sales volume for automotive applications will account for over 10% of *GENESTAR* production, or more than twice the figure for fiscal 2012.

Given this expansion in demand, we are increasing production capacity at the Kashima Plant from 6,000 tons/year to 9,000 tons/year during fiscal 2013. We are also considering the construction of a plant overseas to meet the additional growth in demand that we forecast.

Enhance the product lineup

New Type of Liquid Rubber Made from Biomaterial (Farnesene)

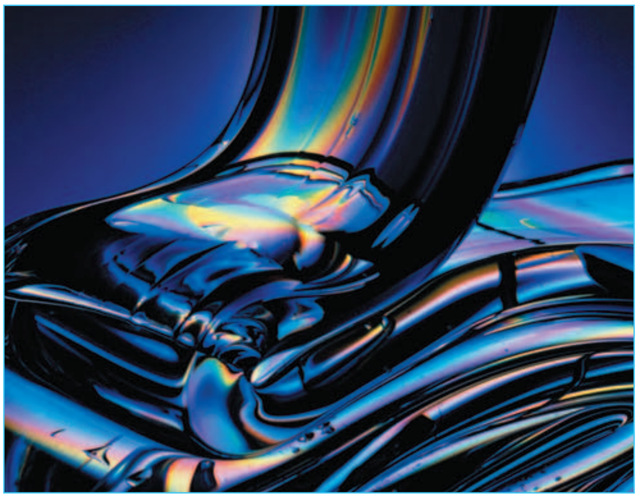
Fiscal 2012 Achievements

The liquid rubber business has been growing each year by responding to strong demand in markets such as high-performance tires. The Kuraray Group has identified new biomaterials as a means to enhance its lineup of liquid rubber products, and developed liquid farnesene rubber (LFR) in an alliance with U.S. biomaterial venture Amyris, Inc.* LFR is a secondary product group in our liquid rubber business following liquid isoprene rubber (LIR) and liquid butadiene rubber (LBR). However, it is a revolutionary product using biomaterials derived from sugar cane.

Moreover, LFR reacts with rubber easily, strengthening adhesion of the compounding ingredients known as fillers that improve rubber strength. This minimizes heat loss from friction between fillers, which raises fuel efficiency. More than ten major tire manufacturers in Japan and overseas are now evaluating samples.

We plan to upgrade LIR and LBR production facilities at the Kashima Plant to manufacture LFR. We have also decided to expand facilities at the Kashima Plant to address expanding demand for our liquid rubber products and full-scale LFR sales, with a 7,000-ton annual increase in production capacity planned to begin operating in July 2014.

* Amyris is headquartered in California, in the United States. Founded in July 2003, this biomaterial venture listed on the NASDAQ exchange in 2010. It is developing businesses that include biomaterial-based diesel and jet fuel and aroma chemicals and anti-malarial drugs.



Key Initiatives for Fiscal 2013

Major tire manufacturers are strongly positive after evaluating LFR's basic performance, and will move forward to practical performance evaluation that includes durability testing. Our strategy involves increasing annual sales to approximately ¥10 billion through fiscal 2018, so we plan to consider a new plant during this period.

Kuraray at a Glance

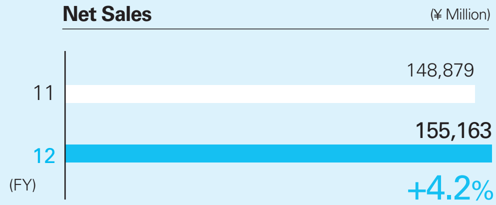
Business Segments | **Results by Segment**

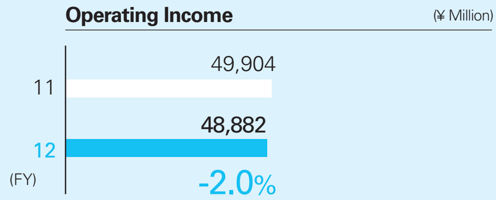
Resins

Share of Net Sales

33%

The Resins segment domestically produces poval resin, optical-use poval film and *EVAL* gas barrier resin. The segment also produces and sells water-soluble PVA film and *EVAL* in the United States, poval resin, PVB resin and film, and *EVAL* in Europe and poval resin in Asia.



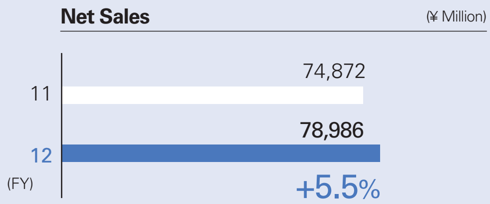


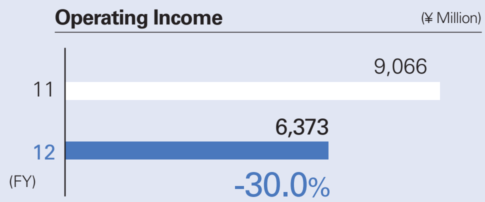
Chemicals

Share of Net Sales

17%

The Chemicals segment domestically produces isoprene, fine chemicals, methacrylic resin, *GENESTAR*, *SEPTON*, *KURARITY* acrylic thermoplastic elastomer and other goods for sale in Japan and abroad. The segment also produces and sells *SEPTON* in the United States.



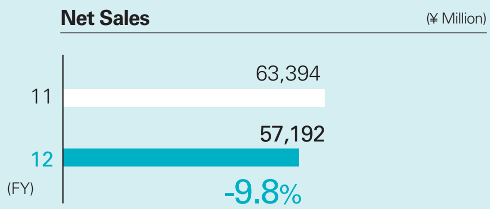


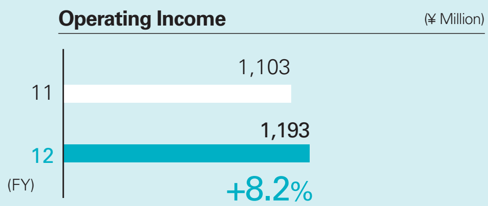
Fibers and Textiles

Share of Net Sales

12%

The Fibers and Textiles segment produces and sells *KURALON*, *CLARINO*, polyester staple, *KURAFLEX*, hook-and-loop fasteners and other products.





Trading, Others

The Trading segment includes importing and exporting as well as the wholesaling of fibers and textiles such as polyester filament and chemicals. These activities are operated by Kuraray Trading Co., Ltd. and its subsidiaries.

Others include the production and sale of such items as high-performance membranes, activated carbon and others.

Main Products

No. 1 — Product holds the world's number-one market share

Only 1 — Product is the only one of its kind in the world

KURARAY POVAL, MOWIOL (PVA resin)

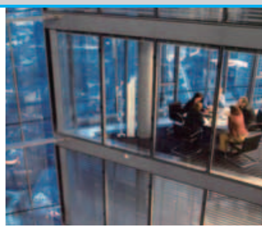
Paper / fiber processing agents, adhesives and others
Global Market Share: 35% (excluding China)

Optical-use poval film

LCD televisions, mobile phone screens and others
Global Market Share: 80%

Water-soluble PVA film

Water-soluble delivery system and others

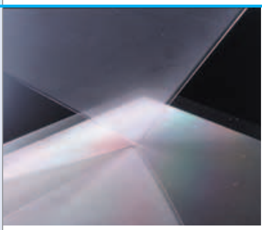


TROSIFOL (PVB film)

Interlayers for laminated safety glass and photovoltaic module encapsulation

EVAL resin (EVOH resin) / *EVAL* film (EVOH film)

Food packaging, automobile tanks / Vacuum insulation panels for fridge and others
Global Market Share: 65%



PARAPET (Methacrylic resin) / Methacrylic sheets

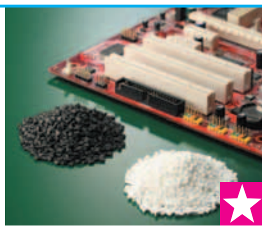
Light guide plates for LCDs, automobile light covers, signboards, construction material and others

Isoprene chemicals

Pharmaceutical and agrichemical intermediates, ingredients for fragrances, cosmetics

SEPTON, HYBRAR (Thermoplastic elastomer)

Substitute for rubber: Automobile parts, electronic parts, stationery, toys, sporting goods and others
Global Market Share: 20%



GENESTAR (Heat-resistant polyamide resin)

Mobile phones, personal computers, digital cameras, LCDs, LED reflector applications, automobiles and others
Global Market Share: 100%

Dental materials

Materials for treating cavities

KURALON (PVA fiber)

Reinforcing material for cement and concrete and others
Global Market Share: 80% (excluding China)

CLARINO (Man-made leather)

Men's and women's shoes, bags, athletic footwear and large inflatable sports balls
Global Market Share: 25%

KURAFLEX, FELIBENDY (Non-woven fabric)

Everyday goods, industrial products (wipers, automobile applications) and others

MAGIC TAPE (Hook and loop fastener)

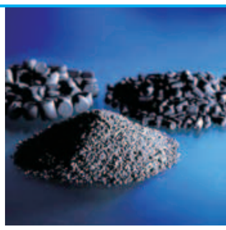
Clothing, sporting goods, industrial materials and others

VECTRAN (Polyarylate fiber)

Rope, fishing nets and other industrial products

Polyester filament

Materials for non-woven fabrics and industrial materials / Woven and knitted textiles, tents and sheets



KURARAY COAL (Activated carbon)

Water purification facilities, gas separators and capacitor materials

Aqua Business

Water purification, wastewater treatment, ballast water management system and others

Review of Operations

Results for Fiscal 2012

Resins

Demand for poval resin was sluggish because of the global economic slowdown, but sales of polyvinyl butyral (PVB) film for construction applications were firm. Optical-use poval film sales volume expanded as a result of the recovery in demand in the second half of the year. Water-soluble PVA film performance exceeded expectations. As part of its business expansion strategy, Kuraray decided to construct a new plant in the U.S. state of Texas (annual production capacity: 40,000 tons; construction to be completed in September 2014) to respond to expanding global demand for poval resin. In addition, Kuraray decided to make large-scale investments and conducted mergers and acquisitions, including the acquisition of the U.S. company MonoSol, LLC, the number one manufacturer of water-soluble PVA film for individually packaged laundry and dishwashing detergents.

Sales of EVOH resin *EVAL* were solid, with notable growth coming from automotive applications. With a view to expansion in the Asian market, Kuraray established a new subsidiary in Thailand.

As a result, segment sales rose 4.2% year on year to ¥155,163 million, while segment income decreased 2.0% to ¥48,882 million.

Chemicals

Sales of methacrylic resin were impacted by weak market conditions that carried over from the second half of the previous fiscal year and by rising raw material and fuel prices. In isoprene chemicals, sales of liquid rubber products expanded, but competition intensified amid lower demand for *SEPTON* thermoplastic elastomer and fine chemicals in Europe and Asia. Kuraray has decided to construct a new liquid rubber production line at the Kashima Plant (annual production capacity: 7,000 tons; operation slated to begin in July 2014) to respond to booming demand for applications including high-performance tires.

Sales of *GENESTAR* heat-resistant polyamide resin were firm for LED reflector and connector applications, and sales for automotive applications expanded.

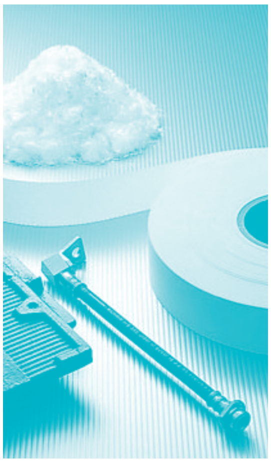
In the medical business, the performance of dental materials remained stable, and operations began at a production base in Niigata.

As a result, segment sales increased 5.5% year on year to ¥78,986 million, while segment income decreased 29.7% to ¥6,373 million.

Fibers and Textiles

Demand for *KURALON* weakened against a backdrop of stagnant markets for use as an asbestos substitute for fiber-reinforced concrete applications and for automotive brake hose applications in Europe and Asia. The development of applications for the high-strength fiber *VECTRAN* proceeded steadily. Sales of *CLARINO* man-made leather were firm for school bag applications, but demand for shoe applications was weak. This business is restructuring in ways such as consolidating around new environment-friendly processes and shifting existing processes to China.

As a result, segment sales decreased 9.8% year on year to ¥57,192 million, while segment income increased 8.2% to ¥1,193 million.



Trading, Others

In the Trading segment, sales in polyester and other fiber-related businesses were flat year on year, while export sales of resins and chemical products were lower. As a result, segment sales decreased 3.1% year on year to ¥108,760 million, and segment income decreased 4.8% to ¥3,358 million.

In Others, sales of activated carbon were firm, supported by energy-related applications. Generally, conditions in other businesses deteriorated. As a result, segment sales fell 2.9% to ¥64,442 million, and segment income dropped 29.3% to ¥4,001 million.

In the hard carbon for use in lithium-ion secondary cells business, Kuraray invested in Kureha Battery Materials Japan Co., Ltd. and established a joint venture with this company that began constructing a plant to manufacture plant-based hard carbon.

Performance Forecast for Fiscal 2013

As of fiscal 2013, the year ending March 31, 2014, the previous five segments have been changed to six segments. Results for fiscal 2012 and the performance forecast for fiscal 2013 in the new segments are as follows.

	Net sales		Segment income	
	Fiscal 2012 (April 1, 2012 to March 31, 2013) (Actual)	Fiscal 2013 (April 1, 2013 to March 31, 2014) (Forecast)	Fiscal 2012 (April 1, 2012 to March 31, 2013) (Actual)	Fiscal 2013 (April 1, 2013 to March 31, 2014) (Forecast)
Vinyl Acetate	155.2	191.0	48.9	54.0
Isoprene	44.8	54.5	3.9	7.5
Functional Materials	45.1	54.5	1.9	3.0
Fibers and Textiles	46.2	46.0	1.8	2.0
Trading	108.8	113.0	3.4	3.5
Others	64.4	66.0	4.0	4.0
Corporate and eliminations	(95.1)	(95.0)	(14.6)	(14.0)
Total	369.4	430.0	49.2	60.0

Former Business Segments (Through FY2012)

Resins	Poval products*
	EVAL
Chemicals	Methacrylic resin
	Isoprene chemicals
	SEPTON
	GENESTAR
	Medical
Fibers and Textiles	*KURALON*
	CLARINO
	KURAFLEX
	Fastening
Trading	Polyester filament
	Trading business
Others	Activated carbon
	Aqua business
	Engineering
	Others

New Business Segments (From FY2013)

Vinyl Acetate	Poval products*
	EVAL
Isoprene	Isoprene chemicals
	SEPTON
	GENESTAR
Functional Materials	Methacrylic resin
	Medical
	CLARINO
Fibers and Textiles	*KURALON*
	KURAFLEX
	Fastening
Trading	Polyester filament
	Trading business
Others	Activated carbon
	Aqua business
	Engineering
	Others

*Poval products: Poval resin, poval film, PVB resin and film

Corporate Governance and Internal Control

Corporate Governance

Basic Philosophy on Corporate Governance

Kuraray believes that the maintenance of appropriate relationships with various stakeholders, including shareholders, and the fulfillment of social responsibilities are consistent with its objective of achieving long-term improvement in business results and sustainable growth as a global company. Kuraray believes it is a fundamental and important obligation to fulfill its social responsibilities by enhancing corporate governance and establishing highly transparent and fair corporate management.

As a company with a Board of Corporate Auditors, Kuraray has established a corporate governance system centered on its Board of Directors and Board of Corporate Auditors to improve the effectiveness of supervisory and monitoring functions while maintaining management efficiency and to provide guidance for issues including management compensation, selection of new company officers, internal controls and risk management.

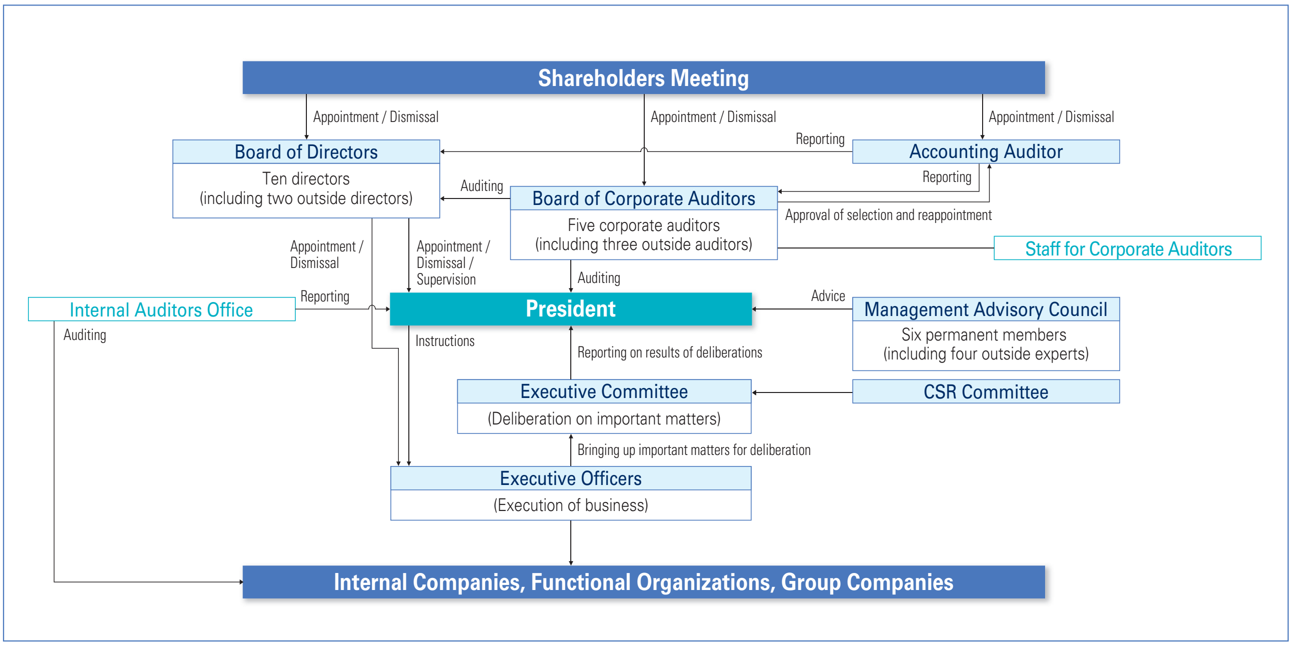
Corporate Governance Systems

1. Board of Directors and Executive Organization

The Board of Directors (convenes at least once a month), according to the Board of Directors' Regulations, deliberates and decides important management matters, including legal matters, and supervises the execution of business. The maximum number of directors is twelve, and the term of office is one year. There are currently ten board members, including two outside directors. Outside director candidates should have careers and professional experience that enable them to be independent. No personal, capital, transactional or other relationship that would present a conflict of interest exists between Kuraray and the outside directors.

Kuraray has entered into agreements with its outside directors, limiting their liability for damage as stipulated in Article 423, Paragraph 1 pursuant to Article 427, Paragraph 1 of the Japanese Companies Act. Such agreements limit the liability amount as set forth in such Act. However, such limitation of liability is approved only if the applicable outside director has executed his duties in good faith without knowledge of or committing gross negligence. As the chief executive responsible for business execution, the president appointed by the Board of Directors exercises control over the execution of business in the Kuraray Group. Every executive officer (one-year term of office) appointed by the Board of Directors is responsible for business execution in the Kuraray Group organization. As the heads of internal companies, divisions and major functional organizations, the executive officers bear responsibility for operations and profit. Some directors hold concurrent positions as executive officers.

The president has established the Executive Committee (in principle, convenes twice a month) and various other councils and committees to deliberate and report on important matters concerning the Group's management policies and business execution.



2. Board of Corporate Auditors

The Board of Corporate Auditors consists of five corporate auditors, including three outside corporate auditors with extensive experience in areas including finance, law and management who perform their duties from a third-party standpoint. Outside corporate auditor candidates should have careers and professional experience that enable them to be independent. No personal, capital, transactional or other relationship that would present a conflict of interest exists between Kuraray and the outside corporate auditors. The corporate auditors attend meetings of the Board of Directors and other important meetings, and monitor the directors' performance of duties through inquiries conducted by such means

as the examination of important documents and requests for explanations of the state of business affairs. In principle, the Board of Corporate Auditors convenes monthly. The corporate auditors regularly have meetings with the accounting auditor, PricewaterhouseCoopers Aarata, and the Internal Auditors Office (consisting of eight members), which conducts internal audits. In these meetings, they receive reports on audit content and share information concerning audit planning, implementation and related matters. The corporate auditors also serve as corporate auditors of core subsidiary companies to ensure subsidiary audits are performed appropriately and attend periodic Group Auditor Liaison Meetings consisting of the subsidiary auditors to deepen their understanding of each company.

Kuraray has entered into agreements with outside auditors, limiting their liability for damage as stipulated in Article 423, Paragraph 1 pursuant to Article 427, Paragraph 1 of the Japanese Companies Act. Such agreements limit the liability amount as set forth in such Act. However, such limitation of liability is approved only if the applicable outside auditor has executed his duties in good faith without knowledge of or committing gross negligence.

3. Management Advisory Council

Kuraray has established the Management Advisory Council to serve as a consultative body to give the president advice from the perspectives of compliance, the protection of shareholder rights and management transparency. The Council consists of six permanent members, including a majority of four outside experts with a wealth of experience in corporate management or corporate legal affairs. The Council convenes twice a year to advise the president on such matters as important management policies and issues, succession of the president, selection of successor candidates and compensation for the president.

