



Kuraray Report 2021 **Financial Section**

For the year ended December 31, 2020

Business Environment

In the fiscal year ended December 31, 2020 (“fiscal 2020”), the global economy rapidly declined due to the worldwide spread of COVID-19 at the beginning of the year as the prolonged trade war between the United States and China and emerging geopolitical risks around the globe caused global trade to shrink.

Amid this environment, to support industrial supply chains, the Group maintained business activities after ensuring safety and taking thorough measures to prevent the spread of infection.

The Group’s long-term vision, Kuraray Vision 2026, is to become a “Specialty Chemical Company, growing sustainably by incorporating new foundational platforms into its own technologies.” With the aim of realizing this vision, we will steadily take specific measures in line with the key management strategies underlined in the medium-term management plan “PROUD 2020.” Through these efforts, we will also continue working to establish a new business portfolio from a medium- to long-term perspective.

In fiscal 2020, demand for products used for electric, electronic, and food packaging applications remained steady even during the pandemic.

However, demand for products for automotive and construction applications plunged, and, despite gradually recovering from the second half of the fiscal year, demand for the full year was much lower than in the previous year. Consequently, consolidated operating results for fiscal 2020 are as follows: net sales decreased ¥34,009 million, or 5.9%, compared with the previous fiscal year to ¥541,797 million; operating income fell ¥9,831 million, or 18.1%, to ¥44,341 million; ordinary income decreased ¥8,530 million, or 17.7%, to ¥39,740 million; and net income attributable to owners of the parent totaled ¥2,570 million (compared with net loss attributable to owners of the parent of ¥1,956 million in the previous fiscal year).

In fiscal 2020, Kuraray recognized a loss on litigation of ¥23,196 million which has been classified as an extraordinary loss mainly in connection with a fire in May 2018 at a group subsidiary in the United States.

Sales

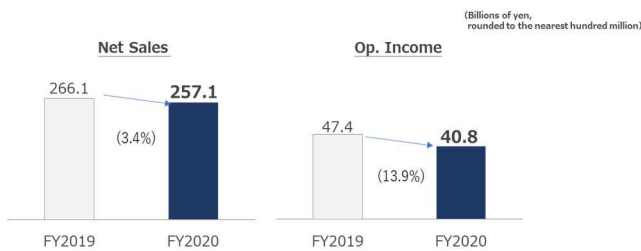
	(Billions of yen, rounded to the nearest hundred million)		
	Fiscal 2020	Fiscal 2019	Change
Net Sales	¥541.8	¥575.8	-34.0
Operating Income	44.3	54.2	-9.9
Ordinary Income	39.7	48.3	-8.6
Net Income Attributable to Owners of the Parent	2.6	(2.0)	+4.6

Results by Business Segment

	(Billions of yen, rounded to the nearest hundred million)			
	Net Sales		Operating Income	
	Fiscal 2020	Fiscal 2019	Fiscal 2020	Fiscal 2019
Vinyl Acetate	¥257.1	¥266.1	¥ 40.8	¥47.4
Isoprene	50.4	53.3	3.8	4.2
Functional Materials	125.0	126.0	3.0	3.8
Fibers and Textiles	54.4	64.5	2.2	5.7
Trading	124.4	130.9	3.6	4.2
Other Business	41.7	51.1	0.2	0.6
Elimination & Corporate	(111.2)	(116.1)	(9.2)	(11.8)
Total	¥ 541.8	¥575.8	¥ 44.3	¥54.2

Vinyl Acetate

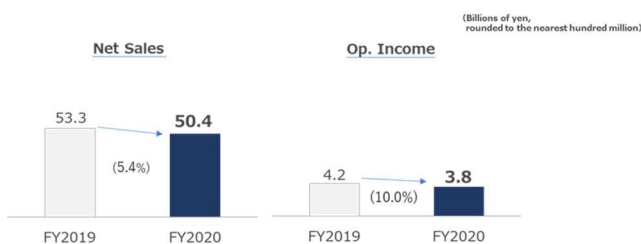
Sales in this segment decreased 3.4% year on year to ¥257,114 million, and segment income fell 13.9% year on year to ¥40,779 million.



- (1) Sales of PVA resin remained weak due to stagnant global demand and a subsequent production adjustment. Due to a recovery in demand, especially for large displays, the sales volume of optical-use poval film increased. Demand for PVB film gradually recovered from the third quarter onward despite the effects of stagnant demand for construction and automotive applications. However, sales of water-soluble PVA film expanded for use in unit dose detergent packets.
- (2) The sales volume of EVAL™ ethylene vinyl alcohol copolymer (EVOH resin) increased for food packaging applications due to at-home consumption but gas tank applications remained weak.

Isoprene

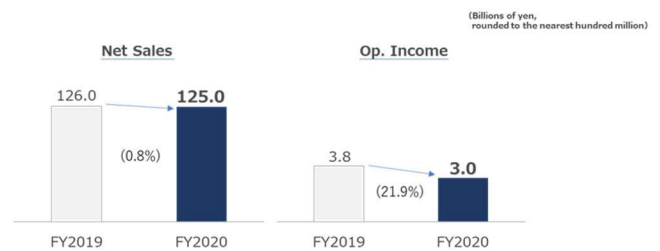
Sales in this segment decreased 5.4% year on year to ¥50,390 million, and segment income fell 10.0% year on year to ¥3,808 million.



- (1) Sales of isoprene chemicals and SEPTON™ thermoplastic elastomer began to recover from the fourth quarter despite being affected by stagnant demand, mainly in China and the rest of Asia.
- (2) Sales of GENESTAR™ heat-resistant polyamide resin remained brisk for electric and electronic device applications.

Functional Materials

Sales in this segment decreased 0.8% year on year to ¥124,980 million, and segment income fell 21.9% year on year to ¥2,994 million.



- (1) The overall methacrylate business was affected by rising raw material costs and worsening market conditions despite an increase in sales of spatter-blocking barrier panels and displays.
- (2) In the medical business, the dental materials business struggled mainly in Europe and the United States in the first half of the year due to clinic closings caused by the pandemic and sales decreased.
- (3) As for Calgon Carbon and the Carbon Materials business, sales were steady, especially of products for water treatment applications, even during the pandemic as such products underpin people's daily lives. Furthermore, in line with expanding demand for high-performance activated carbon, we decided to expand facilities at Calgon Carbon Corporation's existing U.S. factory in the second quarter. In addition, with expanding demand for industrial applications, we decided in the third quarter to expand the facilities for reactivated carbon at our Belgian subsidiary.

Fibers and Textiles

Sales in this segment fell 15.7% year on year to ¥54,408 million while segment income decreased 61.9% year on year to ¥2,155 million.



- (1) The sales volume of CLARINO™ man-made leather decreased due to receding demand, especially for shoe applications in Asia and luxury good applications in Europe.
- (2) In fibers and industrial materials, the sales volume of KURALON™ decreased for cement reinforcement and rubber materials.
- (3) In consumer goods and materials, the sales volume of KURAFLEX™ decreased as sales for automotive and cosmetic applications stagnated despite an increase in sales volume for mask-related applications.

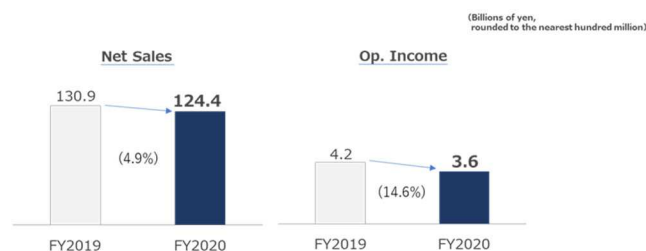
Trading

In fiber-related businesses, despite firm sales for sports clothing, sales remained weak for materials and products for other applications due to a polyester fiber production adjustment as well as stagnant demand.

Outlook for the Fiscal Year Ending December 31, 2021

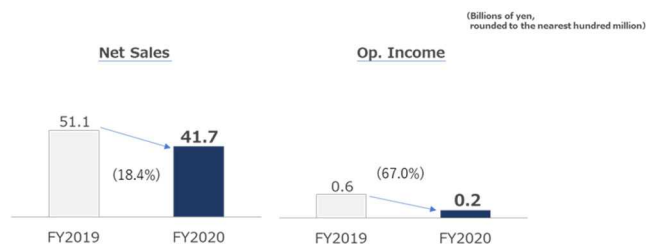
In the next year, the global economy is expected to gradually head toward recovery as countries around the world grapple with stopping the spread of COVID-19 and maintaining economic activity. Although the recovery situation is expected to differ for each region and industry, a full recovery is forecast for the second half of the fiscal year onward. At the same time, it is difficult to predict the impact of a shift in U.S. government policies under the newly elected president on trade with China and the actual

However, demand for resins and chemicals recovered in China in the second half of the fiscal year and performance was on par with the previous year. As a result, segment sales decreased 4.9% year on year to ¥124,438 million, and segment income fell 14.6% to ¥3,606 million.



Other Business

In other business, due to weak sales of domestic affiliates, segment sales declined 18.4% year on year to ¥41,707 million, and segment income fell 67.0% to ¥214 million.



economy. Accordingly, the uncertain outlook is expected to continue into the next fiscal year as well. Based on these circumstances, the forecast of operating results for fiscal 2021 is as shown below.

Furthermore, although we recorded an extraordinary loss in fiscal 2020 related to the litigation over the fire at the U.S. subsidiary, the litigation is still ongoing.

Financial Review

Kuraray Co., Ltd. and its consolidated subsidiaries / Year ended December 31, 2020

	(Billions of yen, rounded to the nearest hundred million)		
	Fiscal 2020	Forecast for Fiscal 2021	Change
Net Sales	¥541.8	¥570.0	+5.2%
Operating Income	44.3	55.0	+24.0%
Ordinary Income	39.7	50.0	+25.8%
Net Income Attributable to Owners of the Parent	2.6	30.0	+1,067.0%

For the forecast of operating results for fiscal 2021, we assume average exchange rates of ¥105 to the U.S. dollar and ¥125 to the euro, as well as a domestic naphtha price of ¥35,000 per kiloliter.

[Reference] Forecast of Results by Segment for Fiscal 2021

	(Billions of yen, rounded to the nearest hundred million)			
	Net Sales		Operating Income	
	Fiscal 2020	Forecast for Fiscal 2021	Fiscal 2020	Forecast for Fiscal 2021
Vinyl Acetate	¥257.1	¥270.0	¥40.8	¥48.0
Isoprene	50.4	55.0	3.8	5.0
Functional Materials	125.0	130.0	3.0	5.0
Fibers and Textiles	54.4	57.0	2.2	3.0
Trading	124.4	130.0	3.6	4.0
Other Business	41.7	43.0	0.2	0.5
Elimination & Corporate	(111.2)	(115.0)	(9.2)	(10.5)
Total	¥541.8	¥570.0	¥44.3	¥55.0

Consolidated Balance Sheet

Kuraray Co., Ltd. and its consolidated subsidiaries / Year ended December 31, 2020

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2020 (December 31, 2020)	Fiscal 2019 (December 31, 2019)	Fiscal 2020 (December 31, 2020)
ASSETS			
I Current assets:			
1 Cash and deposits	¥184,319	¥72,014	\$1,780,860
2 Notes and accounts receivable—trade*8	117,172	121,166	1,132,097
3 Short-term investment securities	7,924	33,341	76,560
4 Merchandise and finished goods.....	86,555	101,628	836,280
5 Work-in-process.....	14,105	15,679	136,280
6 Raw materials and supplies	31,968	34,696	308,870
7 Other.....	19,596	16,661	189,333
8 Allowance for doubtful accounts	(439)	(455)	(4,242)
Total current assets.....	461,202	394,732	4,456,058
II Noncurrent assets:			
1 Tangible fixed assets:			
(1) Buildings and structures, net*2 and 7	84,604	79,629	817,430
(2) Machinery, equipment and vehicles, net*2	200,152	205,974	1,933,836
(3) Land*2 and 7	22,204	22,062	214,531
(4) Construction in progress	97,451	82,071	941,556
(5) Other, net*2	24,978	25,055	241,333
Total tangible fixed assets*1	429,391	414,793	4,148,705
2 Intangible fixed assets:			
(1) Goodwill.....	51,105	61,357	493,768
(2) Customer-related assets	28,800	33,062	278,261
(3) Other.....	31,143	35,514	300,899
Total intangible fixed assets	111,049	129,934	1,072,937
3 Investments and other assets:			
(1) Investment securities*3	25,477	28,770	246,155
(2) Long-term loans receivable	140	189	1,353
(3) Net defined benefit assets	2,097	1,977	20,261
(4) Deferred tax assets.....	14,652	13,506	141,565
(5) Other.....	7,597	7,272	73,401
(6) Allowance for doubtful accounts	(24)	(28)	(232)
Total investments and other assets	49,941	51,688	482,522
Total noncurrent assets	590,382	596,416	5,704,174
TOTAL ASSETS.....	¥ 1,051,584	¥991,149	\$10,160,232