4. Status of Accounting Auditor

No special interests exist between Kuraray and the accounting auditor, PricewaterhouseCoopers Aarata, or the engagement partners of such auditing firm who audit Kuraray. In addition, such auditing firm voluntarily takes steps to ensure the engagement partners are not involved in audits of Kuraray for longer than the prescribed period of time.

Internal Control

Basic Philosophy on Internal Control

The Kuraray Group recognizes that maintaining and operating internal controls are important management tasks. The Board of Directors has determined the following five categories based on the Basic Policy for Establishment of an Internal Control System.

1. Systems for risk management and to ensure compliance with laws and regulations by directors and employees
2. Systems to ensure efficient execution of duties by the directors and the storage and management of information regarding such execution
3. Systems to ensure appropriate work practices of the corporate group
4. Systems to ensure effective execution of the corporate auditors' duties
5. Internal control maintenance and operation is administered such that the Internal Auditors Office conducts internal audits of the Kuraray Group and the corporate auditors conduct audit and oversight of the execution of duties by directors

Kuraray's Corporate Philosophy is to pursue the value of contribution to society by respecting each and every individual and by producing materials that fill a need in people's lifestyles through its creative technological skills. The purpose of our business is to add value to the resources entrusted to us by society through the application of pioneering technology and thereby return this contribution to society.

We believe that how we implement measures to achieve these goals while respecting the interests of all our stakeholders is important as a social responsibility of our company. We therefore undertake a wide range of activities in areas including occupational safety, environmental preservation and social contribution.

This section presents specific case studies on environmental and community initiatives.

Environmental Initiative: A Lifecycle Approach That Helps to Reduce Greenhouse Gases

In fiscal 2012, we began assessing our contribution to reducing greenhouse gases in the product lifecycle from raw material procurement to disposal. As a result, we enabled assessment of the degree to which we contribute to reducing greenhouse gas emissions at the manufacturing stage through to the final disposal of the products we make.

EVAL gas barrier resin is one of our representative products. In fiscal 2012, we assessed the three applications of automobile fuel tanks, mayonnaise bottles and refrigerator vacuum insulating panels, and realized that *EVAL* contributes to reducing annual CO_2 emissions in Japan by approximately 255 thousand tons. The total amount of contribution to CO_2 emission reduction was equivalent to approximately 21% of the Kuraray Group's domestic greenhouse gas emissions in fiscal 2012.

In addition, the reduction contribution is equivalent to about 250 kg of CO_2 per kilogram of *EVAL* product. Therefore, *EVAL*'s reduction contribution is about 30 times greater than the approximately 8 kilograms of CO_2 emitted per kilogram during manufacture and disposal by incineration.

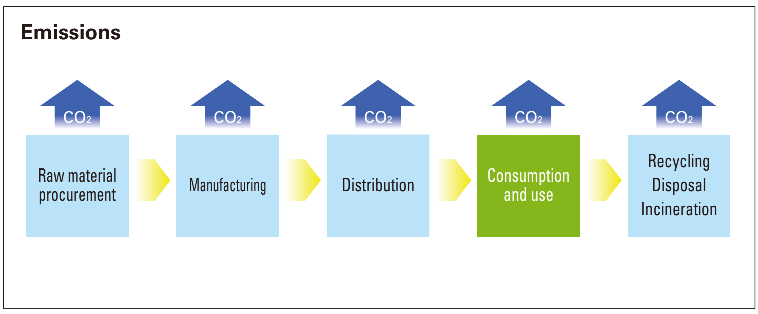
Going forward, we will expand the *EVAL* business by using the numerical results of this assessment to emphasize the degree to which *EVAL* contributes to greenhouse gas emission reduction.

Finished Product Subject to Assessment	CO_2 Emission Reduction Effect
Plastic fuel tank	Total of 255 thousand tons of CO_2
Food package (bottles)	
Refrigerator vacuum insulating panels	

Source: CO_2 Reduction Contribution Assessment Consulting Report (Mizuho Information & Research Institute, May 2013)
Note: *EVAL* is used in other applications in addition to the three products subject to assessment above.

The Carbon Life Cycle Analysis Assessment Method (Method for Calculating the Amount of CO_2 Emission Reduction Contribution)

Carbon Life Cycle Analysis (cLCA) Concept

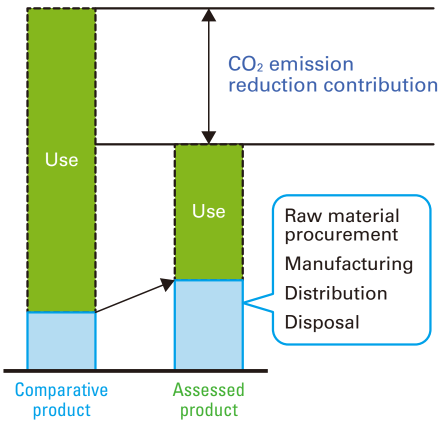


The subject of assessment is total CO_2 emitted during the lifecycle encompassing raw material procurement, manufacturing, distribution, use and disposal processes

Source: "Lifecycle Analysis of Chemical Products in Japan," *Innovation for Greenhouse Gas Reductions,* Japan Chemical Industry Association

CO_2 Emission Reduction Contribution Calculation Concept

Difference in CO_2 emissions between the assessed product and a comparative product, with comparison on a precursor and finished product basis



Community Initiative: Sending School Bags across the Sea

Overview of Activities

Sending School Bags across the Sea is an international social contribution charity through which people in Japan donate the *randoseru* school bags that are so important to children in Japan during their six years of elementary school to children in Afghanistan, one of the world's most underprivileged countries.

The manufacturer of *CLARINO* man-made leather that is used for *randoseru* school bags, Kuraray has a share of approximately 70% of the market for this material. We launched Sending School Bags across the Sea in 2004 because many people throughout Japan asked us if they could do something helpful with these memory-laden school bags after their six years of use. People donate used *randoseru* school bags, which are largely sorted and packed by Kuraray Group employee volunteers and their families, then delivered to children in Afghanistan.

Kuraray hopes that participating in this activity gives Japanese children a broad, heartfelt understanding of social contribution and caring for possessions.

Now in its 10th year, Sending School Bags across the Sea has sent more than 80 thousand school bags overseas.

Volunteers inspect and pack *randoseru* school bags.

Meaning and Continuity

The *randoseru* school bags are donated to children in Afghanistan, where the protracted conflict has contributed to shortages of goods. Students must therefore contend with a lack of school bags, writing supplies and facilities. Many children have never received physical items from their parents, and they treat the school bags they have received like a treasure. *Randoseru* school bags can also serve as a substitute for a desk.

Children in Afghanistan

What is a *randoseru* school bag?

Japanese schoolchildren carry *randoseru* school bags. The history of these student backpacks goes back to the end of Japan's Edo Period. With Japan introducing a Western-style military system, the armed forces used imported cloth backpacks.

Gakushuin, an educational institution for the children of Japan's nobility, opened at the beginning of the Meiji Era in October 1877. Eight years later, in 1885 Gakushuin forbade children from coming to school by carriage or rickshaw, and made students use the backpacks employed by the military to carry their school supplies. "*Ransel*" is the Dutch word for backpack, and it became part of the Japanese language as *randoseru* with the meaning of "student backpack" still in use today.

Board of Directors, Corporate Auditors and Executive Officers

(As of June 21, 2013)

Board of Directors

Representative Director and President

Fumio Ito

April 1971	Entered Kuraray Co., Ltd.
June 2003	Executive Officer
June 2004	Senior Executive Officer
June 2006	Managing Director
April 2008	Representative Director and President (Current position)

Representative Director and Primary Executive Officer

Setsuo Yamashita

Chief Technology Officer (CTO) and Officer Responsible for New Business Development Division, Officer Responsible for Research and Development Division

April 1975	Entered Kuraray Co., Ltd.
June 2009	Executive Officer
June 2010	Director and Executive Officer
June 2011	Director and Senior Executive Officer
April 2012	Chief Technology Officer (CTO) (Current position) and Officer Responsible for New Business Development Division (Current position)
June 2012	Representative Director and Primary Executive Officer (Current position)
April 2013	Officer Responsible for Research and Development Division (Current position)

Director and Primary Executive Officer

Keiji Murakami

President of Vinyl Acetate Company

April 1973	Entered Kuraray Co., Ltd.
April 2005	President of EVAL Company, Specialty Resin and Film Sector
June 2006	Executive Officer
April 2010	President of Resin Company
June 2010	Director and Senior Executive Officer
April 2013	President of Vinyl Acetate Company (Current position)
June 2013	Director and Primary Executive Officer (Current position)

Director and Senior Executive Officer

Kazuhiro Tenkumo

President of Fibers and Textiles Company and Officer Responsible for Osaka Head Office

April 1974	Entered Kuraray Co., Ltd.
April 2005	President of Fibers and Industrial Materials Company, Fibers and Textiles Sector
June 2007	Executive Officer
April 2010	President of Fibers and Textiles Company (Current position)
June 2010	Director and Senior Executive Officer (Current position)
October 2011	Officer Responsible for Osaka Head Office (Current position)

Director and Senior Executive Officer

Yuichi Kawarasaki

Officer Responsible for Corporate Management Planning Division, Accounting and Finance Division and CSR Division and General Manager of Corporate Management Planning Division

April 1973	Entered Kuraray Co., Ltd.
June 2006	Executive Officer
June 2010	Senior Executive Officer (Current position)
April 2012	Officer Responsible for Corporate Management Planning Division, Accounting and Finance Division and CSR Division (Current position)
June 2012	Director (Current position)

Director and Senior Executive Officer

Kunio Yukiyoshi

Officer Responsible for Technology Division and Plants in Japan, General Manager of Technology Division

April 1975	Entered Kuraray Co., Ltd.
June 2010	Executive Officer
April 2012	Officer Responsible for Technology Division and Plants in Japan (Current position)
June 2012	Director and Senior Executive Officer (Current position)

Director and Senior Executive Officer

Nobuo Fujii

Officer Responsible for General Affairs and HR Division, Purchasing and Logistics Division, Environmental Business Development and Promotion Division, General Manager of Purchasing and Logistics Division

April 1975	Entered Kuraray Co., Ltd.
June 2010	Executive Officer
April 2012	Officer Responsible for General Affairs and HR Division (Current position), Purchasing and Logistics Division (Current position) and Global Business Management Division, and Overseas Affiliated Companies, General Manager of Purchasing and Logistics Division (Current position)
June 2012	Senior Executive Officer (Current position)
April 2013	Officer Responsible for Environmental Business Development and Promotion Division (Current position)
June 2013	Director (Current position)

Director and Senior Executive Officer

Sadaaki Matsuyama

President of Functional Materials Company, General Manager of Medical Division, Functional Materials Company and President of Kuraray Noritake Dental Inc.

April 1975	Entered Kuraray Co., Ltd.
June 2010	Executive Officer
April 2012	President of Kuraray Noritake Dental Inc. (Current position)
June 2012	Senior Executive Officer (Current position)
April 2013	President of Functional Materials Company (Current position) General Manager of Medical Division, Functional Materials Company (Current position)
June 2013	Director (Current position)

Director

Takafusa Shioya[1]

April 1966	Entered Economic Planning Agency of Japan ("EPA")
July 1990	Director, Minister's Secretariat Division, EPA
June 1993	Deputy Director-General, Social Policy Bureau, EPA
July 1997	Director-General, Coordination Bureau, EPA
June 1998	Administrative Vice-Minister, EPA
February 2000	President, National Institute for Research Advancement (NIRA)
June 2008	Director, Kuraray Co., Ltd. (Current position) Chairman, Economic Research Association (Current position)
October 2009	Chairman, The Institute for Science of Labour (Current position)

Director

Tomokazu Hamaguchi[1]

April 1967	Entered Nippon Telegraph and Telephone Public Corporation
June 1995	Senior Vice President, NTT Data Communications Systems Corporation (Currently NTT Data Corporation)
June 1997	Executive Vice President, NTT Data Corporation
June 2001	Senior Executive Vice President, NTT Data Corporation
June 2003	President and CEO, NTT Data Corporation
June 2007	Director and Senior Corporate Advisor, NTT Data Corporation
June 2008	Board Director, IHI Corporation (Current position)
June 2009	Senior Corporate Advisor, NTT Data Corporation (Current position)
June 2010	Director, East Japan Railway Company (Current position)
June 2013	Director, Kuraray Co., Ltd. (Current position)

Corporate Auditors

Standing Corporate Auditors

Yoichi Ninagawa

Mitsuaki Manabe

Corporate Auditors

Hiroki Yamada[2]

Mie Fujimoto[2]

Yoshimitsu Okamoto[2]

1. Directors Takafusa Shioya and Tomokazu Hamaguchi are independent outside Directors.
2. Corporate Auditors Yoshimitsu Okamoto, Hiroki Yamada and Mie Fujimoto are independent outside Corporate Auditors.

Executive Officers

Senior Executive Officers

Tomoyuki Aya
President of Isoprene Company, General Manager of Production and Technology Management Division, Isoprene Company

Kazuhiko Kugawa
Vice President of Vinyl Acetate Company,
General Manager of EVAL Division, Vinyl Acetate Company

Masaaki Ito
Vice President of Functional Materials Company,
General Manager of Methacrylate Division,
Functional Materials Company

Executive Officers

Kohei Maeda
General Manager, Accounting and Finance Division

Matthias Gutweiler
KEG President,
General Manager of PVB Division

Osamu Yamada
General Manager, Niigata Plant

Shuichi Takemoto
General Manager, CSR Division

Masanori Onodera
General Manager, Okayama Plant

Yukiatsu Komiya
General Manager of Isoprene Chemical Division

Shinichi Yasue
General Manager of Poval Film Division

Hiroaya Hayase
General Manager of Poval Resin Division, General Manager of Production and Technology Management Division,
Vinyl Acetate Company

Hisaichi Watanabe
General Manager of Clarino Division

Kazuhiro Nakayama
General Manager of Global Business Planning Division,
Vinyl Acetate Company

Kenichi Abe
General Manager of New Business Development Division

Yoshimasa Sano
General Manager of Elastomer Division

George Avdey
KAI President

Yasuo Tokito
General Manager of Research and Development Division

Tatsuo Kawauchi
General Manager of General Affairs and HR Division

Hitoshi Toyoura
General Manager of Fibers and Industrial Materials Division, Fibers and Textiles Company

Financial Review

Kuraray Co., Ltd. and its consolidated subsidiaries

Business Environment

In the period under review (the fiscal year ended March 31, 2013), the Japanese economy weakened amid reconstruction after the Great East Japan Earthquake and unresolved nuclear power plant and energy issues. The yen weakened late in the fiscal year, but remained strong overall during the fiscal year. Overseas, the protracted recession in Europe resulting from financial uncertainty and the lack of improvement in fiscal soundness and unemployment in the United States precluded full-scale economic recovery. Regarding the economies of emerging countries, economic growth in the ASEAN nations was strong, while growth slowed temporarily in China and was down in India, Brazil and Russia as well.

Under these circumstances, based on the core management strategies of the GS-III medium-term management plan implemented at the start of the fiscal year ended March 31, 2013 to achieve sustained growth, the Kuraray Group made large-scale investments and conducted mergers and acquisitions (M&A) to accelerate its global strategies for core businesses and aggressively developed next-generation businesses in the areas of water and the environment, energy, optics and electronics.

Sales

Consolidated net sales for the fiscal year ended March 31, 2013 (April 1, 2012 to March 31, 2013) increased ¥455 million ($4 million), or 0.1%, compared with the previous fiscal year to ¥369,431 million ($3,930 million). However, operating income decreased ¥5,535 million ($58 million), or 10.1%, to ¥49,197 million ($523 million); ordinary income fell ¥5,350 million ($56 million), or 9.9%, to ¥48,590 million ($516 million), and net income decreased ¥2,671 million ($28 million), or 8.5%, to ¥28,798 million ($306 million).

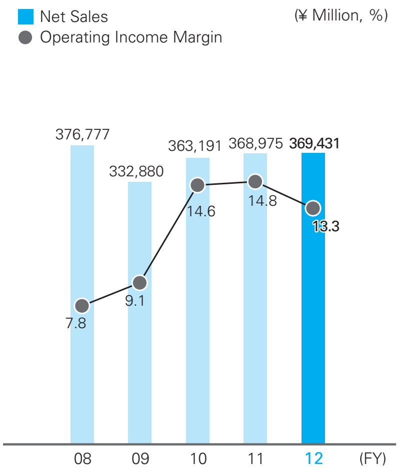
Results by Business Segment

Resins

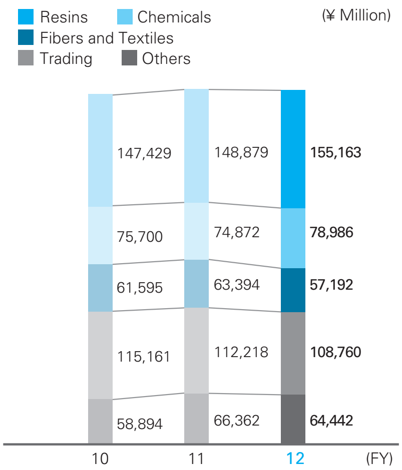
Demand for poval resin was sluggish because of the global economic slowdown, but sales of polyvinyl butyral (PVB) film for construction applications were firm. Optical-use poval film sales volume expanded because demand recovered in the second half. Water-soluble PVA film performed steadily. As a result, sales in this segment increased 4.2% year on year to ¥155,163 million ($1,650 million), while segment income decreased 2.0% to ¥48,882 million ($520 million).

The Kuraray Group decided on the following large-scale investments and conducted M&A as part of its business expansion strategy.

Net Sales & Operating Income Margin



Net Sales by Business Segment



The Kuraray Group decided to construct a new plant in the U.S. state of Texas (annual production capacity: 40,000 tons; construction to be completed in September 2014) to respond to expanding global demand for poval resin. The Kuraray Group acquired MonoSol, LLC, a leading poval film company with products that include packaging films for laundry and dishwashing detergents. The Group consolidated MonoSol's sales and earnings from the third quarter of the fiscal year ended March 31, 2013.

Sales of the EVOH resin *EVAL* were solid, with notable growth coming from automotive applications.

Chemicals

Segment sales increased 5.5% year on year to ¥78,986 million ($840 million), while segment income decreased 29.7% to ¥6,373 million ($67 million).

Sales of methacrylic resin were impacted by weak market conditions that carried over from the second half of the previous fiscal year and by rising raw material and fuel prices.

In isoprene chemicals, sales of liquid rubber products expanded, but competition intensified amid lower demand for *SEPTON* thermoplastic elastomer and fine chemicals in Europe and Asia. The Kuraray Group has decided to construct a new liquid rubber plant at the Kashima Plant (annual production capacity: 7,000 tons; construction slated for completion in July 2014) to respond to booming demand for applications including high-performance tires.

Sales of *GENESTAR* heat-resistant polyamide resin were firm for LED reflector and connector applications, and sales for automotive applications expanded.

Kuraray Medical Inc. performed well, supported by sales of dental materials.

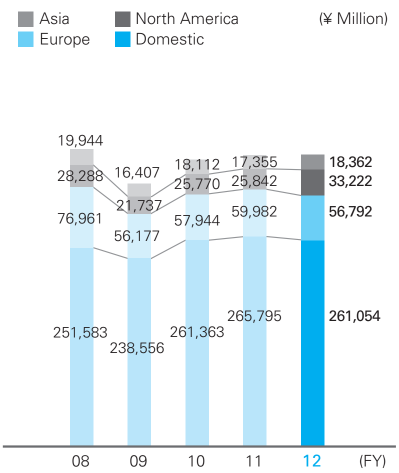
Fibers and Textiles

Segment sales decreased 9.8% year on year to ¥57,192 million ($608 million), while segment income increased 8.2% to ¥1,193 million ($12 million).

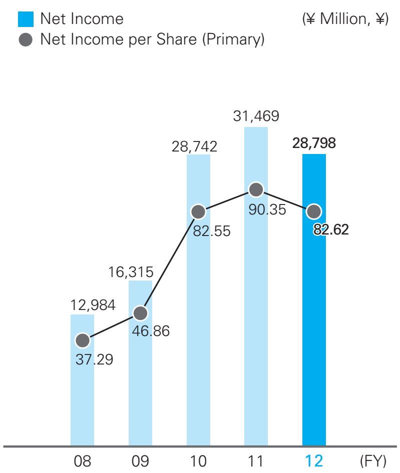
Demand for *Vinylon* weakened against a backdrop of stagnant markets for use as an asbestos substitute for fiber-reinforced concrete applications and for automotive brake hose applications in Europe and Asia. The development of applications for the high-strength fiber *VECTRAN* proceeded steadily.

Sales of *CLARINO* man-made leather were firm for school bag applications, but demand for shoe applications was weak. This business is restructuring in ways such as consolidating around new eco-friendly processes and shifting existing processes to China.