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

Consolidated Balance Sheet

Kuraray Co., Ltd. and its consolidated subsidiaries / Year ended December 31, 2020

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2020 (December 31, 2020)	Fiscal 2019 (December 31, 2019)	Fiscal 2020 (December 31, 2020)
LIABILITIES			
I Current liabilities:			
1 Notes and accounts payable—trade ^{*8}	¥36,161	¥39,883	\$349,382
2 Short-term loans payable ^{*7}	34,509	34,864	333,420
3 Commercial paper.....	20,000	24,000	193,237
4 Current portion of bonds payable.....	20,000	—	193,237
5 Accrued expenses.....	17,956	50,491	173,488
6 Income taxes payable.....	6,621	4,307	63,971
7 Provision for bonuses.....	6,745	6,578	65,169
8 Other provisions.....	202	226	1,952
9 Other ^{*8}	52,856	41,317	510,686
Total current liabilities	195,053	201,670	1,884,570
II Noncurrent liabilities:			
1 Bonds payable.....	60,000	50,000	579,710
2 Long-term loans payable.....	206,881	128,001	1,998,850
3 Deferred tax liabilities.....	11,218	13,743	108,386
4 Provision for directors' retirement benefits.....	375	347	3,623
5 Provision for environmental measures.....	3,364	3,692	32,502
6 Net defined benefit liabilities.....	25,449	22,203	245,884
7 Asset retirement obligations.....	4,383	4,671	42,348
8 Other.....	29,376	28,273	283,826
Total noncurrent liabilities	341,050	250,933	3,295,169
TOTAL LIABILITIES	536,103	452,604	5,179,739
NET ASSETS			
I Shareholders' equity:			
1 Capital stock.....	88,955	88,955	859,469
2 Capital surplus.....	87,178	87,197	842,300
3 Retained earnings.....	336,050	348,289	3,246,860
4 Treasury stock.....	(16,006)	(16,286)	(154,647)
Total shareholders' equity	496,177	508,156	4,793,981
II Accumulated other comprehensive income:			
1 Valuation difference on available-for-sale securities.....	6,847	7,922	66,155
2 Deferred gains or losses on hedges.....	(376)	(263)	(3,633)
3 Foreign currency translation adjustment.....	1,470	14,575	14,203
4 Remeasurements of defined benefit plans.....	(5,321)	(5,238)	(51,411)
Total accumulated other comprehensive income	2,620	16,995	25,314
III Subscription rights to shares	328	663	3,169
IV Noncontrolling interests	16,354	12,729	158,010
TOTAL NET ASSETS	515,481	538,545	4,980,493
TOTAL LIABILITIES AND NET ASSETS	¥1,051,584	¥991,149	\$10,160,232

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

Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

Kuraray Co., Ltd. and its consolidated subsidiaries / Year ended December 31, 2020

Consolidated Statement of Income

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2020 (January 1, 2020 to December 31, 2020)	Fiscal 2019 (January 1, 2019 to December 31, 2019)	Fiscal 2020 (January 1, 2020 to December 31, 2020)
I Net sales	¥541,797	¥575,807	\$5,234,754
II Cost of sales ^{*2}	376,386	395,125	3,636,580
Gross profit	165,411	180,682	1,598,174
III Selling, general and administrative expenses:			
1 Selling expenses	31,464	33,658	304,000
2 General and administrative expenses ^{*2}	89,604	92,850	865,739
Total selling, general and administrative expenses ^{*1}	121,069	126,508	1,169,749
Operating income	44,341	54,173	428,415
IV Non-operating income:			
1 Interest income	208	346	2,010
2 Dividend income	568	660	5,488
3 Equity in earnings of affiliates.....	257	361	2,483
4 Other.....	1,516	1,551	14,647
Total non-operating income	2,550	2,919	24,638
V Non-operating expenses:			
1 Interest expenses.....	1,442	1,398	13,932
2 Foreign exchange losses	514	2,090	4,966
3 Loss on disposal of tangible fixed assets	997	1,012	9,633
4 Other.....	4,198	4,320	40,560
Total non-operating expenses	7,152	8,822	69,101
Ordinary income	39,740	48,271	383,961
VI Extraordinary income:			
1 Insurance income ^{*3}	1,642	11,374	15,865
2 Gain on sale of investment securities.....	937	1,723	9,053
3 Gain on reversal of share acquisition rights.....	285	—	2,754
4 Reversal of provision for environmental measures.....	—	1,009	—
Total extraordinary income	2,866	14,107	27,691
VII Extraordinary loss:			
1 Loss on litigation ^{*5}	23,196	50,590	224,116
2 Loss on liquidation of businesses ^{*6}	5,189	—	50,135
3 Costs related to the suspension of operations ^{*7}	4,460	722	43,092
4 Loss on disposal of tangible fixed assets ^{*8}	632	1,397	6,106
5 Impairment loss ^{*4}	—	3,668	—
6 Loss on liquidation of subsidiaries and associates ^{*9}	—	1,242	—
7 Loss on disaster ^{*10}	—	1,003	—
8 Loss on valuation of investment securities	—	860	—
Total extraordinary loss	33,479	59,484	323,469
Income before income taxes	9,127	2,893	88,184
Income taxes—current.....	8,367	15,054	80,841
Income taxes—deferred.....	(2,551)	(11,243)	(24,647)
Total income taxes	5,815	3,810	56,184
Net income (loss)	3,311	(916)	31,990
Net income attributable to noncontrolling interests	740	1,039	7,150
Net income (loss) attributable to owners of the parent	¥2,570	¥(1,956)	\$24,831

Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

Kuraray Co., Ltd. and its consolidated subsidiaries / Year ended December 31, 2020

Consolidated Statement of Comprehensive Income	Millions of yen		Thousands of U.S. dollars
	Fiscal 2020 (January 1, 2020 to December 31, 2020)	Fiscal 2019 (January 1, 2019 to December 31, 2019)	Fiscal 2020 (January 1, 2020 to December 31, 2020)
I Net income (loss)	¥3,311	¥(916)	\$31,990
II Other comprehensive income:			
1 Valuation difference on available-for-sale securities	(1,075)	100	(10,386)
2 Deferred gains or losses on hedges	(269)	(445)	(2,599)
3 Foreign currency translation adjustment	(13,314)	(5,661)	(128,638)
4 Remeasurements of defined benefit plans	(82)	(1,213)	(792)
Total other comprehensive income ^{*1}	(14,741)	(7,220)	(142,425)
III Comprehensive income	(11,430)	(8,137)	(110,435)
Comprehensive income attributable to			
1 Owners of the parent	(11,804)	(9,142)	(114,048)
2 Noncontrolling interests	374	1,004	3,614

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

Consolidated Statement of Changes in Net Assets

Kuraray Co., Ltd. and its consolidated subsidiaries / Year ended December 31, 2020

Fiscal 2020 (January 1, 2020 to December 31, 2020)	Millions of yen				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at January 1, 2020	¥88,955	¥87,197	¥348,289	¥(16,286)	¥508,156
Changes of items during the period					
Cash dividends.....			(14,784)		(14,784)
Net income attributable to owners of the parent.....			2,570		2,570
Changes resulting from additions to consolidation.....			(24)		(24)
Purchase of treasury stock.....				(2)	(2)
Disposal of treasury stock.....		(19)		281	262
Other.....		(0)			(0)
Net changes of items other than shareholders' equity.....					—
Total changes of items during the period	—	(19)	(12,238)	279	(11,978)
Balance at December 31, 2020	¥88,955	¥87,178	¥336,050	¥(16,006)	¥496,177

Fiscal 2020 (January 1, 2020 to December 31, 2020)	Millions of yen							
	Accumulated other comprehensive income					Subscription rights to shares	Noncontrolling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at January 1, 2020	¥7,922	¥(263)	¥14,575	¥(5,238)	¥16,995	¥663	¥12,729	¥538,545
Changes of items during the period								
Cash dividends.....					—			(14,784)
Net income attributable to owners of the parent.....					—			2,570
Changes resulting from additions to consolidation.....					—			(24)
Purchase of treasury stock.....					—			(2)
Disposal of treasury stock.....					—			262
Other.....					—			(0)
Net changes of items other than shareholders' equity.....	(1,075)	(112)	(13,104)	(82)	(14,375)	(335)	3,624	(11,085)
Total changes of items during the period	(1,075)	(112)	(13,104)	(82)	(14,375)	(335)	3,624	(23,064)
Balance at December 31, 2020 ..	¥6,847	¥(376)	¥1,470	¥(5,321)	¥2,620	¥328	¥16,354	¥515,481

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

Consolidated Statement of Changes in Net Assets

Kuraray Co., Ltd. and its consolidated subsidiaries / Year ended December 31, 2020

Fiscal 2020 (January 1, 2020 to December 31, 2020)	Thousands of U.S. dollars				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at January 1, 2020	\$859,469	\$842,483	\$3,365,111	\$(157,353)	\$4,909,720
Changes of items during the period					
Cash dividends.....			(142,841)		(142,841)
Net income attributable to owners of the parent			24,831		24,831
Changes resulting from additions to consolidation			(232)		(232)
Purchase of treasury stock				(19)	(19)
Disposal of treasury stock		(184)		2,715	2,531
Other		(0)			(0)
Net changes of items other than shareholders' equity					—
Total changes of items during the period	—	(184)	(118,242)	2,696	(115,729)
Balance at December 31, 2020	\$859,469	\$842,300	\$3,246,860	\$(154,647)	\$4,793,981

Fiscal 2020 (January 1, 2020 to December 31, 2020)	Thousands of U.S. dollars							
	Accumulated other comprehensive income							
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Subscription rights to shares	Noncontrolling interests	Total net assets
Balance at January 1, 2020	\$76,541	\$(2,541)	\$140,821	\$(50,609)	\$164,203	\$6,406	\$122,986	\$5,203,333
Changes of items during the period								
Cash dividends.....					—			(142,841)
Net income attributable to owners of the parent.....					—			24,831
Changes resulting from additions to consolidation								(232)
Purchase of treasury stock					—			(19)
Disposal of treasury stock					—			2,531
Other					—			(0)
Net changes of items other than shareholders' equity	(10,386)	(1,082)	(126,609)	(792)	(138,889)	(3,237)	35,014	(107,101)
Total changes of items during the period	(10,386)	(1,082)	(126,609)	(792)	(138,889)	(3,237)	35,014	(222,841)
Balance at December 31, 2020	\$66,155	\$(3,633)	\$14,203	\$(51,411)	\$25,314	\$3,169	\$158,010	\$4,980,493

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

Consolidated Statement of Changes in Net Assets

Kuraray Co., Ltd. and its consolidated subsidiaries / Year ended December 31, 2020

Fiscal 2019 (January 1, 2019 to December 31, 2019)	Millions of yen				
	Shareholders' equity				Total shareholders' equity
	Capital stock	Capital surplus	Retained earnings	Treasury stock	
Balance at January 1, 2019	¥88,955	¥87,207	¥364,841	¥(9,746)	¥531,257
Changes of items during the period					
Cash dividends.....			(14,595)		(14,595)
Net loss attributable to owners of the parent.....			(1,956)		(1,956)
Purchase of treasury stock.....				(6,617)	(6,617)
Disposal of treasury stock.....		(9)		78	68
Other.....		(0)			(0)
Net changes of items other than shareholders' equity.....					—
Total changes of items during the period	—	(9)	(16,551)	(6,539)	(23,101)
Balance at December 31, 2019	¥88,955	¥87,197	¥348,289	¥(16,286)	¥508,156