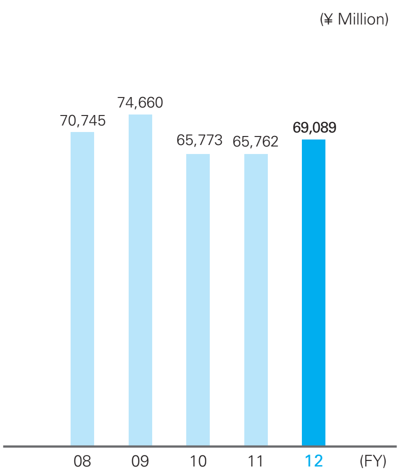
Net Sales by Geographic Segment



Net Income & Net Income per Share (Primary)



Interest-Bearing Debt



Trading

Polyester and other fiber-related businesses were flat year on year, while export sales of resins and chemical products were lower. As a result, segment sales decreased 3.1% year on year to ¥108,760 million ($1,157 million), and segment income decreased 4.8% to ¥3,358 million ($35 million).

Others

Sales of activated carbon were firm, supported by energy-related applications. Generally, conditions in businesses besides activated carbon deteriorated. As a result, segment sales fell 2.9% to ¥64,442 million ($685 million), and segment income dropped 29.3% to ¥4,001 million ($42 million).

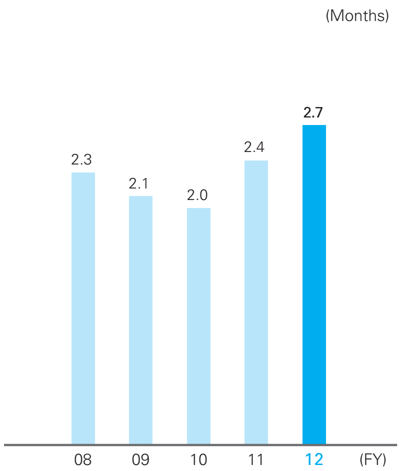
In the hard carbon for use in lithium-ion secondary cells business, the Kuraray Group invested in Kureha Battery Materials Japan Co., Ltd. and established a joint venture with this company that will construct a plant to manufacture plant-based hard carbon.

Financial Position

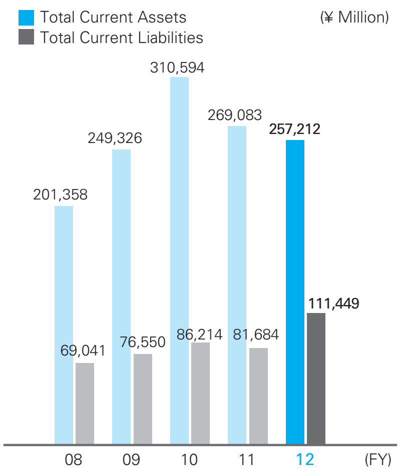
As of March 31, 2013, cash and deposits increased ¥14,687 million ($156 million) to ¥46,151 million ($490 million). Notes and accounts receivable–trade increased ¥3,216 million ($34 million) to ¥83,843 million ($891 million). Short-term investment securities decreased ¥40,298 million ($428 million) to ¥31,696 million ($337 million). Inventories (merchandise and finished goods, work-in-process, and raw materials and supplies) increased ¥8,860 million ($94 million) to ¥83,294 million ($886 million), and inventory turnover (the number of months' sales in inventory) was 2.7 months. Current assets decreased ¥11,870 million ($126 million) or 4.4% to ¥257,212 million ($2,736 million). Working capital (current assets less current liabilities) decreased ¥41,634 million ($442 million) to ¥145,763 million ($1,550 million).

The current ratio (current assets divided by current liabilities) decreased to 230.8% from fiscal 2011's 329.4%. Tangible fixed assets increased ¥28,397 million ($302 million) to ¥181,274 million ($1,928 million). Factors included an increase in buildings and structures (net) of ¥7,401 million ($78 million) to ¥41,938 million ($446 million), an increase in machinery, equipment and vehicles (net) of ¥10,720 million ($114 million) to ¥82,298 million ($875 million) and an increase in construction in progress of ¥9,266 million ($98 million) to ¥32,326 million ($343 million). Intangible fixed assets increased ¥37,319 million ($397 million) to ¥51,324 million ($546 million). Investments and other assets increased by ¥10,090 million ($107 million) to ¥97,373 million ($1,035 million). Total assets increased ¥63,937 million ($680 million) to ¥587,184 million ($6,246 million), and return on assets (operating income divided by average total assets for the period)

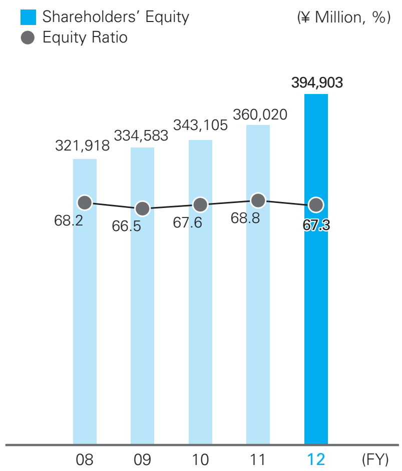
Number of Months' Sales in Inventory



Total Current Assets & Total Current Liabilities



Shareholders' Equity* & Equity Ratio



* Shareholders' equity = Total net assets – Minority interests – Subscription rights to shares

decreased 1.7 points from the previous fiscal year to 8.9%.

Current liabilities increased ¥29,764 million ($316 million) to ¥111,449 million ($1,185 million), due primarily to an increase in notes and accounts payable–trade of ¥4,102 million ($43 million) to ¥37,048 million ($394 million) and an increase in short-term loans payable of ¥17,137 million ($182 million) to ¥30,918 million ($328 million).

Noncurrent liabilities decreased ¥968 million ($10 million) to ¥74,279 million ($790 million).

Net assets increased ¥35,141 million ($373 million) to ¥401,455 million ($4,270 million). Subtracting minority interests and subscription rights to shares totaling ¥6,552 million ($69 million), shareholders' equity was ¥394,903 million ($4,201 million) mainly due to an increase in retained earnings and a decrease in negative foreign currency translation adjustment. The equity ratio for the period was 67.3%, down 1.5% from March 31, 2012.

Cash Flows from Operating Activities

Net cash provided by operating activities totaled ¥66,911 million ($711 million) in the fiscal year ended March 31, 2013, an increase of ¥24,325 million ($258 million) compared with the previous fiscal year. Major components included income before taxes and minority interests of ¥44,901 million ($477 million), depreciation and amortization of ¥30,952 million ($329 million), a decrease in notes and accounts receivable–trade of ¥140 million ($1 million), an increase in inventories of ¥4,789 million ($50 million) and income taxes paid of ¥17,354 million ($184 million).

Cash Flows from Investing Activities

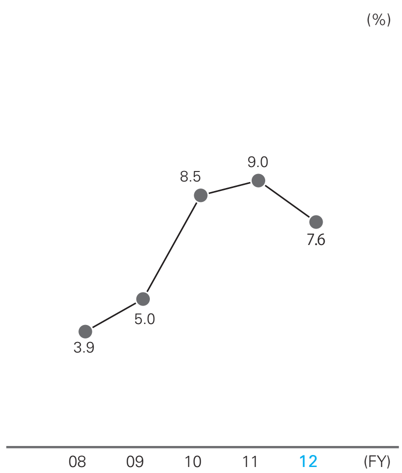
Net cash used in investing activities totaled ¥63,622 million ($676 million). Major components included a net decrease in invested assets including investment securities of ¥12,767 million ($135 million), the purchase of tangible fixed assets and intangible fixed assets of ¥43,200 million ($459 million) and payments for purchase of stock of subsidiaries with change of scope of consolidation of ¥31,233 million ($332 million).

Cash Flows from Financing Activities

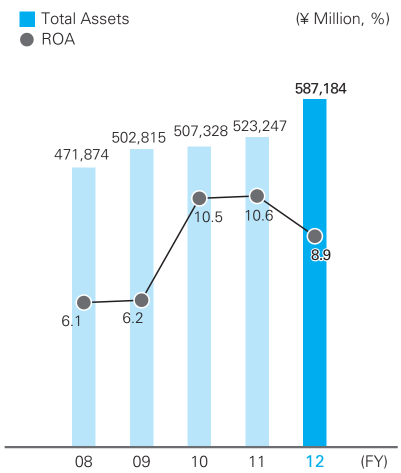
Net cash used in financing activities was ¥10,239 million ($108 million). Major components included proceeds from long-term loans payable of ¥10,230 million ($108 million) and cash dividends paid of ¥12,195 million ($129 million).

Taking into account the effect of exchange rate changes on cash and cash equivalents and the increase in cash equivalents from newly consolidated subsidiaries, in addition to the aforementioned factors, cash and cash equivalents at the end of the fiscal year decreased ¥4,926 million ($52 million) from the end of the previous fiscal year to ¥29,885 million ($317 million).

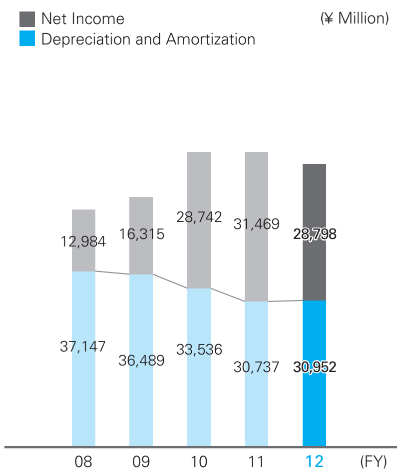
ROE



Total Assets & ROA



Gross Cash Flow



Capital Expenditure

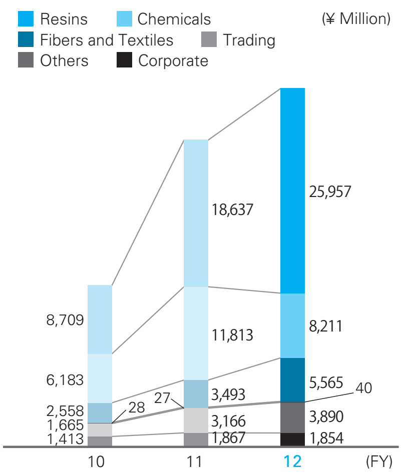
Capital investment by the Kuraray Group (Kuraray and consolidated subsidiaries) amounted to ¥45,519 million ($484 million) in fiscal 2012, mainly for expansion of production facilities for optical-use poval film and construction of a new dental materials plant. By segment, capital investment amounted to ¥25,957 million ($276 million) in the Resins segment, ¥8,211 million ($87 million) in the Chemicals segment, ¥5,565 million ($59 million) in the Fibers and Textiles segment, ¥40 million ($0.4 million) in the Trading segment, and ¥3,890 million ($41 million) in the Others segment. General (non-segment) capital investment amounted to ¥1,854 million ($19 million).

Outlook for the Fiscal Year Ending March 31, 2014

Our forecast for our operating environment includes concerns about the ongoing recession in the European economy. However, we also expect economic recovery in the United States and in emerging countries including the ASEAN nations. In Japan, we expect that government policies to correct the strong yen and end deflation will be effective. In fiscal 2012, the Company started the new medium-term management plan GS-III (fiscal years 2012 to 2014). This action plan aims to achieve sustainable growth by accelerating the development of new products and applications through technological innovations and expanding businesses in markets and business areas with growth potential in Japan and overseas. We will also make additional cost reductions to further enhance competitiveness.

Taking these circumstances into account, our forecasts for the year ending March 31, 2014 are net sales of ¥430.0 billion, operating income of ¥60.0 billion, ordinary income of ¥58.5 billion and net income of ¥35.0 billion. We assume average exchange rates of ¥95 to the U.S. dollar and ¥125 to the euro, as well as a domestic naphtha price of ¥61.5 thousand per kiloliter.

Capital Expenditure by Business Segment



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 section represent the Kuraray Group's best judgment as of March 31, 2013.

(i) Risks associated with changes in the 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 fluctuations in commodity markets compared with those in other industries. However, in recent years more and more of our products are geared to growing business areas including electric and electronic materials, automotive and environmental applications, on which our overall business performance is increasingly dependent. In these areas, the market environment can undergo drastic changes as a result of 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 the market environment and competitive conditions for our products.

We also manufacture chemical products, synthetic resins, synthetic fibers and textiles out of raw materials such as ethylene and other petrochemical products that are susceptible to fluctuations in the markets for crude oil and natural gas. Violent fluctuations in these raw material markets could significantly impact our production costs.

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

(ii) Risks associated with accidents and disasters

The Kuraray Group has manufacturing facilities in Japan, Europe, North America and Asia. Many of these facilities are large-scale chemical plants. Although risk management is in place by geographically spreading the locations of important production plants and arranging appropriate property and casualty insurance, in the event of serious security-related 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 a halt to 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 or services, there are risks that could affect our product supply.

(iii) Risks associated with litigation and violation of laws and regulations

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

Meanwhile, we supply 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. As such, 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 utmost effort in compliance with laws and regulations at each of our facilities, there are risks that a major breach of legal compliance could interrupt our business activities.

(iv) 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.

(v) Other risks

With the global development of our businesses, there are risks that external events such as wars, riots, terrorism and epidemics could disrupt our business activities.

Consolidated Balance Sheets

Kuraray Co., Ltd. and its Consolidated Subsidiaries

March 31, 2012 and 2013	Millions of yen Fiscal 2012	Millions of yen Fiscal 2011	Thousands of U.S. dollars Fiscal 2012
ASSETS			
I Current assets:			
1 Cash and deposits	¥ 46,151	¥ 31,464	$ 490,968
2 Notes and accounts receivable–trade*6	83,843	80,627	891,946
3 Short-term investment securities	31,696	71,995	337,191
4 Merchandise and finished goods	57,823	50,361	615,138
5 Work-in-process	10,332	9,528	109,914
6 Raw materials and supplies	15,138	14,542	161,042
7 Deferred tax assets	5,732	5,560	60,978
8 Other	7,237	5,783	76,989
9 Allowance for doubtful accounts	(742)	(781)	(7,893)
Total current assets	257,212	269,083	2,736,297
II Noncurrent assets:			
1 Tangible fixed assets:			
(1) Buildings and structures, net*2	41,938	34,536	446,148
(2) Machinery, equipment and vehicles, net*2	82,298	71,578	875,510
(3) Land*2	20,425	19,971	217,287
(4) Construction in progress	32,326	23,060	343,893
(5) Other, net*2	4,285	3,730	45,585
Total tangible fixed assets*1	181,274	152,877	1,928,446
2 Intangible fixed assets:			
(1) Goodwill	24,659	11,538	262,329
(2) Other	26,664	2,465	283,659
Total intangible fixed assets	51,324	14,004	546,000
3 Investments and other assets:			
(1) Investment securities*3 and 5	83,543	70,029	888,755
(2) Long-term loans receivable	679	572	7,223
(3) Deferred tax assets	2,674	4,688	28,446
(4) Prepaid pension cost	5,437	5,822	57,840
(5) Other	5,114	6,262	54,404
(6) Allowance for doubtful accounts	(76)	(93)	(808)
Total investments and other assets	97,373	87,282	1,035,882
Total noncurrent assets	329,971	254,163	3,510,329
TOTAL ASSETS	¥587,184	¥523,247	$6,246,638

The accompanying notes are an integral part of the financial information.

March 31, 2012 and 2013	Millions of yen Fiscal 2012	Fiscal 2011	Thousands of U.S. dollars Fiscal 2012
LIABILITIES			
I Current liabilities:			
1 Notes and accounts payable–trade*6	¥ 37,048	¥ 32,945	$ 394,127
2 Short-term loans payable	30,918	13,781	328,914
3 Accrued expenses	8,650	5,265	92,021
4 Income taxes payable	7,687	9,075	81,776
5 Provision for bonuses	6,590	6,657	70,106
6 Provision for loss on disaster	—	68	—
7 Other provisions	21	59	223
8 Other*6	20,531	13,829	218,414
Total current liabilities	111,449	81,684	1,185,627
II Noncurrent liabilities:			
1 Bonds payable	10,000	10,000	106,382
2 Long-term loans payable	28,171	41,981	299,691
3 Deferred tax liabilities	14,872	4,531	158,212
4 Provision for retirement benefits	6,447	5,617	68,585
5 Provision for directors' retirement benefits	178	194	1,893
6 Provision for environmental measures	1,051	1,106	11,180
7 Asset retirement obligations	2,336	2,224	24,851
8 Other	11,221	9,593	119,372
Total noncurrent liabilities	74,279	75,248	790,202
TOTAL LIABILITIES	185,729	156,933	1,975,840
NET ASSETS			
I Shareholders' equity:			
1 Capital stock	88,955	88,955	946,329
2 Capital surplus	87,147	87,147	927,095
3 Retained earnings	263,262	246,733	2,800,659
4 Treasury stock	(40,169)	(40,732)	(427,329)
Total shareholders' equity	399,195	382,103	4,246,755
II Accumulated other comprehensive income:			
1 Valuation difference on available-for-sale securities	6,076	2,763	64,638
2 Deferred gains or losses on hedges	(17)	(32)	(180)
3 Foreign currency translation adjustment	(9,877)	(24,419)	(105,074)
4 Pension liability adjustment	(473)	(396)	(5,031)
Total accumulated other comprehensive income	(4,292)	(22,084)	(45,659)
III Subscription rights to shares	1,221	1,151	12,989
IV Minority interests	5,330	5,143	56,702
TOTAL NET ASSETS	401,455	366,314	4,270,797
TOTAL LIABILITIES AND NET ASSETS	¥587,184	¥523,247	$6,246,638

The accompanying notes are an integral part of the financial information.

Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Consolidated Statements of Income

Years ended March 31, 2012 and 2013	Millions of yen		Thousands of U.S. dollars
	Fiscal 2012	Fiscal 2011	Fiscal 2012
I Net sales	¥369,431	¥368,975	$3,930,117
II Cost of sales[*2]	249,485	246,538	2,654,095
Gross profit	119,946	122,437	1,276,021
III Selling, general and administrative expenses:			
1 Selling expenses	18,841	18,553	200,436
2 General and administrative expenses[*2]	51,906	49,149	552,191
Total selling, general and administrative expenses[*1]	70,748	67,703	752,638
Operating income	49,197	54,733	523,372
IV Non-operating income:			
1 Interest income	449	415	4,776
2 Dividends income	2,475	2,055	26,329
3 Equity in earnings of affiliates	2	5	21
4 Other	1,234	1,201	13,127
Total non-operating income	4,161	3,677	44,265
V Non-operating expenses:			
1 Interest expenses	966	1,072	10,276
2 Loss on disposal of tangible fixed assets	560	427	5,957
3 Personnel expenses for seconded employees	719	673	7,648
4 Expenses for suspension of operation	608	—	6,468
5 Other	1,914	2,297	20,361
Total non-operating expenses	4,769	4,470	50,734
Ordinary income	48,590	53,940	516,914
VI Extraordinary income:			
1 Gain on change in equity[*4]	—	845	—
Total extraordinary income	—	845	—
VII Extraordinary loss:			
1 Expenses incurred upon acquisition[*5]	743	—	7,904
2 Loss on valuation of investment securities[*6]	613	222	6,521
3 Loss on disposal of tangible fixed assets[*3]	613	293	6,521
4 Business structure improvement losses[*7]	597	—	6,351
5 Impairment loss[*8]	534	2,473	5,680
6 Amortization of goodwill[*9]	451	—	4,797
7 Environmental expenses	136	—	1,446
8 Loss on disaster[*10]	—	997	—
9 Provision for loss on disaster	—	69	—
Total extraordinary loss	3,689	4,056	39,244
Income before income taxes and minority interests	44,901	50,729	477,670
Income taxes — current	15,882	18,205	168,957
Income taxes — deferred	6	504	63
Total income taxes	15,889	18,710	169,031
Income before minority interests	29,011	32,019	308,627
Minority interests	213	549	2,265
Net income	¥ 28,798	¥ 31,469	$ 306,361

Consolidated Statements of Comprehensive Income

Years ended March 31, 2012 and 2013	Millions of yen		Thousands of U.S. dollars
	Fiscal 2012	Fiscal 2011	Fiscal 2012
I Income before minority interests	¥29,011	¥32,019	$308,627
II Other comprehensive income:			
1 Valuation difference on available-for-sale securities	3,313	484	35,244
2 Deferred gains or losses on hedges	14	(17)	148
3 Foreign currency translation adjustment	14,542	(4,502)	154,702
4 Pension liability adjustment	(77)	(163)	(819)
5 Shares of other comprehensive income of associates accounted for using equity method	—	(1)	—
Total other comprehensive income	17,792	(4,200)	189,276
III Comprehensive income			
Comprehensive income attributable to	46,804	27,818	497,914
1 Owners of the parent	46,590	27,269	495,638
2 Minority interests	213	549	2,265

The accompanying notes are an integral part of the financial information.

Consolidated Statements of Changes in Net Assets

Kuraray Co., Ltd. and its Consolidated Subsidiaries

	Millions of yen				
	Shareholders' equity				
Fiscal 2012 (Year ended March 31, 2013)	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at April 1, 2012	¥88,955	¥87,147	¥246,733	¥(40,732)	¥382,103
Changes of items during the period					
Cash dividends			(12,195)		(12,195)
Net income			28,798		28,798
Purchase of treasury stock				(5)	(5)
Disposal of treasury stock		(73)		569	495
Transfer to capital surplus from retained earnings		73	(73)		—
Net changes of items other than shareholders' equity					—
Total changes of items during the period	—	—	16,528	563	17,092
Balance at March 31, 2013	¥88,955	¥87,147	¥263,262	¥(40,169)	¥399,195

	Millions of yen							
	Accumulated other comprehensive income							
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Pension liability adjustment	Total accumulated other comprehensive income	Subscription rights to shares	Minority interests	Total net assets
Balance at April 1, 2012	¥2,763	¥(32)	¥(24,419)	¥(396)	¥(22,084)	¥1,151	¥5,143	¥366,314
Changes of items during the period								
Cash dividends					—			(12,195)
Net income					—			28,798
Purchase of treasury stock					—			(5)
Disposal of treasury stock					—			495
Transfer to capital surplus from retained earnings					—			—
Net changes of items other than shareholders' equity	3,312	14	14,542	(77)	17,792	69	187	18,049
Total changes of items during the period	3,312	14	14,542	(77)	17,792	69	187	35,141
Balance at March 31, 2013	¥6,076	¥(17)	¥ (9,877)	¥(473)	¥ (4,292)	¥1,221	¥5,330	¥401,455

Fiscal 2012 (Year ended March 31, 2013)	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
	Thousands of U.S. dollars				
	Shareholders' equity				
Balance at April 1, 2012	$946,329	$927,095	$2,624,819	$(433,319)	$4,064,925
Changes of items during the period					
Cash dividends			(129,734)		(129,734)
Net income			306,361		306,361
Purchase of treasury stock				(53)	(53)
Disposal of treasury stock		(776)		6,053	5,265
Transfer to capital surplus from retained earnings		776	(776)		—
Net changes of items other than shareholders' equity					—
Total changes of items during the period	—	—	175,829	5,989	181,829
Balance at March 31, 2013	$946,329	$927,095	$2,800,659	$(427,329)	$4,246,755

	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Pension liability adjustment	Total accumulated other comprehensive income	Subscription rights to shares	Minority interests	Total net assets
	Thousands of U.S. dollars							
	Accumulated other comprehensive income							
Balance at April 1, 2012	$29,393	$(340)	$(259,776)	$(4,212)	$(234,936)	$12,244	$54,712	$3,896,957
Changes of items during the period								
Cash dividends					—			(129,734)
Net income					—			306,361
Purchase of treasury stock					—			(53)
Disposal of treasury stock					—			5,265
Transfer to capital surplus from retained earnings					—			—
Net changes of items other than shareholders' equity	35,234	148	154,702	(819)	189,276	734	1,989	192,010
Total changes of items during the period	35,234	148	154,702	(819)	189,276	734	1,989	373,840
Balance at March 31, 2013	$64,638	$(180)	$(105,074)	$(5,031)	$(45,659)	$12,989	$56,702	$4,270,7973

The accompanying notes are an integral part of the financial information.

Fiscal 2011 (Year ended March 31, 2012)	Millions of yen				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at April 1, 2011	¥88,955	¥87,147	¥225,743	¥(40,856)	¥360,989
Changes of items during the period					
Cash dividends			(10,448)		(10,448)
Net income			31,469		31,469
Purchase of treasury stock				(6)	(6)
Disposal of treasury stock		(31)		130	98
Transfer to capital surplus from retained earnings		31	(31)		—
Net changes of items other than shareholders' equity					—
Total changes of items during the period	—	—	20,989	123	21,113
Balance at March 31, 2012	¥88,955	¥87,147	¥246,733	¥(40,732)	¥382,103

	Millions of yen							
	Accumulated other comprehensive income							
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Pension liability adjustment	Total accumulated other comprehensive income	Subscription rights to shares	Minority interests	Total net assets
Balance at April 1, 2011	¥2,280	¥(14)	¥(19,916)	¥(233)	¥(17,884)	¥560	¥3,159	¥346,825
Changes of items during the period								
Cash dividends					—			(10,448)
Net income					—			31,469
Purchase of treasury stock					—			(6)
Disposal of treasury stock					—			98
Transfer to capital surplus from retained earnings					—			—
Net changes of items other than shareholders' equity	483	(17)	(4,502)	(163)	(4,200)	591	1,983	(1,625)
Total changes of items during the period	483	(17)	(4,502)	(163)	(4,200)	591	1,983	19,488
Balance at March 31, 2012	¥2,763	¥(32)	¥(24,419)	¥(396)	¥(22,084)	¥1,151	¥5,143	¥366,314

Consolidated Statements of Cash Flows

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Years ended March 31, 2012 and 2013	Millions of yen		Thousands of U.S. dollars
	Fiscal 2012	Fiscal 2011	Fiscal 2012
I Net cash provided by (used in) operating activities:			
1 Income before taxes and minority interests	¥ 44,901	¥ 50,729	$ 477,670
2 Depreciation and amortization	30,952	30,737	329,276
3 Increase (decrease) in allowance for doubtful accounts	(67)	(110)	(712)
4 Increase (decrease) in provision for retirement benefits	532	641	5,659
5 Expenses incurred upon acquisition	743	—	7,904
6 Loss on valuation of investment securities	613	222	6,521
7 Loss on disposal of tangible fixed assets	613	293	6,521
8 Impairment loss	534	2,473	5,680
9 Amortization of goodwill	451	—	4,797
10 Environmental expenses	136	—	1,446
11 Provision for loss on disaster	—	69	—
12 Loss (gain) on change in equity	—	(845)	—
13 Interest and dividends income	(2,925)	(2,470)	(31,117)
14 Interest expenses	966	1,072	10,276
15 Decrease (increase) in notes and accounts receivable–trade	140	(4,773)	1,489
16 Decrease (increase) in inventories	(4,789)	(14,389)	(50,946)
17 Increase (decrease) in notes and accounts payable–trade	2,359	2,944	25,095
18 Contribution to employee's retirement benefits trust	—	(10,000)	—
19 Decrease (increase) in prepaid pension cost	385	420	4,095
20 Other, net	6,885	3,495	73,244
Sub-total	82,432	60,510	876,936
21 Interest and dividends income received	2,822	2,526	30,021
22 Interest expenses paid	(988)	(1,073)	(10,510)
23 Income taxes (paid) refund	(17,354)	(19,376)	(184,617)
Net cash provided by (used in) operating activities	66,911	42,586	711,819
II Net cash provided by (used in) investment activities:			
1 Net decrease (increase) in time deposits	(21,314)	3,145	(226,744)
2 Net decrease (increase) in short-term investment securities	41,991	32,985	446,712
3 Purchase of investment securities	(9,276)	(50,374)	(98,680)
4 Proceeds from sales and redemption of investment securities	1,366	27,109	14,531
5 Purchase of tangible fixed assets and intangible fixed assets	(43,200)	(36,817)	(459,574)
6 Payments for disposal of tangible fixed assets and intangible fixed assets	(1,360)	(1,391)	(14,468)
7 Proceeds from sales of tangible fixed assets and intangible fixed assets	53	120	563
8 Purchase of investments in a subsidiary resulting in change in scope of consolidation	(31,233)	(104)	(332,265)
9 Other, net	(648)	302	(6,893)
Net cash provided by (used in) investment activities	(63,622)	(25,023)	(676,829)
III Net cash provided by (used in) financing activities:			
1 Net increase (decrease) in short-term loans payable	(4,642)	1,417	(49,382)
2 Proceeds from issuance of bonds	—	10,000	—
3 Redemption of bonds	—	(10,000)	—
4 Proceeds from long-term loans payable	10,230	—	108,818
5 Repayment of long-term loans payable	(3,657)	(2,279)	(38,904)
6 Purchase of treasury stock	(5)	(6)	(53)
7 Proceeds from sales of treasury stock	368	85	3,914
8 Cash dividends paid	(12,195)	(10,448)	(129,734)
9 Cash dividends paid to minority shareholders	(24)	(24)	(255)
10 Other, net	(313)	(373)	(3,329)
Net cash provided by (used in) financing activities	(10,239)	(11,628)	(108,925)
IV Effect of exchange rate changes on cash and cash equivalents	2,024	(550)	21,531
V Net increase (decrease) in cash and cash equivalents	(4,926)	5,382	(52,404)
VI Cash and cash equivalents, beginning of year	34,811	29,423	370,329
VII Increase in cash and cash equivalents from newly consolidated subsidiaries	—	4	—
VIII Increase in cash and cash equivalents resulting from merger	—	0	—
IX Cash and cash equivalents, end of year*1	¥ 29,885	¥ 34,811	$ 317,925

The accompanying notes are an integral part of the financial information.

1 Significant Accounting Policies

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of Kuraray Co., Ltd. (the "Company") and its consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are filed with the Japanese Ministry of Finance (the "MOF") as required by the Financial Instruments Exchange Law of Japan. The accompanying consolidated financial statements are translations of those filed with MOF.

Each amount in the consolidated financial statements and notes is rounded down to the nearest 1 million yen (in the case of the translation into U.S. dollars, they have been rounded down to the nearest 1 thousand dollars).

The United States dollar amounts included herein are provided solely for the convenience of readers outside Japan and are stated, at the rate of ¥94=$1, the approximate exchange rate prevailing on March 31, 2013. The translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into United States dollars at this or any other rate.

2. Scope of consolidation

(1) Number of consolidated subsidiaries

	Fiscal 2012	Fiscal 2011
Number of consolidated subsidiaries	32	31

(Major consolidated subsidiaries)

KURARAY TRADING Co., LTD., KURARAY CHEMICAL CO., LTD., Kuraray Plastics Co., Ltd., KURARAY ENGINEERING CO., LTD., KURARAY LIVING CO., LTD., Kuraray Techno Co., Ltd., KURARAY BUSINESS SERVICE CO., LTD., KURARAYKURAFLEX CO., LTD., TECHNO SOFT CO., LTD., Kuraray Travel Service Corporation, KURARAY SAIJO CO., LTD., KURARAY TAMASHIMA COMPANY, LIMITED, Iruma Country Club Co., Ltd., KURASHIKI KOKUSAI HOTEL LTD., KURARAY FASTENING CO., LTD., OKAYAMA RINKOH CO., LTD., Kyosei Chemical Co., Ltd., Kuraray Holdings U.S.A., Inc., Kuraray America, Inc., Kuraray Europe GmbH, EVAL Europe N.V., Kuraray Hong Kong Co., Ltd., Kuraray Asia Pacific Pte. Ltd., Kuraray (Shanghai) Co., Ltd., Kuraray Noritake Dental Inc., MonoSol Holdings, Inc., and 6 other consolidated subsidiaries.

Kuraray Noritake Dental Holdings Inc., Kuraray Medical Inc., and Noritake Dental Supply Co., Ltd. merged during the fiscal year ended March 31, 2013. Kuraray Medical Inc. was the surviving company, which changed its name to Kuraray Noritake Dental Inc. As a result, Kuraray Noritake Dental Holdings Inc. and Noritake Dental Supply Co., Ltd. were excluded from the scope of consolidation.

Consolidated subsidiary Kuraray Holdings U.S.A., Inc. acquired all of the shares of MonoSol Holdings, Inc. during the fiscal year ended March 31, 2013. As a result, MonoSol Holdings, Inc. and two of its three wholly owned subsidiaries are included in the scope of consolidation. The deemed date of acquisition was June 30, 2012.

(2) Names of major unconsolidated subsidiaries

(Major unconsolidated subsidiaries)

Kuraray Okayama Spinning CO., LTD.

(Reasons for excluding from the scope of consolidation)

The total assets, total sales and net income and loss (amount corresponding to the owned interest) and retained earnings (amount corresponding to the owned interest) of the unconsolidated subsidiary have no material effect on the consolidated financial statements.

3. Scope of application of equity method affiliates and subsidiaries

(1) Number of unconsolidated subsidiaries accounted for using the equity method

	Fiscal 2012	Fiscal 2011
Number of unconsolidated subsidiaries accounted for using the equity method	1	1

(Name of unconsolidated subsidiaries)

Kuraray Okayama Spinning CO., LTD.

(2) Unconsolidated subsidiaries (KURARAY AQUA CO., LTD. and other unconsolidated subsidiaries), and affiliates (Hexin Kuraray Micro Fiber Leather (Jiaxing) Co., Ltd., and other affiliates) have not been accounted for using the equity method, because their net income and loss and retained earnings (amount corresponding to the owned interest) have no material effect on the consolidated financial statements.

4. Fiscal years of consolidated subsidiaries

The fiscal year-end of the Company's foreign consolidated subsidiaries is December 31. The consolidated financial statements incorporate the accounts of these companies with adjustments for significant transactions arising during the period from December 31 to March 31.

Kuraray Europe GmbH
OOO TROSIFOL
EVAL Europe N.V.
Kuraray Asia Pacific Pte. Ltd.
Kuraray Hong Kong Co., Ltd.
Kuraray (Shanghai) Co., Ltd.
Kuraray Trading (Shanghai) Co., Ltd.
Kuraray Holdings U.S.A., Inc.
Kuraray America, Inc.
MonoSol Holdings, Inc.
MonoSol, LLC
MonoSol AF, LTD.

5. Accounting policies

(1) Valuation standards and methods for significant assets

a) Investment securities

Available-for-sale securities for which a market price is available are stated at fair value at the year-end.

(Net unrealized gains or losses on these securities are recorded as a separate component in "Net assets", net of tax amount. The cost of securities sold is determined based on the moving average cost of all such securities held at the time of sale.)

Other securities for which a market price is not available are stated at cost determined by the moving average method.

b) Derivative financial instruments

All derivatives are stated at fair value.

c) Inventories

Finished goods, raw materials, and work-in-process are principally stated at the lower of cost or net realizable value.

Supplies are principally stated at the lower of cost or net realizable value.

(2) Depreciation method of significant depreciable assets

a) Tangible fixed assets (excluding lease assets)

Depreciation, except for buildings, is primarily computed using the declining-balance method over the estimated useful lives of the assets. The depreciation method for buildings is primarily computed using the straight-line method.

The estimated useful lives of assets are primarily as follows:

• Buildings and structures .... 31 to 50 years
• Machinery, equipment and vehicles .... 4 to 9 years

b) Intangible assets (excluding lease assets)

Amortization is primarily computed using the straight line method.

The numbers of years for amortization are primarily as follows:

• Goodwill............ 15 or 20 years

However, minor amounts are charged or credited to income directly in the year acquisition.

c) Lease assets

Amortization is primarily computed using the straight-line method.

(Changes in accounting policies that are difficult to distinguish from changes in accounting estimates)
Pursuant to the revision of the Corporation Tax Act, effective the fiscal year ended March 31, 2013, the Company and its domestic consolidated subsidiaries have adopted the method of calculating depreciation expenses set out in the revised Corporation Tax Act for tangible fixed assets acquired on and after April 1, 2012.

The impact of this change on operating income, ordinary income, and income before income taxes and minority interests is minor.

(3) Accounting for significant allowance

a) Allowance for doubtful accounts

The Company and its consolidated subsidiaries provide for doubtful accounts principally at an amount computed based on the historical bad debt ratio during a certain reference period plus an estimated uncollectible amount based on the analysis of certain individual accounts.

b) Provision for bonuses

Provision for bonuses is stated at the estimated amount of the bonuses to be paid to employees based on services provided for the fiscal year.

c) Provision for retirement benefits

In order to provide for employee's retirement benefits, a provision is made based on the projected retirement benefit obligations and plan assets as of the end of the fiscal year.

Prior service cost is amortized on a straight-line basis over a certain period (mainly 15 years), which falls within the average remaining years of service of the eligible employees. Actuarial gains or losses are amortized on a straight-line basis over a certain period (mainly 15 years), which falls within the average remaining years of service of the eligible employees, allocated proportionately commencing the year following the year in which each respective gain or loss occurred.

d) Provision for directors' retirement benefits

Some of the consolidated subsidiaries accrue the liabilities for their retirement benefits for directors and corporate auditors, which is, in general, based upon the amounts required by the subsidiaries' internal regulations.

e) Provision for environmental measures

In order to provide for payments on disposal of waste polychlorinated biphenyl (PCB) removed from the noncurrent assets and stored, a provision is made based on the estimated disposal cost.

(4) Significant hedge accounting

a) Hedge accounting

The Company and its consolidated subsidiaries adopt the method for hedging instruments whereby any gains or losses are deferred over the period of the hedging contract and are offset against the deferred losses or gains on the related hedged items. However, when an interest rate swap contract meets certain conditions, the net amount to be paid or received under the contract is added to or deducted from the interest on the hedged items.

b) Hedging instruments and hedged items

Hedging instruments	Hedged items
Forward foreign exchange contracts	Future transactions in foreign currency
Currency swap contracts	Future transactions in foreign currency
Interest rate swap contracts	Interest expenses

c) Hedging policy

The Company and its consolidated subsidiaries use financial instruments to hedge interest rate fluctuation and exchange fluctuation risks in accordance with their internal policies and procedures.

d) Assessment method for hedge accounting

The Company identifies and confirms the material conditions and measures the effectiveness of forward foreign exchange contracts and currency swaps associated with planned transactions denominated in foreign currencies.

Measurement of hedge effectiveness is not considered necessary for interest rate swaps that meet the requirements for special accounting because the Company identifies and confirms the material conditions at the time of transaction.

(5) Amortization of goodwill

The Company amortizes goodwill using the straight-line method over the estimated period of benefit with the exception of minor amounts, which are charged or credited to income directly in the year of acquisition.

(6) Cash and cash equivalents

Cash and cash equivalents includes all highly liquid investments with a maturity of three months or less, that are readily convertible to known amounts of cash which are subject to an insignificant risk of changes in value.

(7) Other accounting policies

Accounting for consumption tax

Consumption tax and local consumption tax on goods and services are not included in the revenue and expenses amounts.

2 Accounting Standards Issued but Not Yet Applied

"Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan (ASBJ) Statement No. 26, May 17, 2012)
"Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012)

(1) Outline of changes
Under the accounting standard, unrecognized actuarial gains and losses and prior service costs will be recognized in net assets after adjusting for tax effects, and any differences between retirement benefit obligations and plan assets are recognized as a liability or an asset. In addition, the accounting standard permits the selection of the straight-line basis or the benefit formula basis as the method for attributing expected retirement benefits to periods, and also amends the method for calculating the discount rate.

(2) Date of application
The Company plans to adopt the accounting standard from the fiscal year ending March 31, 2014. However, the Company will adopt the new methods for calculating projected benefit obligations and service costs from the fiscal year ending March 31, 2015. The accounting standard provides for transitional treatment that does not require retrospective application to financial statements for prior fiscal years.

(3) Impact
The Company is in the process of evaluating the impact on consolidated financial statements.

"Employee Benefits" (International Accounting Standards Board, International Accounting Standard No. 19, June 16, 2011)

(1) Outline of changes
The main revisions relating to recognition and measurement are as below.
① Abolition of the option of deferred recognition for actuarial differences and prior service costs (immediate recognition of actuarial differences)
② Change in the method of calculation of retirement benefit expenses

(2) Date of application
Kuraray applies "Tentative Accounting Treatment for Overseas Subsidiaries in the Preparation of Consolidated Financial Statements" (ASBJ, PITF No. 18, February 19, 2010) in the preparation of its consolidated financial statements, using the financial statements prepared by some of its overseas subsidiaries in accordance with International Financial Reporting Standards.

As stated in "1. Significant Accounting Policies, 4. Fiscal years of consolidated subsidiaries" in Notes to Consolidated Financial Statements, the fiscal year-end for some of Kuraray's consolidated subsidiaries is December 31, and the Company has used financial statements as of December 31 in the preparation of its consolidated financial statements. Consequently, the changes will apply to these overseas subsidiaries from the fiscal years beginning on or after January 1, 2013.

(3) Impact
The Company is in the process of evaluating the impact on consolidated financial statements.

3 Changes in Presentation

(Consolidated Statements of Income)
For the fiscal year ended March 31, 2013, "Loss on disposal of tangible fixed assets," which was included in "Other" under "Non-operating expenses" in the previous fiscal year, is separately presented because its amount exceeded 10/100 of total non-operating expenses.

In addition, for the fiscal year ended March 31, 2013, "Special retirement expenses," which was presented separately in the previous fiscal year, is included in "Other" under "Non-operating expenses" because its amount was less than 10/100 of total non-operating expenses.

The consolidated financial statements for the previous fiscal year were reclassified to reflect these changes in presentation method.

As a result, ¥2,725 million (US$28,989 thousand) included in "Special retirement expenses" and "Other" under "Non-operating expenses" was reclassified as "Loss on disposal of tangible fixed assets" of ¥427 million (US$4,542 thousand) and "Other" of ¥2,297 million (US$24,436 thousand).

4 Notes to Consolidated Balance Sheets

*1. Accumulated depreciation of tangible fixed assets

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2012	Fiscal 2011	Fiscal 2012
Accumulated depreciation of tangible fixed assets	¥557,920	¥528,585	$5,935,319

*2. Accumulated amount of reduced-value entry as a result of receiving government subsidies, and so on that are subtracted from the acquisition price of tangible fixed assets

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2012	Fiscal 2011	Fiscal 2012
Buildings and structures	¥2,095	¥2,027	$22,287
(Deduction for this fiscal year)	(68)	(0)	(723)
Machinery, equipment and vehicles	983	941	10,457
(Deduction for this fiscal year)	(49)	(17)	(521)
Land	1,257	1,257	13,372
Other	36	36	382

*3. Investments in unconsolidated subsidiaries and affiliates

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2012	Fiscal 2011	Fiscal 2012
Investment securities (equity)	¥3,807	¥3,263	$40,500

4. Commitments and contingencies

The Company is contingently liable for guarantees for bank loans of unconsolidated subsidiaries, affiliates and others.