Fiscal 2019 (January 1, 2019 to December 31, 2019)	Millions of yen							
	Accumulated other comprehensive income					Total accumulated other comprehensive income	Subscription rights to shares	Noncontrolling interests
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans				
Balance at January 1, 2019	¥ 7,822	¥1	¥20,382	¥(4,025)	¥ 24,181	¥ 587	¥ 11,007	¥ 567,033
Changes of items during the period								
Cash dividends.....					—			(14,595)
Net loss attributable to owners of the parent.....					—			(1,956)
Purchase of treasury stock.....					—			(6,617)
Disposal of treasury stock.....					—			68
Other.....					—			(0)
Net changes of items other than shareholders' equity.....	99	(265)	(5,806)	(1,213)	(7,185)	76	1,722	(5,386)
Total changes of items during the period	99	(265)	(5,806)	(1,213)	(7,185)	76	1,722	(28,488)
Balance at December 31, 2019 ..	¥ 7,922	¥(263)	¥14,575	¥(5,238)	¥ 16,995	¥ 663	¥ 12,729	¥ 538,545

The accompanying notes are an integral part of the financial information

Consolidated Statement of Cash Flows

Kuraray Co., Ltd. and its consolidated subsidiaries / Year ended December 31, 2020

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2020 (January 1, 2020 to December 31, 2020)	Fiscal 2019 (January 1, 2019 to December 31, 2019)	Fiscal 2020 (January 1, 2020 to December 31, 2020)
I Net cash provided by (used in) operating activities:			
1 Income before income taxes.....	¥9,127	¥2,893	\$88,184
2 Depreciation and amortization	62,459	58,158	603,469
3 Increase (decrease) in allowance for doubtful accounts	(3)	22	(29)
4 Loss (gain) on sale of investment securities	(937)	(1,723)	(9,053)
5 Loss on litigation.....	23,196	50,590	224,116
6 Loss on liquidation of businesses	5,189	—	50,135
7 Impairment loss.....	—	3,668	—
8 Loss on disposal of tangible fixed assets.....	632	1,397	6,106
9 Loss (gain) on valuation of investment securities.....	—	860	—
10 Foreign exchange losses (gains).....	463	513	4,473
11 Interest and dividends income.....	(777)	(1,006)	(7,507)
12 Interest expenses	1,442	1,398	13,932
13 Decrease (increase) in notes and accounts receivable—trade.....	2,637	5,724	25,478
14 Decrease (increase) in inventories.....	16,731	(781)	161,652
15 Increase (decrease) in notes and accounts payable—trade	(3,224)	(5,182)	(31,150)
16 Increase (decrease) in provision for bonuses.....	274	(76)	2,647
17 Increase (decrease) in net defined benefit liabilities.....	2,524	2,201	24,386
18 Decrease (increase) in net defined benefit assets.....	(383)	(524)	(3,700)
19 Other, net.....	8,244	8,183	79,652
Subtotal.....	127,596	126,318	1,232,812
20 Interest and dividends income received	921	1,158	8,899
21 Interest expenses paid	(1,402)	(1,396)	(13,546)
22 Income taxes (paid) refund	(9,624)	(19,308)	(92,986)
23 Payments for loss on litigation.....	(37,543)	(11,195)	(362,734)
Net cash provided by (used in) operating activities.....	79,947	95,577	772,435
II Net cash provided by (used in) investment activities:			
1 Net decrease (increase) in time deposits.....	4,624	(4,984)	44,676
2 Net decrease (increase) in short-term investment securities	14,625	4,176	141,304
3 Purchase of investment securities.....	(95)	(956)	(918)
4 Proceeds from sales and redemption of investment securities.....	2,760	2,658	26,667
5 Purchase of tangible fixed assets and intangible fixed assets	(83,490)	(87,105)	(806,667)
6 Payments for disposal of tangible fixed assets and intangible fixed assets.....	(1,425)	(1,838)	(13,768)
7 Proceeds from sales of tangible fixed assets and intangible fixed assets	69	587	667
8 Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	—	(134)	—
9 Other, net	(1,095)	(1,773)	(10,580)
Net cash provided by (used in) investment activities.....	(64,025)	(89,369)	(618,599)

Consolidated Statement of Cash Flows

Kuraray Co., Ltd. and its consolidated subsidiaries / Year ended December 31, 2020

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2020 (January 1, 2020 to December 31, 2020)	Fiscal 2019 (January 1, 2019 to December 31, 2019)	Fiscal 2020 (January 1, 2020 to December 31, 2020)
III Net cash provided by (used in) financing activities:			
1 Net increase (decrease) in short-term loans payable	(351)	490	(3,391)
2 Net increase (decrease) in commercial paper	(4,000)	24,000	(38,647)
3 Proceeds from long-term loans payable	79,274	7,744	765,932
4 Repayment of long-term loans payable	(34)	(12,050)	(329)
5 Proceeds from issuance of bonds	30,000	—	289,855
6 Purchase of treasury stock	(2)	(6,617)	(19)
7 Proceeds from sales of treasury stock	105	55	1,014
8 Cash dividends paid	(14,784)	(14,595)	(142,841)
9 Proceeds from stock issuance to noncontrolling interests	3,559	1,017	34,386
10 Cash dividends paid to noncontrolling interests	(308)	(300)	(2,976)
11 Other, net	(1,949)	(1,260)	(18,831)
Net cash provided by (used in) financing activities	91,508	(1,517)	884,135
IV Effect of exchange rate changes on cash and cash equivalents	(1,541)	(70)	(14,889)
V Net increase (decrease) in cash and cash equivalents	105,888	4,620	1,023,072
VI Cash and cash equivalents, beginning of year	75,967	71,345	733,981
VII Increase in cash and cash equivalents from newly consolidated subsidiaries ...	228	1	2,203
VIII Cash and cash equivalents, end of year*1	¥182,084	¥75,967	\$1,759,266

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 the 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 the United States dollars, they have been rounded 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 ¥103.5 = \$1, the approximate exchange rate prevailing on December 31, 2020. 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 the United States dollars at this or any other rate.

2. Scope of consolidation

(1) Number of consolidated subsidiaries

	Fiscal 2020	Fiscal 2019
Number of consolidated subsidiaries	78	77

(Major consolidated subsidiaries)

KURARAY TRADING Co., LTD., Kuraray Plastics Co., Ltd., KURARAY ENGINEERING CO., LTD., Kuraray Techno Co., Ltd., KURARAYKURAFLEX CO., LTD., KURARAY AQUA 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., Kuraray Noritake Dental Inc., Kuraray Okayama Spinning Co., Ltd., OKAYAMA RINKOH CO., LTD., Kuraray Holdings U.S.A., Inc., Kuraray America, Inc., MonoSol Holdings, Inc., MonoSol, LLC, Calgon Carbon Corporation, Kuraray Europe GmbH, EVAL Europe N.V., OOO TROSIFOL, Kuraray Asia Pacific Pte. Ltd., Kuraray Hong Kong Co., Ltd., Kuraray (Shanghai) Co., Ltd., Kuraray China Co., Ltd., Kuraray Methacrylate (Zhang Jia Gang) Co., Ltd., Kuraray Korea Ltd., Plantic Technologies Limited, Kuraray Specialities (Thailand) Co., Ltd., Kuraray Advanced Chemicals (Thailand) Co., Ltd., Kuraray SC (Thailand) Co., Ltd., Kuraray GC Advanced Materials Co., Ltd. and 43 other consolidated subsidiaries.

In the fiscal year ended December 31, 2020 (fiscal 2020), MonoSol Poland Sp.z o.o. was added to the scope of consolidation due to its increased materiality.

(2) Names of major unconsolidated subsidiaries

(Major unconsolidated subsidiaries)

Kuraray South America Ltda.

Kuraray India Private Limited

(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 subsidiaries have no material effect on the consolidated financial statements.

3. Scope of application of equity method affiliates and subsidiaries

(1) Number of affiliates accounted for using the equity method

	Fiscal 2020	Fiscal 2019
Number of affiliates accounted for using the equity method	2	2

(Name of major affiliates, etc.)

Hexin Kuraray Micro Fiber Leather (Jiaxing) Co., Ltd. and the other

(2) Unconsolidated subsidiaries and affiliates (Kuraray South America Ltda. and Cenapro Chemical Corporation) 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 closing date of the consolidated subsidiaries is the same as the consolidated closing date.

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 determined by the first-in, first-

out method or net realizable value.

Supplies are principally stated at the lower of cost determined by the moving-average method or net realizable value.

(2) Depreciation method of significant depreciable assets

a) Tangible fixed assets (excluding lease assets and right-of-use assets)

Depreciation is primarily computed using the straight-line method.

The estimated useful lives of assets are primarily as follows:

- Buildings and structures..... 16 to 50 years
- Machinery, equipment and vehicles..... 4 to 10 years

b) Intangible assets (excluding lease assets and right-of-use assets)

Amortization is primarily computed using the straight-line method.

The numbers of years for amortization are primarily as follows:

- Goodwill..... 15 to 20 years
- Customer-related assets..... 9 to 20 years

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

c) Lease assets

Amortization is primarily computed using the straight-line method that adopts the lease terms as the useful lives with the residual value being zero.

d) Right-of-use assets

Depreciation is primarily computed using the straight-line method based on the shorter of the useful lives of assets and lease terms.

Some overseas affiliates prepare their financial statements based on International Financial Reporting Standards, and they apply IFRS 16 "Leases." As a result, in principle, all leases for a borrower are recognized as assets and liabilities on consolidated balance sheets.

(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 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.

d) Provision for environmental measures

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

(4) Accounting treatment of retirement benefit plan

a) Method for attributing estimated retirement benefits to individual periods of service

In calculating benefit obligation, the benefit formula basis was used to attribute estimated retirement benefits to periods up to December 31, 2020.

b) Calculation of net actuarial gain or loss and prior service cost

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.

c) Use of simplified method among small companies

Certain consolidated subsidiaries calculate retirement benefit liabilities and expenses using the simplified method that assumes their benefit obligation is equal to the benefits payable if all employees voluntarily retired at fiscal year-end.

(5) 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, which include forward foreign exchange contracts associated with planned transactions denominated in foreign currencies and commodity swaps associated with raw materials. However, deferral hedge accounting is applied to some forward foreign exchange contracts, and 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	Foreign currency-denominated loans Future transactions in foreign currency
Interest rate swap contracts	Interest expenses
Commodity swap contracts	Raw materials

c) Hedging policy

The Company and its consolidated subsidiaries use financial instruments to hedge interest rate fluctuation, exchange fluctuation risks and price 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 associated with planned transactions denominated in foreign currencies, interest rate swaps and commodity swaps associated with raw materials.

Subsequent measurement of hedge effectiveness is not

considered necessary for forward foreign exchange contracts that meet the requirements for deferral hedge accounting and interest rate swaps that meet the requirements for special accounting because the Company identifies and confirms the material conditions at the time of transaction.

(6) 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.

(7) Cash and cash equivalents

Cash and cash equivalents include 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.

(8) 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

The Company and its domestic subsidiaries and affiliates

- “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020)

- “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, March 31, 2020)

(1) Outline

These are comprehensive accounting standards for revenue recognition. Revenue is recognized by applying the following five steps:

Step 1: Identify the contract with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

(2) Expected Application Date

Scheduled to be introduced from the beginning of the fiscal year ending December 31, 2022.

(3) Effect of Applying the Accounting Standard

The impact is being evaluated at the time of preparation of these consolidated financial statements.

- “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019)

- “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, July 4, 2019)

- “Accounting Standard for Measurement of Inventories” (ASBJ Statement No. 9, July 4, 2019)

- “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019)

- “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19, March 31, 2020)

(1) Outline

In order to improve the comparability between the international accounting standards and Japanese accounting standards, ASBJ has developed the “Accounting Standard for Fair Value Measurement” and the “Implementation Guidance on Accounting Standard for Fair Value Measurement” (hereinafter “Fair Value Measurement Accounting Standard, etc.”), and has prescribed the guidance, etc. on the method of fair value measurement. The Fair Value Measurement Accounting Standard, etc. is applied to the fair values of the following items:

- Financial instruments in the “Accounting Standard for Financial Instruments”

- Inventories held for trading purposes in the “Accounting Standard for Measurement of Inventories”

In addition, “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” was revised to prescribe items including notes regarding the breakdown by level of fair values of financial instruments.