The company names and the guarantees of their liabilities are as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2012	Fiscal 2011	Fiscal 2012
Social welfare corporation Ishii Kinen Aizenen			
(Joint and several guarantee)	¥1,545	¥1,676	$16,436
Kureha Battery Materials Japan Co., Ltd.	288	—	3,063
Total	¥1,833	¥1,676	$19,500

*5. Assets pledged as collateral

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2012	Fiscal 2011	Fiscal 2012
Investment securities	¥ 46	¥46	$ 489
Buildings	753	—	8,010
Land	1,001	—	10,648
Total	¥1,800	¥46	$19,148

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2012	Fiscal 2011	Fiscal 2012
Collateral for short-term loans	¥230	—	$2,446
Collateral for long-term loans	137	—	1,457
Total	¥367	—	$3,904

* The above investment securities have been provided as collateral for loans of Mizushima Eco-works Co., Ltd.

*6. Accounting for notes with maturity dates at fiscal year-end

Notes with maturity dates at fiscal year-end and fixed-date cash settlements (a method of cash settlement on the same terms as notes) are accounted for and settled as of the date of maturity. As the fiscal year-end fell on a bank holiday, the following amounts of notes and accounts receivable and payable with maturity dates at fiscal year-end were accounted for and settled as of the date of maturity.

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2012	Fiscal 2011	Fiscal 2012
Notes and accounts receivable–trade	¥5,379	¥3,788	$57,223
Notes and accounts payable–trade	3,415	3,584	36,329
Other (current liabilities)	880	549	9,361

5 Notes to Consolidated Statements of Income

*1. Major items and the amounts under "Selling, general and administrative expenses" are as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2012	Fiscal 2011	Fiscal 2012
Freight and storage	¥12,546	¥12,207	$133,468
Provision for doubtful accounts	—	10	—
Research and development	15,749	15,182	167,542
Salaries and legal welfare expense	12,215	11,563	129,946
Provision for bonuses	3,742	3,661	39,808
Provision for retirement benefits for employees	1,207	1,053	12,840
Provision for directors' retirement benefits	36	40	382

*2. Research and development expenses included in general, administrative and current manufacturing expenses

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2012	Fiscal 2011	Fiscal 2012
	¥16,430	¥16,174	$174,787

*3. Expense for removing equipment rendered unnecessary by business closure, etc.

*4. Gain resulting from a change in equity in Kuraray Medical Inc. (currently Kuraray Noritake Dental Inc.).

*5. Expenses incurred upon acquisition of MonoSol Holdings, Inc. and its three wholly owned subsidiaries.

*6. The loss is incurred due to the write-down of stocks.

*7. Primarily business restructuring expenses at affiliates.

*8. Impairment loss

The significant component of impairment loss is as follows:

Fiscal 2012

				Impairment loss	
Location	Assets	Usage	Type	Millions of yen	Thousands of U.S. dollars
Okayama Kurashiki	Business assets	Synthetic fiber production equipment	Machinery and equipment	¥202	$2,148
Niigata Tainai	Assets to be scrapped	Paint production equipment	Machinery and equipment	185	1,968

Fiscal 2011

Location	Assets	Usage	Type	Impairment loss Millions of yen
Okayama Minami-ku	Business assets	Plant and equipment for man-made leather	Plant and equipment	¥1,924

(Identifying the cash-generating unit to which an asset belongs)
As a minimum unit for generating cash flow, business assets are grouped into sections used for management accounting, and leased assets, idle assets, and assets associated with discontinued or reorganized businesses are assessed individually. Other head office and research facilities are shared assets.

(Method for calculating the recoverable amount)
After separately examining the indications for impairment with respect to those businesses whose income from operations continue to be negative, and the recoverable amount falls short of the book value, the book value is to be reduced to the recoverable amount. The recoverable amount is measured based on the value in use and calculated with a 5% discount off the future cash flow. Assets associated with discontinued or reorganized business are categorized into "assets held for sale," "assets which can be converted for use into other business" and "assets to be discarded" and for items to be sold or discarded, the net book value of the assets is to be reduced to their recoverable amount. The recoverable amount of the assets to be used for certain future years is measured based on the value of use during the estimated residual useful life and is calculated by discounting future cash flows by 5% and the recoverable amount of the assets to be discarded is measured based on the net sale price and calculated by deducting the estimated disposal cost from the estimated sale price.

*9. Goodwill is amortized based on paragraph 32 of Accounting Practice Committee Statement No. 7, "Practical Guidelines on Accounting Standards for Capital Consolidation Procedures in Preparing Consolidated Financial Statements" (Final Revision, January 12, 2011, Japan Institute of Certified Public Accountants).

*10. Mainly the amount of overhead cost during the temporary production shutdown

6 Notes to Consolidated Statements of Comprehensive Income

Reclassification adjustments and tax effect adjustments relating to other comprehensive income (loss) for the fiscal years ended March 31, 2013 and 2012, are as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2012	Fiscal 2011	Fiscal 2012
Valuation difference on available-for-sale securities			
Amount recorded during the period	¥ 4,544	¥ 298	$ 48,340
Reclassification adjustments	371	103	3,946
Before tax effect adjustments	4,916	401	52,297
Tax effect	(1,603)	82	(17,053)
Valuation difference on available-for-sale securities	3,313	484	35,244
Deferred gains or losses on hedges			
Amount recorded during the period	1	(37)	10
Reclassification adjustments	22	10	234
Before tax effect adjustments	23	(27)	244
Tax effect	(9)	10	(95)
Deferred gains or losses on hedges	14	(17)	148
Foreign currency translation adjustment			
Amount recorded during the period	14,542	(4,502)	154,702
Reclassification adjustments	—	—	—
Before tax effect adjustments	14,542	(4,502)	154,702
Tax effect	—	—	—
Foreign currency translation adjustment	14,542	(4,502)	154,702
Pension liability adjustment			
Amount recorded during the period	(175)	(294)	(1,861)
Reclassification adjustments	51	30	542
Before tax effect adjustments	(124)	(263)	(1,319)
Tax effect	47	100	500
Pension liability adjustment	(77)	(163)	(819)
Shares of other comprehensive income of associates accounted for using equity method			
Amount recorded during the period	—	0	—
Reclassification adjustments	—	(1)	—
Shares of other comprehensive income of associates accounted for using equity method	—	(1)	—
Total other comprehensive income	¥17,792	¥(4,200)	$189,276

7 Notes to Consolidated Statements of Changes in Net Assets

Fiscal 2012

1. Type and number of issued shares of common stock and treasury stock

	Number of shares as of March 31, 2012 (Thousands of shares)	Increase in the number of shares (Thousands of shares)	Decrease in the number of shares (Thousands of shares)	Number of shares as of March 31, 2013 (Thousands of shares)
Number of outstanding shares				
Common stock	382,863	—	—	382,863
Total	382,863	—	—	382,863
Number of treasury stocks				
Common stock (Notes 1, 2)	34,506	5	482	34,029
Total	34,506	5	482	34,029

Notes: 1. The increase in treasury stock (common stock) is attributable to the purchase of less-than-one unit shares (5 thousand shares).
2. The decrease in treasury stock (common stock) is attributable to a transfer of shares upon the exercise of subscription rights (481 thousand shares) and the acquisition of less-than-one unit shares by the shareholders (1 thousand shares).

2. Subscription rights to shares

The Company granted its directors, executive officers, employees, and directors and employees of its subsidiaries subscription rights to the Company shares as stock options. The balance of the subscription rights to shares as of March 31, 2013 is ¥1,221 million (US$12,989 thousand).

3. Dividends

(1) Amount of dividends paid

Resolution	Type of share	Amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
General shareholders' meeting held on June 22, 2012	Common stock	¥5,922 (US$63,000 thousand)	¥17.00 (US$0.18)	March 31, 2012	June 25, 2012
Board of directors' meeting held on November 1, 2012	Common stock	¥6,273 (US$66,734 thousand)	¥18.00 (US$0.19)	September 30, 2012	December 3, 2012

(2) Dividends whose effective date is after the end of Fiscal 2012 and record date is included in Fiscal 2012.

Resolution	Type of share	Amount of dividends (Millions of yen)	Source of dividends	Dividend per share (Yen)	Record date	Effective date
General shareholders' meeting held on June 21, 2013	Common stock	¥6,279 (US$66,797 thousand)	Retained earnings	¥18.00 (US$0.19)	March 31, 2013	June 24, 2013

Fiscal 2011

1. Type and number of issued shares of common stock and treasury stock

	Number of shares as of March 31, 2011 (Thousands of shares)	Increase in the number of shares (Thousands of shares)	Decrease in the number of shares (Thousands of shares)	Number of shares as of March 31, 2012 (Thousands of shares)
Number of outstanding shares				
Common stock	382,863	—	—	382,863
Total	382,863	—	—	382,863
Number of treasury stocks				
Common stock (Notes 1, 2)	34,611	5	109	34,506
Total	34,611	5	109	34,506

Notes: 1. The increase in treasury stock (common stock) is attributable to the purchase of less-than-one unit shares (5 thousand shares).
2. The decrease in treasury stock (common stock) is attributable to a transfer of shares upon the exercise of subscription rights (108 thousand shares) and the acquisition of less-than-one unit shares by the shareholders (1 thousand shares).

2. Subscription rights to shares

The Company granted its directors, executive officers, employees, and directors and employees of its subsidiaries subscription rights to the Company shares as stock options. The balance of the subscription rights to shares as of March 31, 2012 is ¥1,151 million.

3. Dividends

(1) Amount of dividends paid

Resolution	Type of share	Amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
General shareholders' meeting held on June 22, 2011	Common stock	¥4,875	¥14.00	March 31, 2011	June 23, 2011
Board of directors' meeting held on October 31, 2011	Common stock	¥5,572	¥16.00	September 30, 2011	December 1, 2011

(2) Dividends whose effective date is after the end of Fiscal 2011 and record date is included in Fiscal 2011.

Resolution	Type of share	Amount of dividends (Millions of yen)	Source of dividends	Dividend per share (Yen)	Record date	Effective date
General shareholders' meeting held on June 22, 2012	Common stock	¥5,922	Retained earnings	¥17.00	March 31, 2012	June 25, 2012

8 Notes to Consolidated Statements of Cash Flows

1. Cash and cash equivalents at March 31, 2013 and 2012 are reconciled to the accounts reported in the consolidated balance sheets as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2012	Fiscal 2011	Fiscal 2012
Cash on hand and in banks	¥ 46,151	¥31,464	$490,968
Time deposits with a deposit period of 3 months or more	(24,966)	(3,651)	(265,595)
Marketable securities with original maturities of 3 months or less	8,699	6,999	92,542
Cash and cash equivalents	¥ 29,885	¥34,811	$317,925

2. Amounts and breakdown of assets and liabilities for subsidiaries that were added to the scope of consolidation due to acquisition of shares

MonoSol Holdings, Inc. and two of its three wholly owned subsidiaries were added to the scope of consolidation due to acquisition of shares. The amounts and breakdown of assets and liabilities upon consolidation, cost of shares acquired and share acquisition expense are as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 3,550	$ 37,765
Noncurrent assets	29,577	314,648
Goodwill	13,523	143,861
Current liabilities	(1,480)	(15,744)
Noncurrent liabilities	(13,777)	(146,563)
Purchase price of stock	31,392	333,957
Expense	743	7,904
Cash and cash equivalent	(1,093)	(11,627)
Translation adjustment of foreign currency	191	2,031
Expenditure of purchase	31,233	332,265

9 Leases

1. Finance lease transactions

(1) Lease transactions as a lessee

Finance leases without transfer of ownership

1) Details of lease assets

a) Tangible fixed assets

Mainly vehicles used at plants, including forklifts, buildings and equipment, etc., related to manufacturing ("Machinery and Equipment", "Buildings and Structures"), OA equipment, including personal computers and printers, and servers ("Other").

b) Intangible fixed assets

Software ("Other")

2) Depreciation method of lease assets

As described in the basis of presenting consolidated financial statements "1. Significant Accounting Policies, 5. Accounting policies (2) Depreciation method of significant depreciable assets".

(2) Lease transactions as a lessor

Finance lease transactions without transfer of ownership that commenced on or before March 31, 2008 are accounted for on a basis similar to operating leases. The details of such transactions are as follows.

Disclosure of finance lease transactions which commenced on or after April 1, 2008 is omitted due to less materiality.

1) Lease acquisition costs, accumulated depreciation and net book value as of March 31, 2013 and 2012 are as follows:

March 31, 2013

	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net book value
Buildings and structures	¥196	¥ 88	¥107
Machinery, equipment and vehicles	49	44	4
Total	¥245	¥133	¥112

	Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net book value
Buildings and structures	$2,085	$ 936	$1,138
Machinery, equipment and vehicles	521	468	43
Total	$2,606	$1,414	$1,191

March 31, 2012

	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net book value
Buildings and structures	¥196	¥ 85	¥110
Machinery, equipment and vehicles	49	43	5
Total	¥245	¥128	¥116

2) Future lease payment obligations at March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2012	Fiscal 2011	Fiscal 2012
Due within one year	¥ 14	¥ 14	$ 148
Due after one year	107	121	1,138
Total	¥122	¥136	$1,297

3) Lease revenue and depreciation expense for the years ended March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2012	Fiscal 2011	Fiscal 2012
Lease revenue	¥14	¥15	$148
Depreciation expense	4	5	42

2. Operating leases

Lease transactions as a lessee:

Future lease payment obligations under operating leases at March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2012	Fiscal 2011	Fiscal 2012
Due within one year	¥1,523	¥1,452	$16,202
Due after one year	2,227	3,211	23,691
Total	¥3,750	¥4,663	$39,893

10 Financial Instruments

1. Outline of financial instruments

(1) Policy for financial instruments

The Group raises funds necessary to conduct its business mainly through bank loans or issuance of bonds. Temporary cash surpluses, if any, are invested in low risk financial assets. Derivatives are used, not for speculative purposes, but to manage exposure to financial risks as described below.

(2) Nature and extent of risks arising from financial instruments

Receivables such as notes and accounts receivable–trade are exposed to customer credit risk. Trade receivables denominated in foreign currencies are exposed to foreign currency exchange fluctuation risk.

Short-term investment securities and investment securities, mainly consisting of beneficiary securities on investment trusts, certificates of deposit and others held for management of capital surpluses and stocks in companies that have a business relationship are exposed to the risk of market price fluctuations.

Payment term of payables, such as notes and accounts payable–trade, are mostly less than one year. Payables in foreign currencies incurred mainly from import of raw materials are exposed to foreign currency exchange fluctuation risk. Those risks are mostly offset by receivable balances denominated in the same foreign currency.

Loans, bonds and lease obligations related to finance lease transactions, used to raise funds for working capital and capital expenditures, have maturities of at the longest 14 years from the balance sheet date. The debts bearing floating interest rates are exposed to interest rate fluctuation risk, although a part of the exposure is hedged through use of derivatives (interest rate swaps).

Derivative transactions include forward foreign currency contracts and currency swaps for the purpose of hedging foreign currency exchange fluctuation risk resulting from receivables and payables denominated in foreign currencies and interest rate swaps for the purpose of hedging interest rate fluctuation risk resulting from variable interest expenses on debts. Please refer to "(4) Significant hedge accounting" under "1. Significant Accounting Policies" "5. Accounting policies" for a description of the Company's accounting policy relating to hedging activities.

(3) Risk management for financial instruments

a. *Credit Risk Management (customers' default risk)*

The Company manages and mitigates customer credit risk from trade receivables on the basis of internal rules concerning credit management, which include monitoring of payment terms and balances of customers to identify default risk at an early stage. With respect to loan receivables and liability guarantee agreements, the Company manages its exposure to credit risk by periodically identifying the financial position of the debtors. With respect to financial assets held for managing capital surplus, its credit risk is minimal because the investments are limited to issuers with high credit ratings in accordance with internal rules concerning fund management. The Company enters into derivative transactions only with financial institutions that have high credit ratings in order to mitigate counterparty risks.

b. *Market Risk Management (foreign currency exchange and interest rate fluctuation risks)*

The Company and certain consolidated subsidiaries principally use forward foreign exchange contracts to hedge foreign currency exchange fluctuation risk exposure in connection with trade receivables and payables denominated in foreign currencies. Depending on foreign currency exchange rate conditions, trade receivables and payables denominated in foreign currencies that are expected to be generated based on export and import forecasts are hedged using forward foreign exchange contracts with limited contract periods of around half a year. The Company also hedges certain scheduled non-trading transactions denominated in foreign currencies that it expects to generate.

In addition, the Company uses currency swap and interest rate swap contracts to mitigate foreign currency exchange fluctuation risk exposure in connection with long-term loans receivable in foreign currencies and interest rate fluctuation risk exposure in connection with long-term loans payable.

With respect to short-term investment securities and investment securities, the Company periodically monitors fair values or financial status of the related issuers. With respect to stocks in companies that have a business relationship, the Company continuously checks the necessity for holding them, taking into account the business relationship.

The Company manages derivative transactions in accordance with internal rules that regulate delegation of authority concerning derivative transactions.

c. *Liquidity Risk Management on Fund Raising*

Liquidity risk comprises the risk that the Group cannot meet its contractual obligations in full at the respective maturity dates. The Group manages its liquidity risk by diversifying its fund raising instruments, obtaining commitment lines from several financial institutions and adjusting short-term and long-term funding balances in consideration of market environments.

(4) Supplementary explanation concerning fair values of financial instruments

Fair values of financial instruments comprise values determined based on market prices and values determined reasonably when there is no market price. Since variable factors are incorporated in computing the relevant fair values, such fair values may vary depending on the different assumptions. The notional amounts and other information described in Note 12. "Derivative Financial Instruments" are not indicative of market risk exposure to derivative transactions.

2. Fair values of financial instruments

Carrying amount, fair value and unrealized gain/loss of the financial instruments as of March 31, 2013 and 2012 are as follows: Financial instruments whose fair values are not readily determinable are excluded from the following table:

Fiscal 2012

	Millions of yen		
	Carrying amount	Fair value	Unrealized gain (loss)
(1) Cash and deposits	¥ 46,151	¥ 46,151	¥ —
(2) Notes and accounts receivable–trade	83,843		
Allowance for doubtful accounts	(742)		
	83,100	83,100	
(3) Short-term investment securities and investment securities			
Available-for-sale securities	109,096	109,096	
Total assets	238,348	238,348	
(1) Notes and accounts payable–trade	37,048	37,048	
(2) Long-term loans payable (*1)	52,180	53,494	1,314
Total liabilities	89,228	90,543	1,314
Derivative transactions (*2)	(142)	(142)	—

	Thousands of U.S. dollars		
	Carrying amount	Fair value	Unrealized gain (loss)
(1) Cash and deposits	$ 490,968	$ 490,968	$ —
(2) Notes and accounts receivable–trade	891,946		
Allowance for doubtful accounts	(7,893)		
	884,042	884,042	—
(3) Short-term investment securities and investment securities			
Available-for-sale securities	1,160,595	1,160,595	—
Total assets	2,535,617	2,535,617	—
(1) Notes and accounts payable–trade	394,127	394,127	—
(2) Long-term loans payable (*1)	555,106	569,085	13,978
Total liabilities	949,234	963,223	13,978
Derivative transactions (*2)	(1,510)	(1,510)	—

Fiscal 2011

	Millions of yen		
	Carrying amount	Fair value	Unrealized gain (loss)
(1) Cash and deposits	¥ 31,464	¥ 31,464	¥ —
(2) Notes and accounts receivable–trade	80,627		
Allowance for doubtful accounts	(781)		
	79,845	79,845	—
(3) Short-term investment securities and investment securities			
Available-for-sale securities	135,129	135,129	—
Total assets	246,439	246,439	—
(1) Notes and accounts payable–trade	32,945	32,945	—
(2) Long-term loans payable (*1)	44,210	45,496	1,285
Total liabilities	77,156	78,441	1,285
Derivative transactions (*2)	90	90	—

(*1) Long-term loans payable include the current portion of long-term loans payable.
(*2) Receivables and payables incurred as a result of derivative transactions are presented on a net basis. Net payables are presented in parentheses.
Notes: 1. Calculation method of fair values of financial instruments and securities and derivative transactions
Assets:
(1) Cash and deposits and (2) Notes and accounts receivable–trade
These assets are recorded using book values because fair values approximate book values because of their short-term maturities.
(3) Short-term investment securities and investment securities
The fair values of these assets are determined using the quoted market price on applicable stock exchanges. Other instruments are determined using the quoted price obtained from financial institutions.
Liabilities:
(1) Notes and accounts payable–trade
These payables are recorded using book values because fair values approximate book values because of their short-term maturities.
(2) Long-term loans payable
The fair values of long-term loans payable are determined by discounting the aggregated values of the principal and interest using an assumed interest rate based on the interest rate that would be applied to a new loan of a similar nature.
Long-term loans payable bearing floating interest rates are hedged using interest rate swap contracts and the fair values of these loans payable are determined by discounting the aggregated values of the principal and interest accounted for together with the related interest rate swap contracts using a reasonably estimated interest rate based on the interest rate that would be applied to a new loan of a similar nature.
Derivative financial instruments:
Please see Note 14. "Derivative Financial Instruments."

2. Financial instruments whose fair values are not readily determinable

	Millions of yen		Thousands of U.S. dollars
	Carrying amount		Carrying amount
Category	Fiscal 2012	Fiscal 2011	Fiscal 2012
Unlisted equity securities	¥6,143	¥6,895	$65,351

These items are not included in "(3) Short-term investment securities and investment securities," because there is no market price, future cash flows cannot be estimated and it is very difficult to identify fair values.

3. Redemption schedule of monetary assets and securities with contractual maturities
Fiscal 2012

	Millions of yen			
	Within one year	One to five years	Five to ten years	Over ten years
Cash and deposits	¥ 46,151	¥ —	¥ —	¥ —
Notes and accounts receivable–trade	83,843	—	—	—
Short-term investment securities and investment securities:				
o/w Securities with contractual maturities:				
(1) Bonds (Corporate)	16,996	6,172	—	—
(2) Bonds (Others)	2,999	9,375	—	—
(3) Others	52,697	4,094	—	—
Total	¥202,689	¥ 19,642	¥ —	¥ —

	Thousands of U.S. dollars			
	Within one year	One to five years	Five to ten years	Over ten years
Cash and deposits	$ 490,968	$ —	$ —	$ —
Notes and accounts receivable–trade	891,946	—	—	—
Short-term investment securities and investment securities:				
o/w Securities with contractual maturities:				
(1) Bonds (Corporate)	180,808	65,659	—	—
(2) Bonds (Others)	31,904	99,734	—	—
(3) Others	560,606	43,553	—	—
Total	$2,156,265	$208,957	$ —	$ —

Fiscal 2011

	Millions of yen			
	Within one year	One to five years	Five to ten years	Over ten years
Cash and deposits	¥ 31,464	¥ —	¥ —	¥ —
Notes and accounts receivable–trade	80,627	—	—	—
Short-term investment securities and investment securities:				
o/w Securities with contractual maturities:				
(1) Bonds (Corporate)	4,001	3,011	3,000	—
(2) Bonds (Others)	11,994	—	—	—
(3) Others	96,050	4,000	—	—
Total	¥224,137	¥7,011	¥3,000	¥ —

4. Redemption schedule of bonds, long-term loans payable and lease obligations after the balance sheet date:
Please see Note 21. "Supplementary Schedule."

11 Securities

1. Available-for-sale securities with market value

Fiscal 2012

	Millions of yen			Thousands of U.S. dollars		
	Book value (estimated fair value)	Cost	Net	Book value (estimated fair value)	Cost	Net
Securities with book value exceeding their acquisition cost						
Equity securities	¥ 14,567	¥ 6,274	¥8,293	$ 154,968	$ 66,744	$88,223
Bonds						
Government and municipal	—	—	—	—	—	—
Corporate	9,173	9,000	173	97,585	95,744	1,840
Others	4,716	4,702	14	50,170	50,021	148
Others	45,092	44,415	676	479,702	472,500	7,191
Subtotal	73,549	64,392	9,157	782,436	685,021	97,414
Securities with book value not exceeding their acquisition cost						
Equity securities	2,192	2,298	(106)	23,319	24,446	(1,127)
Bonds						
Government and municipal	—	—	—	—	—	—
Corporate	13,996	14,000	(3)	148,893	148,936	(31)
Others	7,659	7,702	(43)	81,478	81,936	(457)
Others	11,700	11,700	—	124,468	124,468	—
Subtotal	35,547	35,700	(153)	378,159	379,787	(1,627)
Total	¥109,096	¥100,093	¥9,003	$1,160,595	$1,064,819	$95,776

Note: Unlisted equity securities amounting to ¥2,336 million (US$24,851 thousand) are excluded from the above table, because there is no market price and it is very difficult to identify fair values.

Fiscal 2011

	Millions of yen		
	Book value (estimated fair value)	Cost	Net
Securities with book value exceeding their acquisition cost			
Equity securities	¥ 10,112	¥ 5,377	¥4,734
Bonds			
Government and municipal	—	—	—
Corporate	3,011	3,000	11
Others	—	—	—
Others	40,050	40,000	50
Subtotal	53,174	48,377	4,797
Securities with book value not exceeding their acquisition cost			
Equity securities	2,958	3,548	(589)
Bonds			
Government and municipal	—	—	—
Corporate	7,001	7,001	—
Others	11,994	11,994	—
Others	60,000	60,000	—
Subtotal.	81,954	82,544	(589)
Total	¥135,129	¥130,921	¥4,207

Note: Unlisted equity securities amounting to ¥3,631 million are excluded from the above table, because there is no market price and it is very difficult to identify fair values.

2. Available-for-sale securities sold during the fiscal year

Fiscal 2012

Not applicable.

Fiscal 2011

	Millions of yen		
Category	Proceeds from sales	Total gain	Total loss
Others	¥27,052	¥114	¥ —
Total	¥27,052	¥114	¥ —

Notes: 1. This is attributable to the redemption of investment trusts on maturity.
2. Securities which is very difficult to identify fair value are excluded from the above table.

3. Impairment loss on securities

The Company recognized impairment loss on securities (equity securities under available-for-sale securities) in an amount of ¥613 million (US$6,521 thousand).

As for the available-for-sale securities of which market prices are available, the Company recognizes impairment loss when the fair value of such securities as of the fiscal year end declines to less than 50% of acquisition cost. When the fair value declines to between 30% and 50% of the acquisition cost, the Company considers the recoverability of each security and recognizes impairment for the amount deemed necessary. As for the available-for-sale securities of which market prices are not available, the Company recognizes impairment loss in the amount deemed necessary when the fair value of such securities declines significantly.

12 Derivative Financial Instruments

1. Derivative transactions to which hedge accounting is not applied

(1) Currencies

Fiscal 2012

Category	Classification	Millions of yen			
		Nominal amount	Nominal amount due after one year	Market value	Unrealized gain (loss)
Transactions other than market transactions	Currency swap contracts:				
	Yen into Euro obligation	¥1,992	¥1,138	¥273	¥273
	Forward foreign exchange contracts:				
	Yen into U.S. dollar obligation	393	118	(68)	(68)
	Yen into Euro obligation	724	—	(3)	(3)
	U.S. dollar into Yen obligation	94	—	(0)	(0)
	Total	¥3,203	¥1,257	¥200	¥200

Category	Classification	Thousands of U.S. dollars			
		Nominal amount	Nominal amount due after one year	Market value	Unrealized gain (loss)
Transactions other than market transactions	Currency swap contracts:				
	Yen into Euro obligation	$21,191	$12,106	$2,904	$2,904
	Forward foreign exchange contracts:				
	Yen into U.S. dollar obligation	4,180	1,255	(723)	(723)
	Yen into Euro obligation	7,702	—	(31)	(31)
	U.S. dollar into Yen obligation	1,000	—	(0)	(0)
	Total	$34,074	$13,372	$2,127	$2,127

Notes: 1. Market values of swap transactions at the end of the fiscal year are calculated using prices quoted by financial institutions. Market values of forward foreign exchange contracts at the end of the fiscal year are calculated using forward exchange rates.
2. The amounts include currency swap contracts entered into in order to hedge inter-company transactions for loan transactions, which are not accounted for by hedge accounting, but by the primary method of accounting for the instruments in accordance with the Accounting Standard for Financial Instruments.

Fiscal 2011

Category	Classification	Millions of yen			
		Nominal amount	Nominal amount due after one year	Market value	Unrealized gain (loss)
Transactions other than market transactions	Currency swap contracts:				
	Yen into Euro obligation	¥3,416	¥2,277	¥ 682	¥ 682
	Forward foreign exchange contracts:				
	Yen into U.S. dollar obligation	789	138	(22)	(22)
	U.S. dollar into Yen obligation	16,438	—	(186)	(186)
	Total	¥20,643	¥2,415	¥ 472	¥ 472

Notes: 1. Market values of swap transactions at the end of the fiscal year are calculated using prices quoted by financial institutions. Market values of forward foreign exchange contracts at the end of the fiscal year are calculated using forward exchange rates.
2. Hedge accounting was not applied to the transactions above because the Company employed the generally accepted accounting method for derivative transactions in derivative transactions for financial transactions between consolidated companies as well as derivative transactions to cover anticipated foreign currency transactions, except for imports and exports.

2. Derivative transactions to which hedge accounting is applied

(1) Currencies

Fiscal 2012

Hedge accounting method	Classification	Major hedged items	Fiscal 2012 (As of March 31, 2013) Millions of yen Nominal amount	Millions of yen Nominal amount over one year	Millions of yen Market value	Thousands of U.S. dollars Nominal amount	Thousands of U.S. dollars Nominal amount over one year	Thousands of U.S. dollars Market value
Primary method	Forward foreign exchange contracts:							
	Yen into U.S. dollar obligation	Accounts receivable–trade	¥ 6,623	¥ —	¥(289)	$ 70,457	$ —	$(3,074)
	Yen into Euro obligation	Accounts receivable–trade	3,217	—	(30)	34,223	—	(319)
	U.S. dollar into Yen obligation	Accounts payable–trade	374	—	1	3,978	—	10
Total			¥10,216	¥ —	¥(318)	$108,680	$ —	$(3,382)

Note: Market values of forward foreign exchange contracts at the end of the fiscal year are calculated using forward exchange rates.

Hedge accounting method	Classification	Major hedged items	Millions of yen Nominal amount	Millions of yen Nominal amount over one year	Millions of yen Market value	Thousands of U.S. dollars Nominal amount	Thousands of U.S. dollars Nominal amount over one year	Thousands of U.S. dollars Market value
Receivables or payables are translated using forward foreign exchange contract rates.	Forward foreign exchange contracts:							
	Yen into U.S. dollar obligation	Accounts receivable–trade	¥376	¥ —	Note	$4,000	$ —	Note
	Yen into Euro obligation	Accounts receivable–trade	95	—	Note	1,010	—	Note
	U.S. dollar into Yen obligation	Accounts payable–trade	101	—	Note	1,074	—	Note
Total			¥572	¥ —	Note	$6,085	$ —	Note

Note: With respect to forward foreign exchange contracts whose exchange rates are used for translating accounts receivable or payable–trade, market values of forward foreign exchange contracts are included in the market values of the relevant accounts receivable or payable–trade, since they are used for recording accounts receivable or payable–trade as hedged items.

Hedge accounting method	Classification	Major hedging items	Millions of yen Nominal amount	Millions of yen Nominal amount over one year	Millions of yen Market value	Thousands of U.S. dollars Nominal amount	Thousands of U.S. dollars Nominal amount over one year	Thousands of U.S. dollars Market value
Cash flow hedges for forecasted transactions	Currency swap contracts:							
	Yen into Euro obligation	Forecasted transactions in foreign currencies	¥1,992	¥1,138	¥(41)	$21,191	$12,106	$(436)
	Forward foreign exchange contracts:							
	Yen into U.S. dollar obligation	Forecasted transactions in foreign currencies	1,971	—	0	20,968	—	0
	Yen into Euro obligation	Forecasted transactions in foreign currencies	737	—	0	7,840	—	0
Total			¥4,701	¥1,138	¥(40)	$50,010	$12,106	$(425)

Note: Market values of swap transactions at the end of the fiscal year are calculated using prices quoted by financial institutions. Market values of forward foreign exchange contracts at the end of the fiscal year are calculated using forward exchange rates.

Fiscal 2011

Hedge accounting method	Classification	Major hedging items	Fiscal 2011 (As of March 31, 2012) Millions of yen Nominal amount	Nominal amount over one year	Market value
Primary method	Forward foreign exchange contracts:				
	Yen into U.S. dollar obligation	Accounts receivable–trade	¥5,327	¥ —	¥(242)
	Yen into Euro obligation	Accounts receivable–trade	2,085	—	(91)
	U.S. dollar into Yen obligation	Accounts payable–trade	76	—	(3)
Total			¥7,489	¥ —	¥(337)

Note: Market values of forward foreign exchange contracts at the end of the fiscal year are calculated using forward exchange rates.

Hedge accounting method	Classification	Major hedging items	Fiscal 2011 (As of March 31, 2012) Millions of yen Nominal amount	Nominal amount over one year	Market value
Receivables or payables are translated using forward foreign exchange contract rates.	Forward foreign exchange contracts:				
	Yen into U.S. dollar obligation	Accounts receivable–trade	¥637	¥ —	Note
	Yen into Euro obligation	Accounts receivable–trade	84	—	Note
	U.S. dollar into Yen obligation	Accounts payable–trade	73	—	Note
Total			¥795	¥ —	Note

Note: With respect to forward foreign exchange contracts whose exchange rates are used for translating accounts receivable or payable–trade, market values of forward foreign exchange contracts are included in the market values of the relevant accounts receivable or payable–trade, since they are used for recording accounts receivable or payable–trade as hedged items.

Hedge accounting method	Classification	Major hedging items	Fiscal 2011 (As of March 31, 2012) Millions of yen Nominal amount	Nominal amount over one year	Market value
Cash flow hedges for forecasted transactions	Currency swap contracts:				
	Yen into Euro obligation	Forecasted transactions in foreign currencies	¥3,416	¥2,277	¥(67)
	Forward foreign exchange contracts:				
	Yen into U.S. dollar obligation	Forecasted transactions in foreign currencies	1,646	—	0
	Yen into Euro obligation	Forecasted transactions in foreign currencies	904	—	0
	Euro into Yen obligation	Forecasted transactions in foreign currencies	701	—	20
Total			¥6,668	¥2,277	¥(45)

Note: Market values of swap transactions at the end of the fiscal year are calculated using prices quoted by financial institutions. Market values of forward foreign exchange contracts at the end of the fiscal year are calculated using forward exchange rates.

(2) Interest rate

Fiscal 2012

Hedge accounting method	Classification	Major hedged items	Millions of yen Nominal amount	Nominal amount over one year	Market value
Interest rate swaps meeting certain conditions	Interest rate swaps: Floating rate into fixed rate	Long-term loans payable	¥10,000	¥10,000	Note

Hedge accounting method	Classification	Major hedged items	Thousands of U.S. dollars Nominal amount	Nominal amount over one year	Market value
Interest rate swaps meeting certain conditions	Interest rate swaps: Floating rate into fixed rate	Long-term loans payable	$106,382	$106,382	Note

Note: With respect to interest rate swap contracts which meet certain conditions, market values of the interest rate swap contracts are included in the market values of the relevant long-term loans payable, since they are used for recording long-term loans payable as hedged items.

Fiscal 2011

Hedge accounting method	Classification	Major hedged items	Millions of yen Nominal amount	Nominal amount over one year	Market value
Interest rate swaps meeting certain conditions	Interest rate swaps: Floating rate into fixed rate	Long-term loans payable	¥538	¥ —	Note

Note: With respect to interest rate swap contracts which meet certain conditions, market values of the interest rate swap contracts are included in the market values of the relevant long-term loans payable, since they are used for recording long-term loans payable as hedged items.

13 Retirement Benefits

1. Summary of retirement benefit plan

The Company and some of its domestic consolidated subsidiaries have established a retirement benefit plan and a lump sum benefit plan, and have adopted cash balance plans and defined contribution pension plans as the retirement benefit system. In addition, a retirement benefit trust has been established in the Company's lump sum benefit system.

One consolidated subsidiary has adopted a jointly-established employee pension fund plan (multi-employer plan), and records required contribution amounts as retirement benefit expenses.

The status of the multi-employer plan is as follows:

(1) Accumulated funds for the plan

	Millions of yen (As of March 31, 2012)	(As of March 31, 2011)	Thousands of U.S. dollars (As of March 31, 2012)
Plan assets	¥ 58,766	¥ 63,181	$ 625,170
Projected benefit obligation	84,994	87,849	904,191
Difference	¥(26,227)	¥(24,667)	$(279,010)

(2) Ratio of total salaries of the consolidated subsidiary to total funds of the plan

Fiscal 2012 (As of March 31, 2013)............2.4%

Fiscal 2011 (As of March 31, 2012)............. 2.4%

(3) Supplementary explanation

The main reasons behind the difference in amounts described above in (1) are as follows. The method of depreciation of prior service cost in the current fiscal year is to evenly split principals thereof over a period of 19 years, and is scheduled to be terminated in March 2029.

	Millions of yen		Thousands of U.S. dollars
	(As of March 31, 2012)	(As of March 31, 2011)	(As of March 31, 2012)
Balance of prior service cost	¥19,759	¥16,269	$210,202
Deficient amount carried forward	6,467	4,324	68,797
Adjustment to asset appraisal value (Note)	—	4,073	—

Note: "Adjustment to asset appraisal value" is determined by deducting the fair value from the appraisal value for the purpose of fiscal management of fixed assets.

The ratio in the above (2) does not match with the ratio of the actual burden of the consolidated subsidiary.

2. Retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2012 (As of March 31, 2013)	Fiscal 2011 (As of March 31, 2012)	Fiscal 2012 (As of March 31, 2013)
a. Retirement benefit obligations	¥(37,291)	¥(37,857)	$(396,712)
b. Plan assets	27,321	26,905	290,648
c. Unfunded retirement benefit obligations (a+b)	(9,969)	(10,951)	(106,053)
d. Unrecognized actuarial gains or losses	9,515	11,815	101,223
e. Unrecognized prior service cost	(555)	(659)	(5,904)
f. Net retirement benefit obligations recognized in the consolidated balance sheets (c+d+e)	(1,009)	204	(10,734)
g. Prepaid pension costs	5,437	5,822	57,840
h. Provision for retirement benefits (f-g)	¥ (6,447)	¥ (5,617)	$ (68,585)

Note: Domestic consolidated subsidiaries use a simplified method in the calculation of retirement benefit obligations.

3. Retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2012 (As of March 31, 2013)	Fiscal 2011 (As of March 31, 2012)	Fiscal 2012 (As of March 31, 2013)
a. Service costs (Note)	¥1,674	¥1,624	$17,808
b. Interest costs	561	755	5,968
c. Expected return on plan assets	(630)	(583)	(6,702)
d. Amortization of actuarial gains or losses	1,411	1,259	15,010
e. Amortization of prior service costs	(97)	(103)	(1,031)
f. Retirement benefit expenses (a+b+c+d+e)	2,918	2,953	31,042
g. Defined contribution pension plans installment	550	517	5,851
Total	¥3,469	¥3,470	$36,904

Note: The retirement benefit expenses for consolidated subsidiaries that have adopted the simplified method are included in "Service costs."

4. Assumptions used in accounting for the defined benefit plan

	Fiscal 2012	Fiscal 2011
a. Method of attributing the projected benefit obligations to periods of service	Straight-line	
b. Discount rate	Mainly 1.4%	Mainly 1.4%
c. Expected rate of return on plan assets	Mainly 1.0% or 3.3%	Mainly 1.0% or 3.3%
d. Amortization period for prior service cost	Mainly 15 years (On a straight-line basis over a certain period, which falls within the average remaining years of service of the eligible employees.)	
e. Amortization period for actuarial gains or losses	Mainly 15 years (On a straight-line basis over a certain period, which falls within the average remaining years of service of the eligible employees, allocated proportionally commencing the year following the year in which each respective gain or loss occurred.)	

14 Stock-Based Compensation Plans

1. Item and amount of expenses for stock options in this fiscal year

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2012	Fiscal 2011	Fiscal 2012
Cost of goods manufactured	¥ 65	¥263	$ 691
Selling, general and administrative expenses	149	345	1,585
Non-operating expense	0	7	0

2. Details including size and changes of stock options

(1) Stock options plans

	Stock options 2002	Stock options 2003	Stock options June 2007
Number of eligible persons by position	Directors: 18 Corporate auditors: 3 Managers: 396 Directors of subsidiaries: 67 Corporate auditors of subsidiaries (Note): 4 Managers of subsidiaries: 451	Employees: 2,200 Employees of subsidiaries: 3,422	Directors of the Company: 10 Executive officers of the Company (excluding those who concurrently serve as directors of the Company and those working overseas): 11
Total number and type of stocks granted	1,076,500 shares of common stock	2,811,000 shares of common stock	56,500 shares of common stock
Grant date	October 1, 2002	October 1, 2003	June 5, 2007
Prerequisite to be vested	Directors, corporate auditors and employees of the Company and its subsidiaries. Directors, corporate auditors and associate directors of the Company and presidents of the significant subsidiaries (Note) can exercise after they retire.	Directors, corporate auditors, executive officers and employees of the Company and its subsidiaries.	No vesting conditions are set.
Required service period	From October 1, 2002 to June 27, 2004	From October 1, 2003 to June 26, 2005	There is no provision for a required service period.
Exercise period	From June 28, 2004 to June 27, 2012	From June 27, 2005 to June 26, 2013	From June 6, 2007 to June 5, 2022; provided that, if the final date of the exercise period is a holiday for the Company, the final date should be the business date immediately preceding the date.