(2) Expected Application Date

Scheduled to be introduced from the beginning of the fiscal year ending December 31, 2022.

(3) Effect of Applying the Accounting Standard

The impact is being evaluated at the time of preparation of these consolidated financial statements.

Notes to Consolidated Financial Statements

Kuraray Co., Ltd. and its Consolidated Subsidiaries / Year ended December 31, 2020

“Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections” (ASBJ Statement No. 24, March 31, 2020)

(1) Outline

The purpose of this accounting standard is to clarify the principles of the accounting treatment and the overview of the procedures adopted, in cases where the provisions of relevant accounting standards, etc. are unclear.

(2) Expected Application Date

Scheduled to be introduced from the end of the fiscal year ending December 31, 2021.

“Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No. 31, March 31, 2020)

(1) Outline

The purpose of this accounting standard is to disclose information that will facilitate understanding of users of financial statements, regarding items of accounting estimates recorded in the financial

statements for the current fiscal year that have the risk of significantly impacting the financial statements for the following fiscal year.

(2) Expected Application Date

Scheduled to be introduced from the end of the fiscal year ending December 31, 2021.

Overseas subsidiaries and affiliates

Newly established or amended major accounting standards that were announced before December 31, 2020 and not applied, are as follows.

The impact on the consolidated financial statements from the application of these accounting standards, etc. is being evaluated at the time of preparation of these consolidated financial statements.

Name of accounting standard	Outline	Expected application date
“Leases” (FASB ASU 2016-02)	Revised accounting treatments of lease accounting	To be applied from the end of the fiscal year ending December 31, 2022

3 Changes in Presentation

Changes in Statement of Cash Flows

From fiscal 2020, “Insurance income” and “Proceeds from insurance income,” which were separately presented under “Net cash provided by (used in) operating activities” in the previous fiscal year, are included in “Other, net” due to a decrease in their materiality. The financial statements for the previous fiscal year have been restated to reflect this change in presentation method.

As a result, ¥(11,374) million (US\$(109,894) thousand) presented as “Insurance income” and ¥11,374 million (US\$109,894 thousand) presented as “Proceeds from insurance income,” respectively, under “Net cash provided by (used in) operating activities” in the Consolidated Statement of Cash Flows for the previous fiscal year, were reclassified as “Other, net.”

4 Changes of Accounting Estimates

Loss on litigation

Regarding the fire that occurred in May 2018 at the Company's U.S. subsidiary, in the previous fiscal year Kuraray recorded an estimate of part of the damages sought through litigation brought against several companies, including said U.S. subsidiary. However, due to subsequent progress made in the litigation and settlement negotiations, we were able

to make a more rational estimate of the loss. We therefore revised our estimate, and the difference between the original and new estimates is listed under extraordinary loss.

As a result, fiscal 2020 income before income taxes decreased ¥5,212 million (US\$50,357 thousand).

5 Notes to Consolidated Balance Sheet

*1. Accumulated depreciation of tangible fixed assets

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2020	Fiscal 2019	Fiscal 2020
Accumulated depreciation of tangible fixed assets	¥843,543	¥794,669	\$8,150,174

*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 2020	Fiscal 2019	Fiscal 2020
Buildings and structures	¥2,614	¥2,384	\$25,256
(Deduction for this fiscal year)	(255)	(—)	(2,464)
Machinery, equipment and vehicles.....	1,750	1,666	16,908
(Deduction for this fiscal year)	(92)	(—)	(889)
Land.....	1,257	1,257	12,145
Other.....	22	22	213

*3. Investments in unconsolidated subsidiaries and affiliates

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2020	Fiscal 2019	Fiscal 2020
Investment securities (equity)	¥5,550	¥5,913	\$53,623

*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 2020	Fiscal 2019	Fiscal 2020
Social welfare corporation Ishii Kinen Aizenen.....	¥526	¥657	\$5,082
Kurashiki Kaihatsu K.K.....	20	50	193
Total	¥546	¥707	\$5,275

*5. Additional payment under share purchase agreement

The share purchase agreement with Gordon Merchant No.2 Pty Ltd. under which the Company acquired Plantic Technologies Limited and subsidiaries in April 2015 includes an earn-out provision, whereby, based on specified performance targets, up to an additional \$86.7 million may be required to be paid.

Notes to Consolidated Financial Statements

Kuraray Co., Ltd. and its Consolidated Subsidiaries / Year ended December 31, 2020

*6. Claim for damages in relation to manufacturing and sales of activated carbon

In connection with the violations of the Antimonopoly Act in the manufacture and sale of certain activated carbon, several companies including the Company and its subsidiaries have received claims for payment for damages jointly and severally from several local governments. It is difficult at the present time to reasonably estimate the amount for which the Group is liable.

*7. Assets pledged as collateral and secured liabilities

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2020	Fiscal 2019	Fiscal 2020
Buildings	¥1,354	¥1,446	\$13,082
Land.....	1,001	1,001	9,671
Total	¥2,355	¥2,448	\$22,754

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2020	Fiscal 2019	Fiscal 2020
Collateral for short-term loans	¥170	¥170	\$1,643

*8. 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 2020	Fiscal 2019	Fiscal 2020
Notes and accounts receivable—trade	¥5,215	¥5,763	\$50,386
Notes and accounts payable—trade	2,972	3,421	28,715
Other (Current liabilities)	444	1,998	4,290

6 Notes to Consolidated Statement 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 2020	Fiscal 2019	Fiscal 2020
Freight and storage	¥21,899	¥23,960	\$211,585
Research and development	19,311	19,729	186,580
Salaries and legal welfare expense	26,934	26,283	260,232
Provision for bonuses	7,111	6,673	68,705
Retirement benefit expenses	1,805	1,476	17,440
Provision for directors' retirement benefits	2	3	19

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

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2020	Fiscal 2019	Fiscal 2020
	¥20,603	¥21,170	\$199,063

*3. Insurance income

The insurance income is mainly the insurance received for the loss on litigation.

*4. Impairment loss

Fiscal 2020

Not applicable.

Fiscal 2019

Location	Assets	Usage	Type	Impairment loss
				Millions of yen
U.S.A.	Business assets	Synthetic resin-related assets	Other intangible fixed assets, etc.	¥3,356

(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 assessed as shared assets.

(Method for calculating the recoverable amount)

After separately examining the indications for impairment with respect to those businesses whose income from operations continues to be negative or assets that become subject to restructuring of production systems, for businesses, etc., whose 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 is calculated by discounting expected future cash flows at a rate of 3%.

*5. Loss on litigation

The loss on litigation is mainly the settlement relating to the fire accident that occurred in May 2018 at the Company's subsidiary in the United States.

*6. Loss on liquidation of businesses

The partial withdrawal from the business of the Company's U.S. subsidiary caused loss on liquidation of business, which comprises ¥267 million (US\$2,580 thousand) of loss on valuation of inventories, ¥4,475 million (US\$43,237 thousand) of impairment loss, etc.

The impairment loss consists primarily of ¥3,684 million (US\$35,594 thousand) of an impairment loss on goodwill associated with the said U.S. subsidiary. The impaired assets are recognized as assets held for sale and the book value has been reduced to the fair value in accordance with US GAAP.

*7. Costs related to the suspension of operations

The costs related to the suspension of operations are mainly the amounts equivalent to fixed costs during the period of the suspension of production.

*8. Loss on disposal of tangible fixed assets

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

*9. Loss on liquidation of subsidiaries and associates

Losses incurred in conjunction with the transfer of shares of the Company's subsidiary in China.

*10. Loss on disaster

Disaster losses were due mainly to the fire accident in the United States.

7 Notes to Consolidated Statement of Comprehensive Income

Reclassification adjustments and tax effect adjustments relating to other comprehensive income (loss) for the fiscal years ended December 31, 2020 and December 31, 2019, are as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2020	Fiscal 2019	Fiscal 2020
Valuation difference on available-for-sale securities			
Amount recorded during the period.....	¥(2,149)	¥(1,036)	\$(20,763)
Reclassification adjustments	890	1,186	8,599
Before tax effect adjustments.....	(1,259)	149	(12,164)
Tax effect.....	183	(48)	1,768
Valuation difference on available-for-sale securities	(1,075)	100	(10,386)
Deferred gains or losses on hedges			
Amount recorded during the period.....	26	(421)	251
Reclassification adjustments.....	(13)	(21)	(126)
Adjustments to cost of assets acquired	(287)	—	(2,773)
Before tax effect adjustments.....	(274)	(443)	(2,647)
Tax effect.....	5	(1)	48
Deferred gains or losses on hedges	(269)	(445)	(2,599)
Foreign currency translation adjustment			
Amount recorded during the period.....	(13,314)	(5,606)	(128,638)
Reclassification adjustments.....	—	(54)	—
Before tax effect adjustments.....	(13,314)	(5,661)	(128,638)
Tax effect.....	—	—	—
Foreign currency translation adjustment	(13,314)	(5,661)	(128,638)
Remeasurements of defined benefit plans			
Amount recorded during the period.....	(1,123)	(2,108)	(10,850)
Reclassification adjustments.....	745	738	7,198
Before tax effect adjustments	(377)	(1,369)	(3,643)
Tax effect	294	156	2,841
Remeasurements of defined benefit plans	(82)	(1,213)	(792)
Total other comprehensive income	¥(14,741)	¥(7,220)	\$(142,425)

8 Notes to Consolidated Statement of Changes in Net Assets

Fiscal 2020

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

	Number of shares as of December 31, 2019 (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 December 31, 2020 (Thousands of shares)
Number of outstanding shares				
Common stock	354,863	—	—	354,863
Total	354,863	—	—	354,863
Number of outstanding shares				
Common stock ^(Notes 1, 2)	11,130	2	192	10,940
Total	11,130	2	192	10,940

Notes: 1. The increase in treasury stock (common stock) is attributable to the purchase of less-than-one unit shares (2 thousand shares).

2. The decrease in treasury stock (common stock) is attributable to a transfer of shares upon the exercise of subscription rights (192 thousand shares) and the sale of less-than-one unit shares by the shareholders (0 thousand shares).

2. Subscription rights to shares

The Company granted its directors and executive officers subscription rights to the Company shares as stock options. The balance of the subscription rights to shares as of December 31, 2020 is ¥328 million (US\$3,169 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 March 26, 2020	Common stock	¥7,562 (US\$73,063 thousand)	¥22.00 (US\$0.21)	December 31, 2019	March 27, 2020
Board of directors' meeting held on August 12, 2020	Common stock	¥7,222 (US\$69,778 thousand)	¥21.00 (US\$0.20)	June 30, 2020	September 1, 2020

(2) Dividends whose effective date is after the end of Fiscal 2020 and record date is included in Fiscal 2020.

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 March 25, 2021	Common stock	¥6,534 (US\$63,130 thousand)	Retained earnings	¥19.00 (US\$0.18)	December 31, 2020	March 26, 2021

Fiscal 2019

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

	Number of shares as of December 31, 2018 (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 December 31, 2019 (Thousands of shares)
Number of outstanding shares				
Common stock	354,863	—	—	354,863
Total	354,863	—	—	354,863
Number of outstanding shares				
Common stock ^(Notes 1, 2)	6,179	5,002	51	11,130
Total	6,179	5,002	51	11,130

Notes: 1. The increase in treasury stock (common stock) is attributable to the acquisition of treasury stock by resolution of the Board of Directors (5,000 thousand shares) and the purchase of less-than-one unit shares (2 thousand shares).

2. The decrease in treasury stock (common stock) is attributable to a transfer of shares upon the exercise of subscription rights (51 thousand shares) and the sale of less-than-one unit shares by the shareholders (0 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 December 31, 2019 is ¥663 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 March 27, 2019	Common stock	¥7,671	¥22.00	December 31, 2018	March 28, 2019
Board of directors' meeting held on August 8, 2019	Common stock	¥6,924	¥20.00	June 30, 2019	September 2, 2019

(2) Dividends whose effective date is after the end of Fiscal 2019 and record date is included in Fiscal 2019.

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 March 26, 2020	Common stock	¥7,562	Retained earnings	¥22.00	December 31, 2019	March 27, 2020

9 Notes to Consolidated Statement of Cash Flows

*1. Cash and cash equivalents at December 31, 2020 and December 31, 2019 are reconciled to the accounts reported in the consolidated balance sheet as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2020	Fiscal 2019	Fiscal 2020
Cash on hand and in banks	¥184,319	¥72,014	\$1,780,860
Time deposits with a deposit period of 3 months or more.....	(4,160)	(8,784)	(40,193)
Marketable securities with original maturities of 3 months or less.....	1,924	12,737	18,589
Total	¥182,084	¥75,967	\$1,759,266

10 Leases

1. Finance lease transactions

(1) Lease transactions as a lessee

Finance leases without transfer of ownership

1) Details of lease assets

· 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”).

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”

Notes to Consolidated Financial Statements

Kuraray Co., Ltd. and its Consolidated Subsidiaries / Year ended December 31, 2020

(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 December 31, 2020 and December 31, 2019 are as follows:

December 31, 2020

	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net book value
Buildings and structures	¥197	¥115	¥82

	Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net book value
Buildings and structures	\$1,903	\$1,111	\$792

December 31, 2019

	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net book value
Buildings and structures	¥197	¥112	¥85

2) Future lease payment obligations at December 31, 2020 and December 31, 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2020	Fiscal 2019	Fiscal 2020
Due within one year	¥11	¥13	\$106
Due after one year	3	15	29
Total	¥15	¥29	\$145

Note: As the proportion of total balance of future lease payment obligations and estimated residual value of leased property to the balance of notes and accounts receivables—trade at the balance sheet date is immaterial, interest income is included in the amount of future lease payment obligations.

3) Lease revenue and depreciation expense for the years ended December 31, 2020 and December 31, 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2020	Fiscal 2019	Fiscal 2020
Lease revenue	¥11	¥13	\$106
Depreciation expense	3	3	29

2. Operating leases

Lease transactions as a lessee:

Future lease payment obligations under operating leases at December 31, 2020 and December 31, 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2020	Fiscal 2019	Fiscal 2020
Due within one year	¥1,692	¥2,348	\$16,348
Due after one year	4,320	8,344	41,739
Total	¥6,013	¥10,692	\$58,097

11 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 bonds, certificates of deposit and stocks in companies with which the Company has a business relationship are exposed to the risk of market price fluctuations.

Payment terms 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, commercial paper, bonds and lease obligations, used to raise funds for working capital and capital expenditures, and lease liabilities, to which some overseas affiliates have applied IFRS 16

“Leases,” have maturities of at the longest 37 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 for the purpose of hedging foreign currency exchange fluctuation risk resulting from receivables and payables denominated in foreign currencies, interest rate swaps for the purpose of hedging interest rate fluctuation risk resulting from variable interest expenses on debts, forward foreign currency contracts and currency swaps for the purpose of hedging foreign currency exchange fluctuation risk resulting from loans receivable and payable denominated in foreign currencies and commodity swaps for the purpose of hedging price fluctuation risk resulting from raw materials. Please refer to “(5) 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, 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 Group principally uses forward foreign exchange contracts to hedge against fluctuation risks in foreign currency exchange rates, which are relevant to trade receivables and payables and are analyzed by currency and settlement month. 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. The Group also hedges certain scheduled nontrading transactions denominated in foreign currencies that it expects to generate.

In addition, the Group 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.

Some consolidated subsidiaries use commodity swaps to control

price fluctuation risks in connection with raw materials.

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

The Group 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 13. “Derivative Financial Instruments” are not indicative of market risk exposure to derivative transactions.

Notes to Consolidated Financial Statements

Kuraray Co., Ltd. and its Consolidated Subsidiaries / Year ended December 31, 2020

2. Fair values of financial instruments

Carrying amount, fair value and unrealized gain/loss of the financial instruments as of December 31, 2020 and December 31, 2019 are as follows:

Financial instruments whose fair values are not readily determinable are excluded from the following table:

Fiscal 2020

	Millions of yen		
	Carrying amount	Fair value	Unrealized gain (loss)
(1) Cash and deposits	¥184,319	¥184,319	¥—
(2) Notes and accounts receivable—trade	117,172		
Allowance for doubtful accounts	(439)		
	116,732	116,732	—
(3) Short-term investment securities and investment securities			
Available-for-sale securities	25,011	25,011	—
Total assets.....	326,063	326,063	—
(1) Notes and accounts payable—trade	36,161	36,161	—
(2) Bonds ^{(*)1}	80,000	80,285	285
(3) Long-term loans payable ^{(*)2}	206,910	208,486	1,575
Total liabilities	323,072	324,933	1,861
Derivative transactions ^{(*)3}	(1,138)	(1,138)	—

	Thousands of U.S. dollars		
	Carrying amount	Fair value	Unrealized gain (loss)
(1) Cash and deposits	\$1,780,860	\$1,780,860	\$—
(2) Notes and accounts receivable—trade	1,132,097		
Allowance for doubtful accounts	(4,242)		
	1,127,845	1,127,845	—
(3) Short-term investment securities and investment securities			
Available-for-sale securities	241,652	241,652	—
Total assets.....	3,150,367	3,150,367	—
(1) Notes and accounts payable—trade	349,382	349,382	—
(2) Bonds ^{(*)1}	772,947	775,700	2,754
(3) Long-term loans payable ^{(*)2}	1,999,130	2,014,357	15,217
Total liabilities	3,121,469	3,139,449	17,981
Derivative transactions ^{(*)3}	(10,995)	(10,995)	—

(*)1) Bonds include the current portion of bonds payable.

(*)2) Long-term loans payable include the current portion of long-term loans payable.

(*)3) Receivables and payables incurred as a result of derivative transactions are presented on a net basis. Net payables are presented in parentheses.

Notes to Consolidated Financial Statements

Kuraray Co., Ltd. and its Consolidated Subsidiaries / Year ended December 31, 2020

Fiscal 2019

	Millions of yen		
	Carrying amount	Fair value	Unrealized gain (loss)
(1) Cash and deposits	¥72,014	¥72,014	¥—
(2) Notes and accounts receivable—trade	121,166		
Allowance for doubtful accounts	(455)		
	120,710	120,710	—
(3) Short-term investment securities and investment securities			
Available-for-sale securities	53,404	53,404	—
Total assets.....	246,129	246,129	—
(1) Notes and accounts payable—trade	39,883	39,883	—
(2) Bonds.....	50,000	50,375	375
(3) Long-term loans payable ^{(*)1}	128,035	129,541	1,505
Total liabilities	217,919	219,800	1,881
Derivative transactions ^{(*)2}	(1,285)	(1,285)	—

(*)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) Bonds

The fair value of bonds is determined at the present value that is calculated by discounting the aggregated values of the principal and interest using an interest rate reflecting the remaining terms of the Company's bonds and the credit risk.

- (3) 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.

Certain 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.

Notes to Consolidated Financial Statements

Kuraray Co., Ltd. and its Consolidated Subsidiaries / Year ended December 31, 2020

Derivative financial instruments:

Please see Note 13. "Derivative Financial Instruments."

2. Financial instruments whose fair values are not readily determinable

Category	Millions of yen		Thousands of U.S. dollars
	Carrying amount		Carrying amount
	Fiscal 2020 (December 31, 2020)	Fiscal 2019 (December 31, 2019)	Fiscal 2020
Unlisted equity securities	¥8,390	¥8,707	\$81,063

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 2020

	Millions of yen			
	Within one year	One to five years	Five to ten years	Over ten years
Cash and deposits	¥184,319	¥—	¥—	¥—
Notes and accounts receivable—trade	117,172	—	—	—
Short-term investment securities and investment securities: o/w Securities with contractual maturities:				
(1) Bonds (Corporate)	4,000	—	—	—
(2) Bonds (Others)	—	—	—	—
(3) Others	3,924	—	—	—
Total	¥309,416	¥—	¥—	¥—

	Thousands of U.S. dollars			
	Within one year	One to five years	Five to ten years	Over ten years
Cash and deposits	\$1,780,860	\$—	\$—	\$—
Notes and accounts receivable—trade	1,132,097	—	—	—
Short-term investment securities and investment securities: o/w Securities with contractual maturities:				
(1) Bonds (Corporate)	38,647	—	—	—
(2) Bonds (Others)	—	—	—	—
(3) Others	37,913	—	—	—
Total	\$2,989,527	\$—	\$—	\$—

Notes to Consolidated Financial Statements

Kuraray Co., Ltd. and its Consolidated Subsidiaries / Year ended December 31, 2020

Fiscal 2019

	Millions of yen			
	Within one year	One to five years	Five to ten years	Over ten years
Cash and deposits	¥72,014	¥—	¥—	¥—
Notes and accounts receivable—trade	121,166	—	—	—
Short-term investment securities and investment securities: o/w Securities with contractual maturities:				
(1) Bonds (Corporate)	5,000	—	—	—
(2) Bonds (Others)	4,800	—	—	—
(3) Others	23,537	—	—	—
Total	¥226,518	¥—	¥—	¥—

4. Redemption schedule of bonds, long-term loans payable, lease obligations and lease liabilities after the balance sheet date:

Fiscal 2020

	Millions of yen					
	Within one year	One to two years	Two to three years	Three to four years	Four to five years	Over five years
Bonds	¥20,000	¥—	¥10,000	¥—	¥10,000	¥40,000
Long-term loans payable	29	55,013	27,423	21,171	13,851	89,421
Lease obligations	468	393	310	211	145	181
Lease liabilities	1,554	914	1,088	1,049	1,083	11,932
Total	¥22,052	¥56,321	¥38,822	¥22,432	¥25,080	¥141,535

	Thousands of U.S. dollars					
	Within one year	One to two years	Two to three years	Three to four years	Four to five years	Over five years
Bonds	\$193,237	\$—	\$96,618	\$—	\$96,618	\$386,473
Long-term loans payable	280	531,527	264,957	204,551	133,826	863,971
Lease obligations	4,522	3,797	2,995	2,039	1,401	1,749
Lease liabilities	15,014	8,831	10,512	10,135	10,464	115,285
Total	\$213,063	\$544,164	\$375,092	\$216,734	\$242,319	\$1,367,488

Fiscal 2019

	Millions of yen					
	Within one year	One to two years	Two to three years	Three to four years	Four to five years	Over five years
Bonds	¥—	¥20,000	¥—	¥10,000	¥—	¥20,000
Long-term loans payable	33	15	25,000	20,932	19,692	62,361
Lease obligations	473	396	321	238	154	289
Lease liabilities	1,161	1,361	949	921	918	12,874
Total	¥1,668	¥21,774	¥26,270	¥32,092	¥20,765	¥95,524

Notes to Consolidated Financial Statements

Kuraray Co., Ltd. and its Consolidated Subsidiaries / Year ended December 31, 2020

12 Securities

1. Available-for-sale securities with market value

Fiscal 2020

	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	¥16,327	¥6,999	¥9,328	\$157,749	\$67,623	\$90,126
Bonds						
Government and municipal	—	—	—	—	—	—
Corporate	—	—	—	—	—	—
Others	—	—	—	—	—	—
Others	—	—	—	—	—	—
Subtotal	16,327	6,999	9,328	157,749	67,623	90,126
Securities with book value not exceeding their acquisition cost						
Equity securities	759	766	(7)	7,333	7,401	(68)
Bonds						
Government and municipal	—	—	—	—	—	—
Corporate	4,000	4,000	—	38,647	38,647	—
Others	—	—	—	—	—	—
Others	3,924	3,924	—	37,913	37,913	—
Subtotal	8,683	8,691	(7)	83,894	83,971	(68)
Total	¥25,011	¥15,690	¥9,320	\$241,652	\$151,594	\$90,048

Note: Unlisted equity securities amounting to ¥2,839 million (US\$27,430 thousand) are excluded from the above table, because there is no market price and it is very difficult to identify fair values.

Fiscal 2019

	Millions of yen		
	Book value (estimated fair value)	Cost	Net
Securities with book value exceeding their acquisition cost			
Equity securities	¥19,821	¥9,208	¥10,612
Bonds			
Government and municipal	—	—	—
Corporate	—	—	—
Others	—	—	—
Others	—	—	—
Subtotal	19,821	9,208	10,612
Securities with book value not exceeding their acquisition cost			
Equity securities	241	282	(41)
Bonds			
Government and municipal	—	—	—
Corporate	5,000	5,000	—
Others	4,803	4,804	(1)
Others	23,537	23,537	—
Subtotal	33,583	33,625	(42)
Total	¥53,404	¥42,834	¥10,570

Note: Unlisted equity securities amounting to ¥2,793 million are excluded from the above table, because there is no market price and it is very difficult to identify fair values.