Note: Significant subsidiaries are as follows:
KURARAY ENGINEERING CO., LTD., KURARAY CHEMICAL CO., LTD., KURARAY TRADING Co., LTD., Kuraray Plastics Co., Ltd., KURARAY FUDOSAN CO., LTD. (Merged with Kuraray Techno Co., Ltd. in July 2010), Kuraray Techno Co., Ltd., TECHNO SOFT CO., LTD., Kuraray America, Inc., Eval Company of America, (Merged with Kuraray America, Inc. in January 2008), Kuraray Europe GmbH, EVAL Europe N.V., Kuraray Specialities Europe GmbH (Merged with Kuraray Europe GmbH in September 2006)

	Stock options June 2008	Stock options June 2009	Stock options June 2010
Number of eligible persons by position	Directors of the Company: 10 Executive officers of the Company (excluding those who concurrently serve as directors of the Company and those working overseas): 16	Directors of the Company: 9 Executive officers of the Company (excluding those who concurrently serve as directors of the Company and those working overseas): 15	Directors of the Company: 9 Executive officers of the Company (excluding those who concurrently serve as directors of the Company and those working overseas): 16
Total number and type of stocks granted	78,500 shares of common stock	86,500 shares of common stock	83,500 shares of common stock
Grant date	June 10, 2008	June 9, 2009	June 9, 2010
Prerequisite to be vested	No vesting conditions are set.	No vesting conditions are set.	No vesting conditions are set.
Required service period	There is no provision for a required service period.	There is no provision for a required service period.	There is no provision for a required service period.
Exercise period	From June 11, 2008 to June 10, 2023; provided that, if the final date of the exercise period is a holiday for the Company, the final date should be the business date immediately preceding the date.	From June 10, 2009 to June 9, 2024; provided that, if the final date of the exercise period is a holiday for the Company, the final date should be the business date immediately preceding the date.	From June 10, 2010 to June 9, 2025; provided that, if the final date of the exercise period is a holiday for the Company, the final date should be the business date immediately preceding the date.

	Stock options October 2010	Stock options May 2011	Stock options May 2012
Number of eligible persons by position	Directors: 25 Employees: 3,924 Directors or employees of the Company's subsidiaries: 2,010	Directors of the Company: 10 Executive officers of the Company (excluding those who concurrently serve as directors of the Company and those working overseas): 14	Directors of the Company: 10 Executive officers of the Company (excluding those who concurrently serve as directors of the Company and those working overseas): 13
Total number and type of stocks granted	4,074,500 shares of common stock	89,500 shares of common stock	86,500 shares of common stock
Grant date	October 1, 2010	May 19, 2011	May 17, 2012
Prerequisite to be vested	Note	No vesting conditions are set.	No vesting conditions are set.
Required service period	From October 1, 2010 to June 24, 2012	There is no provision for a required service period.	There is no provision for a required service period.
Exercise period	From June 25, 2012 to June 24, 2020	From May 19, 2011 to May 18, 2026; provided that, if the final date of the exercise period is a holiday for the Company, the final date should be the business date immediately preceding the date.	From May 17, 2012 to May 16, 2027; provided that, if the final date of the exercise period is a holiday for the Company, the final date should be the business date immediately preceding the date.

Note: Eligible persons shall be directors, executive officers, counselors, full-time consultants or employees of the Company or the Companies' subsidiaries at the time of exercise. However, those who were directors, executive officers or associate executive officers of the Company or presidents of the significant subsidiaries of the Company (Kuraray Engineering Co., Ltd., Kuraray Chemical Co., Ltd., Kuraray Trading Co., Ltd., Kuraray Plastics Co., Ltd., Kuraray Techno Co., Ltd., Kuraray America, Inc., Kuraray Europe GmbH and EVAL Europe N.V.) can exercise even after retirement.

Other conditions are prescribed in the "Contracts on Subscription Rights to Shares" to be entered between the Company and eligible persons who were granted subscription rights to shares.

(2) Size and changes of stock options

Stock options that existed in current fiscal years were converted into shares.

1) Number of stock options

	Stock options 2002	Stock options 2003	Stock options June 2007	Stock options June 2008	Stock options June 2009
Unvested stock options (shares)					
At the beginning of the fiscal year	—	—	—	—	—
Granted	—	—	—	—	—
Forfeited	—	—	—	—	—
Vested	—	—	—	—	—
At the end of the fiscal year	—	—	—	—	—
Vested stock options (shares)					
At the beginning of the fiscal year	145,000	1,133,000	25,000	39,000	60,500
Vested	—	—	—	—	—
Exercised	90,000	191,000	6,000	12,000	18,000
Forfeited	55,000	27,000	—	—	—
At the end of the fiscal year	—	915,000	19,000	27,000	42,500

	Stock options June 2010	Stock options October 2010	Stock options May 2011	Stock options May 2012
Unvested stock options (shares)				
At the beginning of the fiscal year	—	3,556,000	—	—
Granted	—	—	—	86,500
Forfeited	—	—	—	—
Vested	—	3,556,000	—	86,500
At the end of the fiscal year	—	—	—	—
Vested stock options (shares)				
At the beginning of the fiscal year	57,500	371,000	86,000	—
Vested	—	3,556,000	—	86,500
Exercised	15,500	108,000	19,500	19,500
Forfeited	—	55,000	—	—
At the end of the fiscal year	42,000	3,764,000	66,500	67,000

2) Price information

	Yen				
	Stock options 2002	Stock options 2003	Stock options June 2007	Stock options June 2008	Stock options June 2009
Exercise prices	¥ 825	¥ 918	¥ 1	¥ 1	¥ 1
Weighted-average exercise date stock price	1,036	1,256	1,017	1,017	1,017
Fair value at the grant date	—	—	1,318	1,264	947

	Yen			
	Stock options June 2010	Stock options October 2010	Stock options May 2011	Stock options May 2012
Exercise prices	¥ 1	¥1,078	¥ 1	¥ 1
Weighted-average exercise date stock price	1,017	1,304	1,017	1,017
Fair value at the grant date	1,054	247	1,174	1,046

	U.S. dollars				
	Stock options 2002	Stock options 2003	Stock options June 2007	Stock options June 2008	Stock options June 2009
Exercise prices	$ 8.77	$ 9.76	$ 0.01	$ 0.01	$ 0.01
Weighted-average exercise date stock price	11.02	13.36	10.81	10.81	10.81
Fair value at the grant date	—	—	14.02	13.44	10.07

	U.S. dollars			
	Stock options June 2010	Stock options October 2010	Stock options May 2011	Stock options May 2012
Exercise prices	$ 0.01	$11.46	$ 0.01	$ 0.01
Weighted-average exercise date stock price	10.81	13.87	10.81	10.81
Fair value at the grant date	11.21	2.62	12.48	11.12

3. Method to estimate fair value of stock options

The fair value of the May 2012 stock options, which were granted in fiscal 2012, are estimated as follows.

1) Valuing method: Black-Scholes model

2) Major basic figures and estimating method

	May 2012 stock options
Stock price volatility (Note 1)	18.5%
Expected remaining life (Note 2)	1 year
Expected dividend (Note 3)	¥33.00/share (US$0.35)
Risk-free interest rate (Note 4)	0.10%

Notes: 1. Calculated weekly based on the weekly stock price information over a period from the week that contains May 19, 2011 to the week that contains May 7, 2012.
2. Calculated by subtracting the average period of service of directors and executive officers who are currently in office as of the day of grant from the past average period of service of directors and executive officers.
3. Based on the dividend paid for the fiscal year ended March 2012.
4. Government bond yield over a period corresponding to the expected remaining life.

4. Method to estimate number of vested stock options

Stock options May 2012

The number of vested stock options is the same as the number of stock options granted, since the stock options were vested on the day following the day of the grant.

15 Income Taxes

1. Significant components of deferred tax assets and liabilities at March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2012	Fiscal 2011	Fiscal 2012
Deferred tax assets:			
Provision for retirement benefits	¥ 5,251	¥ 5,088	$ 55,861
Impairment loss	1,633	2,246	17,372
Provision for bonuses	2,293	2,381	24,393
Write-down of investment securities	1,144	936	12,170
Write-down of inventories	369	273	3,925
Other	11,613	8,181	123,542
Subtotal deferred tax assets	22,305	19,107	237,287
Valuation allowance	(4,898)	(2,599)	(52,106)
Total deferred tax assets	17,406	16,508	185,170
Deferred tax liabilities:			
Prepaid pension cost	(1,896)	(2,078)	(20,170)
Reserve for reduction entry	(1,829)	(1,991)	(19,457)
Unrealized gain on revaluation of securities	(2,845)	(1,241)	(30,265)
Adjustment to book value of assets stated at fair value	(10,140)	(861)	(107,872)
Other	(7,160)	(4,616)	(76,170)
Total deferred tax liabilities	(23,873)	(10,789)	(253,968)
Net deferred tax assets (liabilities)	¥ (6,466)	¥ 5,718	$ (68,787)

Net deferred tax assets are included in the following items in the consolidated balance sheets:

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2012	Fiscal 2011	Fiscal 2012
Current assets:			
Deferred tax assets	¥ 5,732	¥ 5,560	$ 60,978
Noncurrent assets:			
Deferred tax assets	2,674	4,688	28,446
Noncurrent liabilities:			
Deferred tax liabilities	(14,872)	(4,531)	(158,212)

2. Reconciliation of the differences between the normal effective tax rate and the income tax rate in the accompanying consolidated statements of income at March 31, 2013 and 2012

	Fiscal 2012	Fiscal 2011
Normal effective tax rate	37.7%	40.4%
Non-taxable income	(0.9)	(0.8)
Tax credit primarily for research and development expenses	(2.4)	(1.8)
Decrease in deferred tax assets at fiscal year-end due to change in tax rate	—	1.2
Other	(0.9)	(2.1)
Income tax rate per statements of income	35.4%	36.9%

16 Business Combination

Fiscal 2012

(Transactions under common control)

1. Outline of business combination

The integration of Kuraray Noritake Dental Holdings Inc. (hereinafter "Holdings"), Kuraray Medical Inc. (hereinafter "Kuraray Medical") and Noritake Dental Supply Co., Ltd., (hereinafter "Noritake Dental") took place on April 1, 2012 in accordance with the basic agreement concluded on January 28, 2011 to integrate the dental materials businesses and the merger agreement concluded on January 31, 2012.

(1) Names of the companies involved in the merger and description of business

Name of company/Description of business

Holdings ....Business administration of subsidiaries and associated operations

Kuraray Medical...Development, manufacturing and sales of dental materials

Noritake Dental ...Development, manufacturing and sales of ceramics for crowns, dental plaster and CAD/CAM devices

(2) Date of business combination

April 1, 2012

(3) Legal form of business combination

Absorption-type merger with Kuraray Medical as the surviving company and Holdings and Noritake Dental as the absorbed companies

(4) Name of the company after the combination

Kuraray Noritake Dental Inc.

2. Summary of accounting method implemented

The absorption-type merger was treated as transactions under common control; all were eliminated completely as intra-company transactions. Therefore, the accounting treatment had no impact on the consolidated financial statements.

(Business combination through acquisition)

Kuraray Holdings U.S.A., Inc. (hereinafter "KHU"), a consolidated subsidiary of Kuraray, decided to purchase a U.S.-based polyvinyl alcohol ("poval") film manufacturing and sales company MonoSol Holdings, Inc. and its three wholly owned subsidiaries ("MonoSol"). KHU concluded a share purchase agreement with MonoSol Holdco, LLC, the parent company of MonoSol Holdings, Inc. on May 12, 2012, and acquired the shares under this contract on June 26, 2012. MonoSol is a leading company of poval films for various industrial applications such as packaging films for unit dose detergent products as well as agrochemicals and dyes, mold-release films for artificial marble and other applications.

The acquisition extends the Kuraray Group's global leadership in poval film beyond optical use including polarizing film, which is an indispensable component of liquid crystal displays, to a wider range of industrial applications. An additional objective of the acquisition is to accelerate the expansion and reinforcement of "Vinyl acetate and poval-related business" in global markets through the collaboration among business bases in Japan, U.S., Europe and Asia.

1. Name and business of acquired company, date of business combination, legal form of business combination, name of acquired company after business combination, percentage of voting rights acquired and reason for decision on the acquiring company.

(1) Name and business of acquired company

Name: MonoSol Holdings, Inc. and three wholly owned subsidiaries

Business: Manufacturing and sales of industrial-use poval film for applications including artificial packaged detergents, agricultural chemicals and dyes; and marble mold release sheets

(2) Date of business combination

June 26, 2012

(3) Legal form of business combination

Cash purchase of shares

(4) Name of acquired companies after business combination

MonoSol Holdings, Inc.

MonoSol, LLC

MonoSol AF, LTD.

AQUAFILM LIMITED

(5) Percentage of voting rights acquired

100%

(6) Reason for decision on the acquiring company

KHU proposed to acquire MonoSol's shares with cash.

2. Period of results of the acquired company included in the Consolidated Financial Statements

July 1, 2012 to December 31, 2012

3. Acquisition cost of the acquired company

Acquisition price: US$395,825,000

Acquisition cost: US$395,825,000

4. Amount of goodwill, reason for its recognition, amortization method and amortization period

(1) Amount of goodwill

US$170,515,000

(2) Reason for its recognition

The goodwill resulted from a reasonable estimate of future excess earnings.

(3) Amortization method and amortization period

The straight-line method over 20 years

5. The amounts and breakdown of acquired assets and assumed liabilities on the date of business combination

	Thousands of U.S. dollars
Current assets	$ 44,762
Noncurrent assets	372,939
Total assets	417,701
Current liabilities	18,672
Noncurrent liabilities	173,719
Total liabilities	192,391

6. The amounts and breakdown of allocated intangible fixed assets other than goodwill and weighted average amortization period by asset type

	Thousands of U.S. dollars	Amortization period (years)
Trademarks	$ 7,000	20
Customer relationships	194,000	20
Technology-related assets	60,000	20
Research and development in progress	25,000	20

7. Approximate amounts and their calculation method of impact on the consolidated statements of income for the fiscal year ended March 31, 2013, assuming that the business combinations were completed at the beginning of the fiscal year

(1) Approximate impact on the consolidated statements of income

	Thousands of U.S. dollars
Net sales	$56,360
Operating income	2,706

(2) Calculation method of the approximate amounts

The approximate amounts were calculated based on the consolidated financial statements of MonoSol Holdings, Inc. for the six months ended June 30, 2012.

This information has not been audited.

17 Asset Retirement Obligations

Asset retirement obligations recorded in the consolidated balance sheets are as follows:

Overview of asset retirement obligations

Some tangible fixed assets of the Company include assets containing asbestos, PCB and fluorocarbon which must be treated in the manner stipulated by the laws and ordinances when they are scrapped or removed.

Accordingly, asset retirement obligations are recognized based on the estimated disposal costs, excluding removal costs for aforementioned toxic substances incurred through the repair and maintenance activities in the normal service of the tangible fixed assets. The grounds laws and ordinances are as follows:

Disposal costs for asbestos	The Ordinance on Prevention of Asbestos Hazards
Disposal costs for equipment containing PCB	The Law concerning Special Measures for Promotion of Proper Treatment of PCB Wastes (PCB Special Measures Law)
Disposal costs for equipment containing fluorocarbon	Law concerning the Recovery and Destruction of Fluorocarbons (Fluorocarbons Recovery and Destruction Act)

Certain consolidated subsidiaries including overseas subsidiaries recognize asset retirement obligations for recovery obligations on rental agreements on plant sites and lease contracts.

Calculation method for the amount of asset retirement obligations

The Company

The Company recognizes asset retirement obligations for tangible fixed assets planned to be removed or assets, which have been removed, but not scrapped yet. Tangible fixed assets planned to be removed mainly consist of assets, which are in use on the reason that they are still usable although useful lives have elapsed and assets, which need immaterial time to remove. Since the payment terms for disposal of these assets are considered to have been matured, removal costs, which are reasonably estimated without discounting future cash flows are recorded as asset retirement obligations.

Consolidated subsidiaries

Consolidated subsidiaries determine the amounts of asset retirement obligations using discount rates ranging from 2.1% to 6.0% for the net cash flows, estimating the period of use to be 30 to 60 years after acquisition.

Increase or decrease of the total amount of asset retirement obligations during the fiscal year ended March 31, 2013 and 2012:

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2012	Fiscal 2011	Fiscal 2012
Beginning balance	¥2,224	¥2,222	$23,659
Increase due to decisions to remove	67	96	712
Adjustments due elapse	49	41	521
Decrease due to payment for the obligations	(127)	(90)	(1,351)
Other increase (decrease)	122	(45)	1,297
Ending balance	¥2,336	¥2,224	$24,851

18 Segment Information

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 develops business activities and establishes its own comprehensive strategy, both for Japan and for overseas markets, in accordance with 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 products as well as other companies' products. Consequently, Kuraray has created four reporting segments – "Resins," "Chemicals," "Fibers and Textiles" and "Trading" – categorized by product group based on the respective in-house companies and trading segments.

The Resins segment manufacturers and markets functional resins and film, including PVA, PVB and *EVAL*. The Chemicals segment produces and sells methacrylic resin, thermoplastic elastomer *SEPTON* and *KURARITY*, isoprene-related products, *GENESTAR*, and medical products. The Fibers and Textiles segment manufactures and sells synthetic fibers and textiles, man-made leather, non-woven fabrics and others. The Trading segment conducts processing and sales activities for synthetic fibers and man-made leather, and it conducts planning and marketing for the 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 operating segments is the same as that stated in "Note 1. Significant Accounting Policies" Profits from reporting segments are operating income, and inter-segment income and transfers are based on the prevailing market prices.

As per "Note 1. Significant Accounting Policies, 5. Accounting Policies, (Changes in accounting policies that are difficult to distinguish from changes in accounting estimates)" pursuant to the revision of the Corporation Tax Act, effective the fiscal year ended March 31, 2013, Kuraray and its consolidated subsidiaries in Japan adopted the method of calculating depreciation expenses set out in the revised Corporation Tax Act for tangible fixed assets acquired on and after April 1, 2012. Therefore, the method used for depreciation and amortization for each reporting segment is based on the method set out in the revised Corporation Tax Act.

The effect of this change on segment income is minor.

3. Information on sales, income and loss, assets, and other amounts by reporting segment

Fiscal 2012 (April 1, 2012 to March 31, 2013)

	Millions of yen								
	Reporting Segment								
	Resins	Chemicals	Fibers and Textiles	Trading	Total	Other Business	Total	Adjustment	Consolidated Financial Statements
Net sales									
(1) Outside customers	¥126,133	¥49,956	¥41,306	¥105,632	¥323,029	¥46,402	¥369,431	¥ —	¥369,431
(2) Inter-segment sales and transfers	29,030	29,029	15,886	3,127	77,073	18,040	95,113	(95,113)	—
Total	155,163	78,986	57,192	108,760	400,102	64,442	464,545	(95,113)	369,431
Segment income	48,882	6,373	1,193	3,358	59,808	4,001	63,810	(14,612)	49,197
Segment assets	232,447	83,801	53,888	36,237	406,375	53,368	459,743	127,441	587,184
Other items									
Depreciation and amortization (other than goodwill)	14,166	6,831	3,941	32	24,971	2,200	27,172	1,490	28,662
Impairment loss	4	—	202	—	207	326	534	—	534
Amortization of goodwill	2,191	98	—	—	2,290	—	2,290	—	2,290
Amortization of goodwill (extraordinary item)	451	—	—	—	451	—	451	—	451
Balance of goodwill at end of current period	23,373	1,286	—	—	24,659	—	24,659	—	24,659
Investments in equity method affiliates	—	—	105	—	105	—	105	—	105
Increase in tangible fixed assets and intangible fixed assets	25,957	8,211	5,565	40	39,775	3,890	43,665	1,854	45,519

	Thousands of U.S. dollars								
	Reporting Segment								
	Resins	Chemicals	Fibers and Textiles	Trading	Total	Other Business	Total	Adjustment	Consolidated Financial Statements
Net sales									
(1) Outside customers	$1,341,840	$531,446	$439,425	$1,123,744	$3,436,478	$493,638	$3,930,117	$ —	$3,930,117
(2) Inter-segment sales and transfers	308,829	308,819	169,000	33,265	819,925	191,914	1,011,840	(1,011,840)	—
Total	1,650,670	840,276	608,425	1,157,021	4,256,404	685,553	4,941,968	(1,011,840)	3,930,117
Segment income	520,021	67,797	12,691	35,723	636,255	42,563	678,829	(155,446)	523,372
Segment assets	2,472,840	891,500	573,276	385,500	4,323,138	567,744	4,890,882	1,355,755	6,246,638
Other items									
Depreciation and amortization (other than goodwill)	150,702	72,670	41,925	340	265,648	23,404	289,063	15,851	304,914
Impairment loss	42	—	2,148	—	2,202	3,468	5,680	—	5,680
Amortization of goodwill	23,308	1,042	—	—	24,361	—	24,361	—	24,361
Amortization of goodwill (Extraordinary item)	4,797	—	—	—	4,797	—	4,797	—	4,797
Balance of goodwill at end of current period	248,648	13,680	—	—	262,329	—	262,329	—	262,329
Investments in equity method affiliates	—	—	1,117	—	1,117	—	1,117	—	1,117
Increase in tangible fixed assets and intangible fixed assets	276,138	87,351	59,202	425	423,138	41,382	464,521	19,723	484,244

Notes: 1. The "Other Business" category incorporates operations not included in reporting segments, including activated carbon, water treatment related business and engineering.
2. Adjustment is as follows: Included within segment income (loss) of ¥14,612 million (US$155,446 thousand) is the elimination of inter-segment transactions of ¥520 million (US$5,531 thousand) and corporate expenses of ¥14,092 million (US$149,914 thousand). Corporate expenses mainly comprise headquarters' general and administrative expenses and the Company's basic research expenses.
3. The total amounts of segment income (loss) is adjusted to operating income described in the consolidated statements of income.
4. Adjustment is as follows: Included within segment assets of ¥127,441 million (US$1,355,755 thousand) is the elimination of Intersegment transactions of ¥33,141 million (US$352,563 thousand) and corporate assets of ¥160,582 million (US$1,708,319 thousand). Major corporate assets are surplus funds, long-term investment funds, assets related to basic research and corporate administrative divisions of the Company.