Notes to Consolidated Financial Statements

Kuraray Co., Ltd. and its Consolidated Subsidiaries / Year ended December 31, 2020

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

Fiscal 2020

	Millions of yen			Thousands of U.S. dollars		
	Proceeds from sales	Total gain	Total loss	Proceeds from sales	Total gain	Total loss
Others.....	¥2,399	¥737	¥(47)	\$23,179	\$7,121	\$(454)
Total	¥2,399	¥737	¥(47)	\$23,179	\$7,121	\$(454)

Notes: 1. Attributable to sale of stock.

2. Securities for which it is difficult to identify fair value are excluded from the above table.

Fiscal 2019

	Millions of yen		
	Proceeds from sales	Total gain	Total loss
Others	¥2,082	¥1,406	¥(221)
Total	¥2,082	¥1,406	¥(221)

Notes: 1. Attributable to sale of stock.

2. Securities for which it is difficult to identify fair value are excluded from the above table.

3. Impairment loss on securities

The Company recognized impairment loss on securities of ¥35 million (US\$338 thousand) in fiscal 2020 and ¥860 million in fiscal 2019.

As for the available-for-sale securities for 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 for 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.

13 Derivative Financial Instruments

1. Derivative transactions to which hedge accounting is not applied

(1) Currencies

Fiscal 2020

Category	Classification	Millions of yen			
		Nominal amount	Nominal amount due after one year	Market value	Unrealized gain (loss)
Transactions other than market transactions	Forward foreign exchange contracts:				
	Receipts in Yen/Payments in U.S. dollar ..	¥8,584	¥—	¥69	¥69
	Receipts in Yen/Payments in Euro	3,136	—	(90)	(90)
	Receipts in Yen/Payments in Australian dollar	6,091	—	(148)	(148)
	Other	2,935	—	(17)	(17)
	Non-deliverable forward foreign exchange transaction:				
Receipts in Yen/Payments in Won	4,702	—	(125)	(125)	
Total		¥25,450	¥—	¥(311)	¥(311)

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	Forward foreign exchange contracts:				
	Receipts in Yen/Payments in U.S. dollar ..	\$82,937	\$—	\$667	\$667
	Receipts in Yen/Payments in Euro	30,300	—	(870)	(870)
	Receipts in Yen/Payments in Australian dollar	58,850	—	(1,430)	(1,430)
	Other	28,357	—	(164)	(164)
	Non-deliverable forward foreign exchange transaction:				
Receipts in Yen/Payments in Won	45,430	—	(1,208)	(1,208)	
Total		\$245,894	\$—	\$(3,005)	\$(3,005)

Notes: 1. Market values of forward foreign exchange contracts and non-deliverable forward foreign exchange transaction at the end of the fiscal year are calculated using forward exchange rates.

2. The forward foreign exchange contracts and non-deliverable forward foreign exchange transaction above are mainly those set with claims and liabilities to consolidated subsidiaries as the hedged items.

Notes to Consolidated Financial Statements

Kuraray Co., Ltd. and its Consolidated Subsidiaries / Year ended December 31, 2020

Fiscal 2019

Category	Classification	Millions of yen			
		Nominal amount	Nominal amount due after one year	Market value	Unrealized gain (loss)
Transactions other than market transactions	Forward foreign exchange contracts:				
	Receipts in Yen/Payments in U.S. dollar ..	¥15,131	¥—	¥(357)	¥(357)
	Receipts in Yen/Payments in Euro	3,742	—	(68)	(68)
	Receipts in Yen/Payments in Australian dollar	4,883	—	(148)	(148)
	Other	4,448	—	(12)	(12)
	Non-deliverable forward foreign exchange transaction:				
	Receipts in Yen/Payments in Won	4,673	—	(129)	(129)
Total		¥32,879	¥—	¥(716)	¥(716)

Notes: 1. Market values of forward foreign exchange contracts and non-deliverable forward foreign exchange transaction at the end of the fiscal year are calculated using forward exchange rates.

2. The forward foreign exchange contracts and non-deliverable forward foreign exchange transaction above are mainly those set with claims and liabilities to consolidated subsidiaries as the hedged items.

2. Derivative transactions to which hedge accounting is applied

(1) Currencies

Fiscal 2020

Hedge accounting method	Classification	Major hedged items	Fiscal 2020 (As of December 31, 2020)					
			Millions of yen			Thousands of U.S. dollars		
			Nominal amount	Nominal amount over one year	Market value	Nominal amount	Nominal amount over one year	Market value
Allocation method	Forward foreign exchange contracts:							
	Receipts in Yen/Payments in U.S. dollar	Accounts receivable—trade	¥319	¥—	Note	\$3,082	\$—	Note
	Receipts in Yen/Payments in Baht	Loans receivable	12,280	—	Note	118,647	—	Note
	Other	Accounts payable—trade	132	—	Note	1,275	—	Note
Total			¥12,732	¥—		\$123,014	\$—	

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

Notes to Consolidated Financial Statements

Kuraray Co., Ltd. and its Consolidated Subsidiaries / Year ended December 31, 2020

			Fiscal 2020 (As of December 31, 2020)					
			Millions of yen			Thousands of U.S. dollars		
Hedge accounting method	Classification	Major hedged items	Nominal amount	Nominal amount over one year	Market value	Nominal amount	Nominal amount over one year	Market value
Deferred hedge method	Forward foreign exchange contracts:							
	Receipts in Yen/ Payments in U.S. dollar	Forecasted transactions in foreign currencies	¥3,038	¥—	¥8	\$29,353	\$—	\$77
	Receipts in Yen/ Payments in Euro	Forecasted transactions in foreign currencies	1,218	—	(1)	11,768	—	(10)
	Receipts in U.S. dollar/ Payments in Euro	Forecasted transactions in foreign currencies	1,097	165	(81)	10,599	1,594	(783)
	Receipts in U.S. dollar/ Payments in Yen	Forecasted transactions in foreign currencies	1,090	—	(10)	10,531	—	(97)
	Receipts in Yen/ Payments in Baht	Forecasted transactions in foreign currencies	3,753	305	50	36,261	2,947	483
	Other	Forecasted transactions in foreign currencies	1,159	29	(9)	11,198	280	(87)
Total			¥11,357	¥500	¥(44)	\$109,729	\$4,831	\$(425)

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

Fiscal 2019

			Fiscal 2019 (As of December 31, 2019)		
			Millions of yen		
Hedge accounting method	Classification	Major hedged items	Nominal amount	Nominal amount over one year	Market value
Allocation method	Forward foreign exchange contracts:				
	Receipts in Yen/ Payments in U.S. dollar	Accounts receivable—trade	¥464	¥—	Note
	Receipts in Yen/ Payments in Baht	Loans receivable	199	—	Note
	Receipts in U.S. dollar/ Payments in Yen	Accounts payable—trade	116	—	Note
	Receipts in Yen/ Payments in Yuan	Accounts receivable—trade	107	—	Note
	Other	Accounts payable—trade	13	—	Note
Total			¥901	¥—	

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

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Kuraray Co., Ltd. and its Consolidated Subsidiaries / Year ended December 31, 2020

Hedge accounting method	Classification	Major hedged items	Fiscal 2019 (As of December 31, 2019)		
			Millions of yen		
			Nominal amount	Nominal amount over one year	Market value
Deferred hedge method	Forward foreign exchange contracts:				
	Receipts in Yen/ Payments in U.S. dollar	Forecasted transactions in foreign currencies	¥3,395	¥—	¥(0)
	Receipts in Yen/ Payments in Euro	Forecasted transactions in foreign currencies	1,506	—	(9)
	Receipts in U.S. dollar/Payments in Euro	Forecasted transactions in foreign currencies	1,161	175	0
	Receipts in U.S. dollar/Payments in Baht	Forecasted transactions in foreign currencies	8,912	409	(63)
	Receipts in Euro/ Payments in Baht	Forecasted transactions in foreign currencies	1,557	24	7
	Receipts in Yen/ Payments in Baht	Forecasted transactions in foreign currencies	10,969	2,483	(187)
	Other	Forecasted transactions in foreign currencies	918	—	13
Total			¥28,421	¥3,093	¥(240)

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

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(2) Interest rate

Fiscal 2020

Hedge accounting method	Classification	Major hedged items	Millions of yen		
			Nominal amount	Nominal amount over one year	Market value
Special treatment For interest rate swaps	Interest rate swaps: Floating rate into fixed rate	Long-term loans payable	¥31,000	¥31,000	Note

Hedge accounting method	Classification	Major hedged items	Thousands of U.S. dollars		
			Nominal amount	Nominal amount over one year	Market value
Special treatment For interest rate swaps	Interest rate swaps: Floating rate into fixed rate	Long-term loans payable	\$299,517	\$299,517	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.

Hedge accounting method	Classification	Major hedged items	Millions of yen		
			Nominal amount	Nominal amount over one year	Market value
Deferred hedge method	Interest rate swaps: Floating rate into fixed rate	Long-term loans payable	¥16,856	¥4,900	¥(782)

Hedge accounting method	Classification	Major hedged items	Thousands of U.S. dollars		
			Nominal amount	Nominal amount over one year	Market value
Deferred hedge method	Interest rate swaps: Floating rate into fixed rate	Long-term loans payable	\$162,860	\$47,343	\$(7,556)

Note: Market values are calculated based on the prices provided by financial institutions the Company entered into the contracts with.

Fiscal 2019

Hedge accounting method	Classification	Major hedged items	Millions of yen		
			Nominal amount	Nominal amount over one year	Market value
Special treatment For interest rate swaps	Interest rate swaps: Floating rate into fixed rate	Long-term loans payable	¥26,000	¥26,000	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.

Hedge accounting method	Classification	Major hedged items	Millions of yen		
			Nominal amount	Nominal amount over one year	Market value
Deferred hedge method	Interest rate swaps: Floating rate into fixed rate	Long-term loans payable	¥7,986	¥7,986	¥(238)

Note: Market values are calculated based on the prices provided by financial institutions the Company entered into the contracts with.

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Kuraray Co., Ltd. and its Consolidated Subsidiaries / Year ended December 31, 2020

(3) Commodity

Fiscal 2020

Hedge accounting method	Classification	Major hedged items	Millions of yen		
			Nominal amount	Nominal amount over one year	Market value
Deferred hedge method	Commodity swaps: Floating rate into fixed rate	Raw material	¥769	¥479	¥0

Hedge accounting method	Classification	Major hedged items	Thousands of U.S. dollars		
			Nominal amount	Nominal amount over one year	Market value
Deferred hedge method	Commodity swaps: Floating rate into fixed rate	Raw material	\$7,430	\$4,628	\$0

Note: Market values are calculated based on the prices provided by financial institutions the Company entered into the contracts with.

Fiscal 2019

Hedge accounting method	Classification	Major hedged items	Millions of yen		
			Nominal amount	Nominal amount over one year	Market value
Deferred hedge method	Commodity swaps: Floating rate into fixed rate	Raw material	¥739	¥425	¥(90)

Note: Market values are calculated based on the prices provided by financial institutions the Company entered into the contracts with.

14 Retirement Benefits

1. Summary of retirement benefit plan

The Company and certain consolidated subsidiaries provide retirement benefits to employees with funded and unfunded defined benefits plans and a defined contribution plan. Certain consolidated subsidiaries participate in a multi-employer plan and account for their contributions to this fund as a retirement benefit expense because the plan assets that correspond to the contribution of each participant cannot be reasonably calculated.

The funded defined benefits plan provides a lump sum payment or a pension primarily based on qualifications and length of service. The Company and certain consolidated subsidiaries are introducing a cash-balance plan to the defined benefits plan. The cash-balance plan establishes

hypothetical individual employee accounts representing each employee’s share of plan funding and assets. Interest credits based on money market rate movements and credits primarily based on qualifications and length of service accumulate in the hypothetical individual employee accounts.

The unfunded retirement benefit plan is a lump sum retirement plan. It functions as a retirement savings plan because the Company has established a retirement benefits trust for it. This plan provides lump sum retirement benefits primarily based on qualifications and length of service.

Certain consolidated subsidiaries use a simplified method to calculate liabilities and expenses associated with their defined benefit and lump sum plans.