Fiscal 2011 (April 1, 2011 to March 31, 2012)

	Millions of yen								
	Reporting Segments								Consolidated Financial Statements[3]
	Resins	Chemicals	Fibers and Textiles	Trading	Total	Other Business[1]	Total	Adjustment[2, 4]	
Net sales									
(1) Outside customers	¥119,125	¥47,509	¥46,702	¥108,492	¥321,830	¥47,145	¥368,975	¥ —	¥368,975
(2) Inter-segment sales and transfers	29,754	27,363	16,691	3,725	77,534	19,216	96,751	(96,751)	—
Total	148,879	74,872	63,394	112,218	399,365	66,362	465,727	(96,751)	368,975
Segment income	49,904	9,066	1,103	3,527	63,601	5,657	69,259	(14,525)	54,733
Segment assets	159,031	86,394	54,796	36,082	336,305	49,678	385,983	137,263	523,247
Other items									
Depreciation and amortization (other than goodwill)	13,675	5,834	5,107	30	24,647	2,244	26,892	1,744	28,636
Impairment loss	—	233	2,063	—	2,296	66	2,363	109	2,473
Amortization of goodwill	2,001	98	—	—	2,100	—	2,100	—	2,100
Balance of goodwill at end of current period	10,153	1,384	—	—	11,538	—	11,538	—	11,538
Gain on negative goodwill	—	—	—	—	—	141	141	—	141
Investments in equity method affiliates	—	—	102	—	102	—	102	—	102
Increase in tangible fixed assets and intangible fixed assets	18,637	11,813	3,493	27	33,971	3,166	37,138	1,867	39,006

Notes: 1. The "Other Business" category incorporates operations not included in business segment reporting, including the activated carbon, water treatment related business and engineering business.
2. Adjustment is as follows: Included within segment income (loss) of ¥14,525 million is the elimination of intersegment transactions of ¥510 million and corporate expenses of ¥14,015 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. Adjustment is as follows: Included within segment assets of ¥137,263 million is the elimination of intersegment transactions of ¥31,279 million and unallocated corporate assets of ¥168,542 million. Major corporate assets are surplus funds, long-term investment funds, assets related to basic research and corporate administrative divisions of the Company.

(Related Information)

Fiscal 2012 (April 1, 2012 to March 31, 2013)

1. Information about products and services

	Millions of yen				
	Resins	Chemicals	Fibers and Textiles	Other Business	Total
Net sales to outside customers	¥154,355	¥78,402	¥80,789	¥55,884	¥369,431

	Thousands of U.S. dollars				
	Resins	Chemicals	Fibers and Textiles	Other Business	Total
Net sales to outside customers	$1,642,074	$834,063	$859,457	$594,510	$3,930,117

Notes: Principal products of each segment are as follows:
Resins: Poval resin and film, *EVAL* resin and others
Chemicals: *SEPTON* and *KURARITY* thermoplastic elastomer, isoprene chemicals, methacrylic resin, *GENESTAR* heat-resistant polyamide resin, medical products and others
Fibers and Textiles: *Vinylon*, *CLARINO* man-made leather, *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	North America	Europe	Asia	Other Area	Total
¥186,014	¥27,412	¥62,981	¥83,090	¥9,932	¥369,431

Thousands of U.S. dollars					
Japan	North America	Europe	Asia	Other Area	Total
$1,978,872	$291,617	$670,010	$883,936	$105,659	$3,930,117

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

(2) Tangible fixed assets

Millions of yen				Thousands of U.S. dollars			
Japan	North America	Other Overseas	Total	Japan	North America	Other Overseas	Total
¥129,218	¥29,287	¥22,767	¥181,274	$1,374,659	$311,563	$242,202	$1,928,446

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 2011 (April 1, 2011 to March 31, 2012)

1. Information about products and services

	Millions of yen				
	Resins	Chemicals	Fibers and Textiles	Other Business	Total
Net sales to outside customers..	¥148,971	¥74,501	¥88,837	¥56,665	¥368,975

Notes: Principal products of each segment are as follows:
Resins: Poval resin and film, *EVAL* resin and others
Chemicals: *SEPTON* and *KURARITY* thermoplastic elastomer, isoprene chemicals, methacrylic resin, *GENESTAR* heat-resistant polyamide resin, medical products and others
Fibers and Textiles: *Vinylon, CLARINO* man-made leather, *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	North America	Europe	Asia	Other Area	Total
¥190,940	¥23,787	¥64,145	¥80,699	¥9,403	¥368,975

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

(2) Tangible fixed assets

Millions of yen			
Japan	North America	Other Overseas	Total
¥117,580	¥16,409	¥18,886	¥152,877

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.

Information about impairment loss of fixed assets by reporting segment

Fiscal 2012: This information is omitted since similar information is disclosed in the segment information.

Fiscal 2011: This information is omitted since similar information is disclosed in the segment information.

Information about amortization of goodwill and unamortized balance of goodwill by reporting segment

Fiscal 2012: This information is omitted since similar information is disclosed in the segment information.

Fiscal 2011: This information is omitted since similar information is disclosed in the segment information.

Information about gain on negative goodwill

Fiscal 2012: No gain on negative goodwill to report.

Fiscal 2011: This information is omitted since similar information is disclosed in the segment information.

19 Related Party Disclosures

Fiscal 2012: Not applicable
Fiscal 2011: Not applicable

20 Per Share Information

	Yen		U.S. dollars
	Fiscal 2012	Fiscal 2011	Fiscal 2012
Net assets per share	¥1,132.07	¥1,033.48	$12.04
Basic net income per share	82.62	90.35	0.87
Diluted net income per share	82.52	90.21	0.87

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

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2012	Fiscal 2011	Fiscal 2012
Basic net income per share			
Net income	¥28,798	¥31,469	$306,361
Net income unallocated to common stock	—	—	—
Net income allocated to common stock	28,798	31,469	306,361
Average number of common stock outstanding during the fiscal year (thousand shares)	348,552	348,304	
Diluted net income per share			
Adjustment made on net income	—	—	—
Increase of common stocks (thousand shares)	419	551	
(New subscription rights to shares (thousand shares))	(419)	(551)	
Outline of the residual securities which were not included in the calculation of the diluted net income per share because there was no dilutive effect.	—	—	—

21 Supplementary Schedule

Bond schedule

(Millions of yen)

Company name	Issue	Date of issue	Balance at beginning of period	Balance at end of period	Yield	Security	Date of redemption
Kuraray	No. 4 Unsecured bonds	December 9, 2011	¥10,000 (US$106,382 thousand)	¥10,000 (US$106,382 thousand)	1.24%	None	December 9, 2021
	Total	—	¥10,000 (US$106,382 thousand)	¥10,000 (US$106,382 thousand)	—	—	—

Note: There are no corporate bonds to be redeemed within 5 years of the consolidated fiscal year-end.

Supplementary schedule of loans payable

(Millions of yen)

Category	Balance as of March 31, 2012	Balance as of March 31, 2011	Average interest rate (%)	Due date
Short-term loans	¥11,552	¥ 6,910 (US$73,510 thousand)	0.4	—
Current portion of long-term loans due within one year	2,229	¥24,008 (US$255,404 thousand)	1.4	—
Current portion of long-term lease due within one year (Note 2)	368	¥366 (US$3,893 thousand)	—	—
Long-term loans (Excluding current portion) (Note 3)	41,981	¥28,171 (US$299,691 thousand)	1.4	From April 2014 to March 2023
Lease liabilities (Excluding current portion) (Notes 2, 3)	1,893	¥ 1,863 (US$19,819 thousand)	—	From April 2014 to Nov. 2026
Total	¥58,023	¥61,320 (US$652,340 thousand)	—	—

Notes: 1. The average interest rate is calculated based on the interest rate and the ending balance.
2. The average interest rate on lease liabilities is not reported, since interest payment equivalents included in total lease payments are allocated to each consolidated fiscal year using the straight-line method.
3. Repayments of long-term loans and lease liabilities (excluding those due within one year) within 5 years after the consolidated balance sheet date are as follows:

(Millions of yen)

Category	Due after 1 year but within 2 years	Due after 2 years but within 3 years	Due after 3 years but within 4 years	Due after 4 years but within 5 years
Long-term loans	¥5,984	¥ 67	¥ 43	¥ 40
Lease liabilities	314	260	190	130

(Thousands of U.S. dollars)

Category	Due after 1 year but within 2 years	Due after 2 years but within 3 years	Due after 3 years but within 4 years	Due after 4 years but within 5 years
Long-term loans	$63,659	$ 712	$ 457	$ 425
Lease liabilities	3,340	2,765	2,021	1,382

Supplementary schedule of asset retirement obligations

The schedule of asset retirement obligations is omitted since the amount of asset retirement obligations is not more than one-hundredth of total liabilities and net assets as of March 31, 2012.

Other

Quarterly information in Fiscal 2012

(Millions of yen)

Accumulated	First quarter From April 1 to June 30, 2012	Second quarter From July 1 to September 30, 2012	Third quarter From October 1 to December 31, 2012	Fiscal 2012
Net sales	¥88,523	180,888	272,044	369,431
Income (loss) before income taxes	9,696	20,340	33,753	44,901
Net income (loss)	5,822	12,745	21,400	28,798
Net income (loss) per share (Yen)	16.71	36.57	61.40	82.62

Quarterly	First quarter From April 1 to June 30, 2012	Second quarter From July 1 to September 30, 2012	Third quarter From October 1 to December 31, 2012	Fourth quarter From January 1 to March 31, 2013
Net income (loss) per share (Yen)	¥16.71	¥19.86	¥24.83	¥21.22

(Thousands of U.S. dollars)

Accumulated	First quarter From April 1 to June 30, 2012	Second quarter From July 1 to September 30, 2012	Third quarter From October 1 to December 31, 2012	Fiscal 2012
Net sales	$941,734	$1,924,340	$2,894,085	$3,930,117
Income (loss) before income taxes	103,148	216,382	359,074	477,670
Net income (loss)	61,936	135,585	227,659	306,361
Net income (loss) per share (U.S. dollars)	0.17	0.38	0.65	0.87

Quarterly	First quarter From April 1 to June 30, 2012	Second quarter From July 1 to September 30, 2012	Third quarter From October 1 to December 31, 2012	Fourth quarter From January 1 to March 31, 2013
Net income (loss) per share (U.S. dollars)	$0.17	$0.21	$0.26	$0.22

22 Subsequent Events

(Change in Segment Classification)
The reporting segments for the fiscal year ended March 31, 2013 were "Resins," "Chemicals," "Fibers and Textiles," and "Trading." However, for the fiscal year ending March 31, 2014, the reporting segments were regrouped into "Vinyl Acetate," "Isoprene," "High-Performance Materials," "Fibers and Textiles," and "Trading."

Kuraray decided to regroup its organization to implement the management strategies under the medium-term management plan GS-III with the goals of accelerating global strategies for core businesses, creating and expanding new business and improving the competitiveness of both existing businesses and products by strengthening production technologies.

Net sales and segment income for each regrouped reporting segment for the fiscal year ended March 31, 2013 is as below:

Fiscal year 2012 (April 1, 2012 to March 31, 2013)

	Millions of yen									
	Reporting Segment									
	Vinyl Acetate	Isoprene	High-Performance Materials	Fibers and Textiles	Trading	Total	Other Business	Total	Adjustment	Consolidated Financial Statements
Net sales										
Net sales to outside customers	¥126,133	¥27,826	¥27,642	¥35,794	¥105,632	¥323,029	¥46,402	¥369,431	¥ —	¥369,431
Intersegment sales and transfers	29,030	16,991	17,502	10,422	3,127	77,073	18,040	95,113	(95,113)	—
Total	155,163	44,817	45,144	46,216	108,760	400,102	64,442	464,545	(95,113)	369,431
Segment income	48,877	3,870	1,929	1,772	3,358	59,808	4,001	63,810	(14,612)	49,197

	Thousands of U.S. dollars									
	Reporting Segment									
	Vinyl Acetate	Isoprene	High-Performance Materials	Fibers and Textiles	Trading	Total	Other Business	Total	Adjustment	Consolidated Financial Statements
Net sales										
Net sales to outside customers	$1,341,840	$296,021	$294,063	$380,787	$1,123,744	$3,436,478	$493,638	$3,930,117	$ —	$3,930,117
Intersegment sales and transfers	308,829	180,755	186,191	110,872	33,265	819,925	191,914	1,011,840	(1,011,840)	—
Total	1,650,670	476,776	480,255	491,659	1,157,021	4,256,404	685,553	4,941,968	(1,011,840)	3,930,117
Segment income	519,968	41,170	20,521	18,851	35,723	636,255	42,563	678,829	(155,446)	523,372

(Grant of subscription rights to shares)
At the meetings of the Board of Directors held on April 25 and May 14, 2013, the Company resolved to grant directors and executive officers of the Company subscription rights to shares as a stock option in accordance with Article 238, paragraphs 1 and 2 and Article 240, paragraph 1 of the Companies Act.

Independent Auditor's Report

pwc

To the Board of Directors of
Kuraray Co., Ltd.

We have audited the accompanying consolidated financial statements of Kuraray Co., Ltd. ("the Company") and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2013, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in net assets and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the purpose of the financial statements audit is not to express an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as at March 31, 2013, and their financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2013 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

July 31, 2013

PricewaterhouseCoopers Aarata

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Main Group Companies

(As of March 31, 2013)

Company	Head office	Capital (¥ million)	Activities
JAPAN			
KURARAY TRADING Co., LTD.	Osaka	¥ 2,200	Import, export, manufacture, and sales of textile products, chemicals, etc.
KURARAY CHEMICAL CO., LTD.	Osaka	600	Manufacture and sales of activated carbon and related products
KURARAY ENGINEERING CO., LTD.	Osaka	150	Plant design and construction
Kuraray Noritake Dental Inc.	Tokyo	300	Manufacture and sales of medical products
Kuraray Plastics Co., Ltd.	Osaka	180	Manufacture and sales of plastics
KURARAYLIVING CO., LTD.	Osaka	101	Manufacture and sales of packaging materials
Kuraray Techno Co., Ltd.	Osaka	100	Production subcontracting, Temporary personnel service
KURARAYKURAFLEX CO., LTD.	Osaka	100	Manufacture and sales of nonwoven fabric products
KURARAY FASTENING CO., LTD.	Osaka	100	Manufacture and sales of *MAGIC TAPE*
OVERSEAS			
Kuraray America, Inc.	Texas, U.S.A.	US$10.1 million	Import and sales of Kuraray products in the U.S., Manufacture and sales of *EVAL* resins and *SEPTON*
MonoSol, LLC	Indiana, U.S.A.	US$59.0 million	Manufacture and sales of PVA film
Kuraray South America Ltda.	Saõ Paulo, Brazil	R$4.3 million	Market development and sales promotion of Kuraray Group products in South America
Kuraray Europe GmbH	Frankfurt, Germany	€31.1 million	Import and sales of Kuraray products in Europe, Manufacture and sales of poval and butyral resins and PVB film
EVAL Europe N.V.	Antwerp, Belgium	€29.7 million	Manufacture and sales of *EVAL* resins in Europe
Kuraray China Co., Ltd.	Shanghai, China	US$3.0 million	Business expansion, market entry planning and other supplemental activities
Kuraray (Shanghai) Co., Ltd.	Shanghai, China	US$5.0 million	Import and sales of Kuraray products in China
Kuraray Hong Kong Co., Ltd.	Hong Kong, China	HK$4.6 million	Processing and sales of Kuraray products in China and Southeast Asia
Kuraray Asia Pacific Pte. Ltd.	Singapore	US$27.7 million	Manufacture and sales of poval resins
Kuraray India Private Limited	Delhi, India	Rupees72.0 million	Import and sales of Kuraray products in India and market development
Kuraray (Thailand) Co., Ltd.	Bangkok, Thailand	THB 8.0 million	Sales and market development of Kuraray products in Thailand

Note: Kuraray Co., Ltd. has 30 affiliated companies in Japan and 32 overseas.

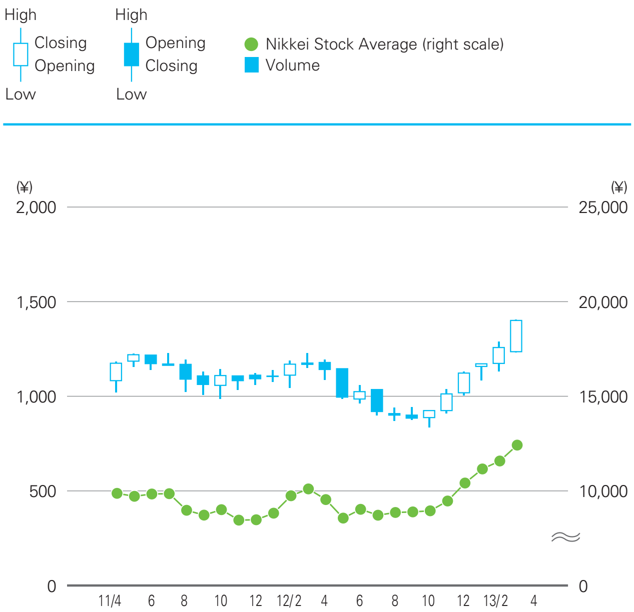
Investor Information

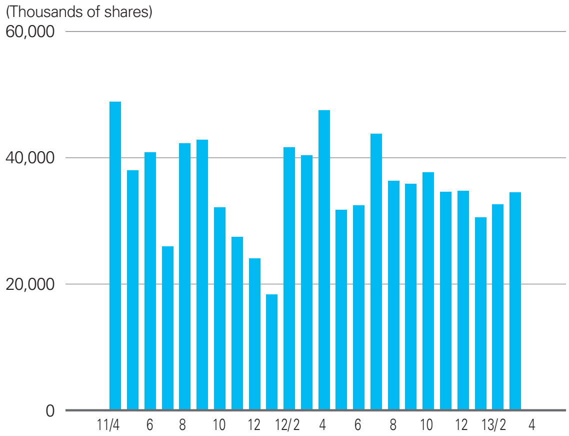
KURARAY CO., LTD.

Established:	June 24, 1926
Capital:	¥88,955 million
Shares Authorized:	1,000,000,000 shares
Issued:	382,863,603 shares
Number of Shareholders:	35,780
Head Offices:	Tokyo, Osaka

Share Price Movement

Share prices according to the market price on the Tokyo Stock Exchange (left scale)





Shareholder Register Agent for Common Stock

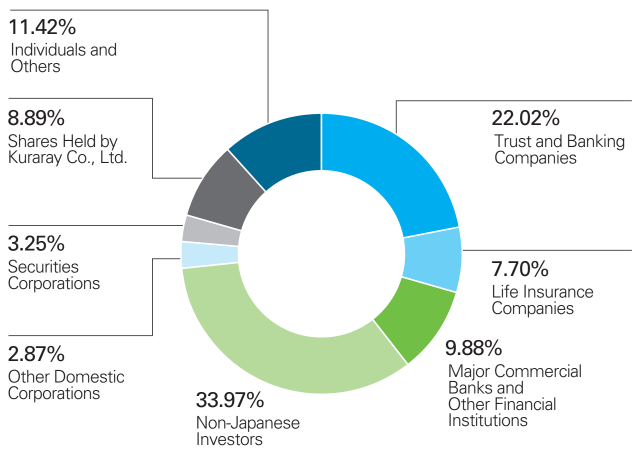
Sumitomo Mitsui Trust Bank, Limited
Stock Transfer Agency Business Planning Department
1-4-1, Marunouchi, Chiyoda-ku, Tokyo 100-8223, Japan

Principal Shareholders

Name or Company Name	Number of Shares Held (thousands)	Percentage of Shares Held
The Master Trust Bank of Japan, Ltd. -Trust Account-	26,100	6.82%
Japan Trustee Services Bank, Ltd. -Trust Account-	21,559	5.63%
Nippon Life Insurance Company	13,061	3.41%
National Mutual Insurance Federation of Agricultural Cooperatives	11,002	2.87%
SSBT OD05 OMNIBUS ACCOUNT -TREATY CLIENTS-	7,000	1.83%
NORTHERN TRUST CO. (AVFC) SUB A/C AMERICAN CLIENTS	6,919	1.81%
Meiji Yasuda Life Insurance Company	5,969	1.56%
MELLON BANK, N.A. AS AGENT FOR ITS CLIENT MELLON OMNIBUS US PENSION	5,890	1.54%
MELLON BANK TREATY CLIENTS OMNIBUS	5,815	1.52%
Taiyo Life Insurance Company	5,782	1.51%

Note: Although the Company owns 34,029,727 shares of treasury stock, it is excluded from the major shareholders listed above.

Breakdown of Issued Shares by Type of Shareholder



(As of March 31, 2013)

KURARAY CO., LTD.

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