2. Defined benefit plan

(1) Reconciliations of beginning and ending balance of retirement benefit plan (excluding simplified method)

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2020	Fiscal 2019	Fiscal 2020
Retirement benefit obligations at beginning of year	¥66,932	¥63,096	\$646,686
Service costs	2,853	2,490	27,565
Interest costs	994	1,216	9,604
Actuarial gain or loss	2,129	3,697	20,570
Prior service costs recorded during the period	—	261	—
Benefits paid	(2,612)	(3,505)	(25,237)
Other	(912)	(324)	(8,812)
Retirement benefit obligations at end of year	¥69,384	¥66,932	\$670,377

Note: “Other” mainly consists of foreign currency translation adjustment (change due to effects of foreign currency translation).

(2) Reconciliations of beginning and ending balance of plan assets (excluding simplified method)

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2020	Fiscal 2019	Fiscal 2020
Plan assets at beginning of year	¥48,562	¥47,889	\$469,198
Expected return on plan assets	1,279	1,308	12,357
Actuarial gain or loss	1,006	1,850	9,720
Contribution from entrepreneur	1,019	1,278	9,845
Benefits paid	(2,754)	(3,654)	(26,609)
Other	(910)	(110)	(8,792)
Plan assets at end of year	¥48,203	¥48,562	\$465,729

Note: “Other” mainly consists of foreign currency translation adjustment (change due to effects of foreign currency translation).

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Kuraray Co., Ltd. and its Consolidated Subsidiaries / Year ended December 31, 2020

(3) Reconciliations of beginning and ending net defined benefit liabilities using the simplified method

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2020	Fiscal 2019	Fiscal 2020
Net defined benefit liabilities at beginning of year.....	¥1,856	¥1,758	\$17,932
Retirement benefit expenses.....	633	250	6,116
Benefits paid.....	(154)	(136)	(1,488)
Contribution to plan assets	(164)	(106)	(1,585)
Amount received from new consolidation.....	—	102	—
Other	0	(11)	0
Net defined benefit liabilities at end of year.....	¥2,170	¥1,856	\$20,966

(4) Reconciliations of net amount of retirement benefit liabilities and plan assets and net amount of net defined benefit liabilities and net defined benefit assets recognized on the consolidated balance sheet

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2020	Fiscal 2019	Fiscal 2020
Installment type retirement benefit obligation.....	¥61,540	¥59,572	\$594,589
Plan assets	(49,338)	(49,556)	(476,696)
	12,201	10,016	117,884
Non installment type retirement benefit obligation	11,150	10,209	107,729
Net amount of net defined benefit liabilities and net defined benefit assets recognized on the consolidated balance sheet.....	23,352	20,226	225,623
Net defined benefit liabilities	25,449	22,203	245,884
Net defined benefit assets.....	(2,097)	(1,977)	(20,261)
Net amount of net defined benefit liabilities and net defined benefit assets recognized on the consolidated balance sheet.....	¥23,352	¥20,226	\$225,623

Note: Includes plan that uses the simplified method.

(5) The components of retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2020	Fiscal 2019	Fiscal 2020
Service costs.....	¥2,853	¥2,490	\$27,565
Interest costs.....	994	1,216	9,604
Expected return on plan assets	(1,279)	(1,308)	(12,357)
Amortization of actuarial gains or losses.....	676	679	6,531
Amortization of prior service costs	69	59	667
Retirement benefit expenses calculated by simplified method	633	250	6,116
Other	340	(41)	3,285
Retirement benefit expense pertaining to defined benefit plan.....	¥4,286	¥3,346	\$41,411

Notes to Consolidated Financial Statements

Kuraray Co., Ltd. and its Consolidated Subsidiaries / Year ended December 31, 2020

(6) Remeasurements of defined benefit plans (Consolidated comprehensive income)

The following is a breakdown of remeasurements of defined benefit plans (before deductions for the effect of income taxes)

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2020	Fiscal 2019	Fiscal 2020
Prior service costs	¥ 69	¥ (202)	\$667
Actuarial gain or loss.....	(446)	(1,167)	(4,309)
Total.....	¥(377)	¥(1,369)	\$(3,643)

(7) Remeasurements of defined benefit plans (Consolidated balance sheet)

The following is a breakdown of items recorded in cumulative remeasurements of defined benefit plans (before deductions for the effect of income taxes).

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2020	Fiscal 2019	Fiscal 2020
Unrecognized prior service costs.....	¥ (475)	¥ (544)	\$(4,589)
Unrecognized actuarial gain or loss.....	(7,264)	(6,817)	(70,184)
Total.....	¥(7,739)	¥(7,362)	\$(74,773)

(8) Plan assets

a. The components of plan assets

	Fiscal 2020	Fiscal 2019
Debt securities	54%	45%
Equity securities	12	15
Life insurance company general accounts (Note 1).....	15	14
Cash and deposits	3	2
Other assets	16	24
Total (Note 2).	100%	100%

Notes: 1. Life insurance companies manage the assets in, assume the asset management risk for, and guarantee a fixed return to policyholders for life insurance general accounts.

2. Total retirement plan assets for the years ended December 31, 2020 and 2019 include 30% and 32%, respectively, of the retirement benefits trust established for the lump sum retirement plan.

b. Determination of long-term expected rate of return on plan assets

The long-term expected rate of return on plan assets is determined with due consideration of current and future distribution of plan assets and current and expected returns on the various types of plan assets.

(9) Actuarial assumptions

	Fiscal 2020	Fiscal 2019
Discount rate	Mainly 0.5% to 2.6%	Mainly 0.7% to 4.3%
Long-term expected rate of return	Mainly 1.0% to 5.5%	Mainly 1.0% to 5.5%

Notes to Consolidated Financial Statements

Kuraray Co., Ltd. and its Consolidated Subsidiaries / Year ended December 31, 2020

3. Defined contribution plan

The amounts of required contribution to the defined contribution plan of the Company and its consolidated subsidiaries for the years ended December 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2020	Fiscal 2019	Fiscal 2020
Defined contribution plan.....	¥1,156	¥1,158	\$11,169

4. Multi-employer plan

The contribution to the multi-employer plan, which is accounted for in the same manner as the defined contribution plan for the years ended December 31, 2020 and 2019, totaled ¥81 million (US\$783 thousand) and ¥76 million, respectively.

Multi-employer plan in which overseas consolidated subsidiaries participate

(1) Accumulated funds for the plan

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2020 (As of June 30, 2020)	Fiscal 2019 (As of June 30, 2019)	Fiscal 2020 (As of June 30, 2020)
Plan assets	¥57,848	¥55,495	\$558,918
Total of actuarial pension liabilities and plan's minimum reserve	58,714	56,238	567,285
Difference	¥(866)	¥(742)	\$(8,367)

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

	Fiscal 2020 (As of June 30, 2020)	Fiscal 2019 (As of June 30, 2019)
	4.1%	3.7%

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

15 Stock-Based Compensation Plans

1. Item and amount of expenses for stock options

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2020	Fiscal 2019	Fiscal 2020
Selling, general and administrative expenses.....	¥113	¥94	\$1,092

Notes to Consolidated Financial Statements

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2. Amount recorded as profit as a result of forfeiture due to non-exercise of rights

Millions of yen		Thousands of U.S. dollars
Fiscal 2020	Fiscal 2019	Fiscal 2020
¥285	¥5	\$2,754

3. Details including size and changes of stock options

(1) Stock options plans

	Stock options October 2010	Stock options May 2011
Resolution date	June 24, 2010	April 27, 2011
Number of eligible persons by position	Directors, etc. of the Company: 25 Employees of the Company: 3,924 Directors or employees, etc. 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
Total number and type of stocks granted	4,074,500 shares of common stock	89,500 shares of common stock
Grant date	October 1, 2010	May 19, 2011
Prerequisite to be vested	(Note 1)	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.
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. A holder of subscription rights to shares may exercise the subscription rights to shares within 10 days from one day after the day he/she loses his or her position as a director or an executive officer (the "Rights Commencement Date"). Notwithstanding the above, if the holder of subscription rights to shares fails to reach the Rights Commencement Date by April 19, 2026, he/she may exercise his or her rights from the following business day to the date of expiration of the above exercise period of the subscription rights to shares.
Number of subscription rights to shares (units) (Note 4)	—	—
Type, content and number of shares subject to subscription rights to shares (Note 4)	—	—
Amount paid at the time of exercise of subscription rights to shares (yen) (Note 4)	—	—
Issue price of shares and amount to be incorporated into stated capital when issuing shares through exercise of subscription rights to shares (yen) (Note 4)	—	—
Conditions for exercising subscription rights to shares (Note 4)	(Note 1)	(Note 2)
Matters related to transfer of subscription rights to shares (Note 4)	Acquisition of subscription rights to shares by transfer shall require the approval by resolution of the Board of Directors of the Company.	
Matters related to delivery of subscription rights to shares in association with reorganization (Note 4)	—	(Note 3)

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	Stock options May 2012	Stock options May 2013
Resolution date	April 26, 2012	April 25, 2013
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): 13	Directors of the Company: 10 Executive officers of the Company (excluding those who concurrently serve as directors of the Company and those working overseas): 17
Total number and type of stocks granted	86,500 shares of common stock	88,000 shares of common stock
Grant date	May 17, 2012	May 15, 2013
Prerequisite to be vested	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.
Exercise period	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. A holder of subscription rights to shares may exercise the subscription rights to shares within 10 days from one day after the day he/she loses his or her position as a director or an executive officer (the "Rights Commencement Date"). Notwithstanding the above, if the holder of subscription rights to shares fails to reach the Rights Commencement Date by April 17, 2027, he/she may exercise his or her rights from the following business day to the date of expiration of the above exercise period of the subscription rights to shares.	From May 15, 2013 to May 14, 2028; 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. A holder of subscription rights to shares may exercise the subscription rights to shares within 10 days from one day after the day he/she loses his or her position as a director or an executive officer (the "Rights Commencement Date"). Notwithstanding the above, if the holder of subscription rights to shares fails to reach the Rights Commencement Date by April 15, 2028, he/she may exercise his or her rights from the following business day to the date of expiration of the above exercise period of the subscription rights to shares.
Number of subscription rights to shares (units) (Note 4)	—	12
Type, content and number of shares subject to subscription rights to shares (Note 4)	—	6,000 shares of common stock
Amount paid at the time of exercise of subscription rights to shares (yen) (Note 4)	—	¥1/share (US\$0.01)
Issue price of shares and amount to be incorporated into stated capital when issuing shares through exercise of subscription rights to shares (yen) (Note 4)	—	Issue price: ¥1,483 (US\$14.33) Amount to be incorporated into stated capital: ¥742 (US\$7.17)
Conditions for exercising subscription rights to shares (Note 4)		(Note 2)
Matters related to transfer of subscription rights to shares (Note 4)	Acquisition of the subscription rights to shares by transfer shall require the approval by resolution of the Board of Directors of the Company.	
Matters related to delivery of subscription rights to shares in association with reorganization (Note 4)		(Note 3)

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Kuraray Co., Ltd. and its Consolidated Subsidiaries / Year ended December 31, 2020

	Stock options May 2014	Stock options February 2015
Resolution date	April 25, 2014	January 21, 2015
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): 17	Directors of the Company: 12 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	78,500 shares of common stock	59,500 shares of common stock
Grant date	May 15, 2014	February 17, 2015
Prerequisite to be vested	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.
Exercise period	From May 15, 2014 to May 14, 2029; 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. A holder of subscription rights to shares may exercise the subscription rights to shares within 10 days from one day after the day he/she loses his or her position as a director or an executive officer (the "Rights Commencement Date"). Notwithstanding the above, if the holder of subscription rights to shares fails to reach the Rights Commencement Date by April 15, 2029, he/she may exercise his or her rights from the following business day to the date of expiration of the above exercise period of the subscription rights to shares.	From February 17, 2015 to February 16, 2030; 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. A holder of subscription rights to shares may exercise the subscription rights to shares within 10 days from one day after the day he/she loses his or her position as a director or an executive officer (the "Rights Commencement Date"). Notwithstanding the above, if the holder of subscription rights to shares fails to reach the Rights Commencement Date by January 17, 2030, he/she may exercise his or her rights from the following business day to the date of expiration of the above exercise period of the subscription rights to shares.
Number of subscription rights to shares (units) (Note 4)	19	26
Type, content and number of shares subject to subscription rights to shares (Note 4)	9,500 shares of common stock	13,000 shares of common stock
Amount paid at the time of exercise of subscription rights to shares (yen) (Note 4)	¥1/share (US\$0.01)	¥1/share (US\$0.01)
Issue price of shares and amount to be incorporated into stated capital when issuing shares through exercise of subscription rights to shares (yen) (Note 4)	Issue price: ¥1,120 (US\$10.82) Amount to be incorporated into stated capital: ¥560 (US\$5.41)	Issue price: ¥1,353 (US\$13.07) Amount to be incorporated into stated capital: ¥677 (US\$6.54)
Conditions for exercising subscription rights to shares (Note 4)		(Note 2)
Matters related to transfer of subscription rights to shares (Note 4)	Acquisition of the subscription rights to shares by transfer shall require the approval by resolution of the Board of Directors of the Company.	
Matters related to delivery of subscription rights to shares in association with reorganization (Note 4)		(Note 3)

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Kuraray Co., Ltd. and its Consolidated Subsidiaries / Year ended December 31, 2020

	Stock options February 2016	Stock options February 2017
Resolution date	January 20, 2016	January 18, 2017
Number of eligible persons by position	Directors of the Company: 12 Executive officers of the Company (excluding those who concurrently serve as directors of the Company and those working overseas): 10	Directors of the Company: 12 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	69,000 shares of common stock	75,500 shares of common stock
Grant date	February 10, 2016	February 9, 2017
Prerequisite to be vested	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.
Exercise period	From February 10, 2016 to February 9, 2031; 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. A holder of subscription rights to shares may exercise the subscription rights to shares within 10 days from one day after the day he/she loses his or her position as a director or an executive officer (the "Rights Commencement Date"). Notwithstanding the above, if the holder of subscription rights to shares fails to reach the Rights Commencement Date by January 10, 2031, he/she may exercise his or her rights from the following business day to the date of expiration of the above exercise period of the subscription rights to shares.	From February 9, 2017 to February 8, 2032; 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. A holder of subscription rights to shares may exercise the subscription rights to shares within 10 days from one day after the day he/she loses his or her position as a director or an executive officer (the "Rights Commencement Date"). Notwithstanding the above, if the holder of subscription rights to shares fails to reach the Rights Commencement Date by January 9, 2032, he/she may exercise his or her rights from the following business day to the date of expiration of the above exercise period of the subscription rights to shares.
Number of subscription rights to shares (units) (Note 4)	43	78
Type, content and number of shares subject to subscription rights to shares (Note 4)	21,500 shares of common stock	39,000 shares of common stock
Amount paid at the time of exercise of subscription rights to shares (yen) (Note 4)	¥1/share (US\$0.01)	¥1/share (US\$0.01)
Issue price of shares and amount to be incorporated into stated capital when issuing shares through exercise of subscription rights to shares (yen) (Note 4)	Issue price: ¥1,201 (US\$11.60) Amount to be incorporated into stated capital: ¥601 (US\$5.81)	Issue price: ¥1,539 (US\$14.87) Amount to be incorporated into stated capital: ¥770 (US\$7.44)
Conditions for exercising subscription rights to shares (Note 4)		(Note 2)
Matters related to transfer of subscription rights to shares (Note 4)	Acquisition of the subscription rights to shares by transfer shall require the approval by resolution of the Board of Directors of the Company.	
Matters related to delivery of subscription rights to shares in association with reorganization (Note 4)		(Note 3)

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	Stock options February 2018	Stock options February 2019
Resolution date	January 17, 2018	January 16, 2019
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): 12	Directors of the Company: 9 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	45,000 shares of common stock	64,500 shares of common stock
Grant date	February 15, 2018	February 14, 2019
Prerequisite to be vested	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.
Exercise period	From February 15, 2018 to February 14, 2033; 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. A holder of subscription rights to shares may exercise the subscription rights to shares within 10 days from one day after the day he/she loses his or her position as a director or an executive officer (the "Rights Commencement Date"). Notwithstanding the above, if the holder of subscription rights to shares fails to reach the Rights Commencement Date by January 15, 2033, he/she may exercise his or her rights from the following business day to the date of expiration of the above exercise period of the subscription rights to shares.	From February 14, 2019 to February 13, 2034; 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. A holder of subscription rights to shares may exercise the subscription rights to shares within 10 days from one day after the day he/she loses his or her position as a director or an executive officer (the "Rights Commencement Date"). Notwithstanding the above, if the holder of subscription rights to shares fails to reach the Rights Commencement Date by January 14, 2034, he/she may exercise his or her rights from the following business day to the date of expiration of the above exercise period of the subscription rights to shares.
Number of subscription rights to shares (units) (Note 4)	61	94
Class, content and number of shares subject to subscription rights to shares (Note 4)	30,500 shares of common stock	47,000 shares of common stock
Amount paid at the time of exercise of subscription rights to shares (yen) (Note 4)	¥1/share (US\$0.01)	¥1/share (US\$0.01)
Issue price of shares and amount to be incorporated into stated capital when issuing shares through exercise of subscription rights to shares (yen) (Note 4)	Issue price: ¥1,762 (US\$17.02) Amount to be incorporated into stated capital: ¥881 (US\$8.51)	Issue price: ¥1,467 (US\$14.17) Amount to be incorporated into stated capital: ¥734 (US\$7.09)
Conditions for exercising subscription rights to shares (Note 4)		(Note 2)
Matters related to transfer of subscription rights to shares (Note 4)	Acquisition of the subscription rights to shares by transfer shall require the approval by resolution of the Board of Directors of the Company.	
Matters related to delivery of subscription rights to shares in association with reorganization (Note 4)		(Note 3)

Notes to Consolidated Financial Statements

Kuraray Co., Ltd. and its Consolidated Subsidiaries / Year ended December 31, 2020

	Stock options February 2020	Stock options February 2021 (Note 5)
Resolution date	January 22, 2020	January 20, 2021
Number of eligible persons by position	Directors of the Company: 12 Executive officers of the Company (excluding those who concurrently serve as directors of the Company and those working overseas): 12	Directors of the Company (excluding those working overseas): 11 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	86,500 shares of common stock	98,500 shares of common stock
Grant date	February 14, 2020	February 12, 2021
Prerequisite to be vested	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.
Exercise period	From February 14, 2020 to February 13, 2035; 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. A holder of subscription rights to shares may exercise the subscription rights to shares within 10 days from one day after the day he/she loses his or her position as a director or an executive officer (the "Rights Commencement Date"). Notwithstanding the above, if the holder of subscription rights to shares fails to reach the Rights Commencement Date by January 14, 2035, he/she may exercise his or her rights from the following business day to the date of expiration of the above exercise period of the subscription rights to shares.	From February 12, 2021 to February 11, 2036; 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. A holder of subscription rights to shares may exercise the subscription rights to shares within 10 days from one day after the day he/she loses his or her position as a director or an executive officer (the "Rights Commencement Date"). Notwithstanding the above, if the holder of subscription rights to shares fails to reach the Rights Commencement Date by January 12, 2036, he/she may exercise his or her rights from the following business day to the date of expiration of the above exercise period of the subscription rights to shares.
Number of subscription rights to shares (units) (Note 4)	126	197
Class, content and number of shares subject to subscription rights to shares (Note 4)	63,000 shares of common stock	98,500 shares of common stock
Amount paid at the time of exercise of subscription rights to shares (yen) (Note 4)	¥1/share (US\$0.01)	¥1/share (US\$0.01)
Issue price of shares and amount to be incorporated into stated capital when issuing shares through exercise of subscription rights to shares (yen) (Note 4)	Issue price: ¥1,315 (US\$12.71) Amount to be incorporated into stated capital: ¥658 (US\$6.36)	Issue price: ¥1,175 (US\$11.35) Amount to be incorporated into stated capital: ¥588 (US\$5.68)
Conditions for exercising subscription rights to shares (Note 4)		(Note 2)
Matters related to transfer of subscription rights to shares (Note 4)	Acquisition of the subscription rights to shares by transfer shall require the approval by resolution of the Board of Directors of the Company.	
Matters related to delivery of subscription rights to shares in association with reorganization (Note 4)		(Note 3)

Notes: 1. Prerequisite to be vested with and conditions for exercising subscription rights to shares

- (i) 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.
- (ii) 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. Conditions for exercising subscription rights to shares

- (i) If the Company decides to acquire the subscription rights to shares without contribution by resolution of a shareholders' meeting or a Board of Directors' meeting (Note 2-1), a holder of the subscription rights to shares may exercise the subscription rights to shares for a period that is prior to the date of such gratis acquisition and is separately determined by the Board of Directors.
- (ii) If a holder of the subscription rights to shares is deceased, his or her heir may exercise the subscription rights to shares pursuant to the conditions specified in the "Contracts on Subscription Rights to Shares" listed in (iii) below.
- (iii) The other exercise conditions are prescribed in the "Contracts on Subscription Rights to Shares" to be concluded between the Company and a holder of the subscription rights to shares.

2-1. If a proposal for approval of a merger agreement in which the Company will be a non-surviving company, an absorption-type split agreement or an incorporation-type company split plan in which the Company will be a split company, or a share exchange agreement or a share transfer plan in which the Company will be a wholly-owned subsidiary, is approved at the shareholders' meeting of the Company (if the resolution of the shareholders' meeting is not required, a resolution at the Board of Directors of the Company that approves these proposals), the Company may acquire all the remaining subscription rights to shares without consideration, as of the date separately determined by the Board of Directors.

3. Matters related to delivery of subscription rights to shares in association with reorganization

When the Company carries out a merger (only where the Company becomes a non-surviving company), absorption-type split, incorporation-type company split, share exchange or share transfer (collectively the "Reorganizational Acts"), the subscription rights to shares of a stock company listed in (a) to (e) in Paragraphs 1-8, Article 236 of the Companies Act ("Reorganized Company") shall be delivered to a holder of the subscription rights to shares who holds the remaining subscription rights to shares at the effective timing of the Reorganizational Acts ("Remaining Subscription Rights to Shares"), for each case, based on the conditions described below. In this case, Remaining Subscription Rights to Shares shall be extinguished, and the Reorganized Company shall newly deliver subscription rights to shares. However, the foregoing is limited to a case that a provision to deliver subscription rights to shares of the Reorganized Company pursuant to the following conditions is stipulated in an absorption-type merger agreement, an incorporation-type merger agreement, an absorption-type split agreement, an incorporation-type company split plan, a share exchange agreement or a share transfer plan.

- (i) Number of Reorganized Company's subscription rights to shares to be delivered
The same number as that of Remaining Subscription Rights to Shares held by the holders of the subscription rights to shares shall be delivered, respectively.
- (ii) Type of shares of the Reorganized Company underlying the subscription rights to shares
Common stock of the Reorganized Company.
- (iii) Number of shares of the Reorganized Company underlying the subscription rights to shares
Determined in consideration for conditions of the Reorganizational Acts and other factors.
- (iv) Value of assets to be contributed upon exercise of the subscription rights to shares
Post-reorganization paid-in amount shall be ¥1 per share of the Reorganized Company upon exercise of the subscription rights to shares. The value of assets to be contributed shall be calculated by multiplying the amount with the number of shares of the Reorganized Company

determined according to (iii) above.

(v) Exercise period of the subscription rights to shares

From the starting day of the period for exercisable subscription rights to shares or the day when the Reorganization Action comes into effect, whichever comes later, to the expiration date of the exercise period of the subscription rights to shares above.

(vi) Amount of capital to be increased when shares are issued upon exercise of the subscription rights to shares

Half of the maximum amount of increase in stated capital calculated in accordance with Paragraph 1, Article 17 of the Regulation on Corporate Accounting, and any fraction of less than ¥1 resulting from the calculation shall be rounded up.

(vii) Restriction on acquisition of the subscription rights to shares by transfer

Acquisition of the subscription rights to shares by transfer requires the approval of the Board of Directors of the Reorganized Company.

(viii) Acquisition provision of the subscription rights to shares

Determined according to Note 2-1 above.

(ix) Other conditions for exercise of the subscription rights to shares

Determined according to “Exercise period of the subscription rights to shares” (v) and (Note 2) above.

4. Stated are details as of the end of fiscal 2020. As of the end of the month preceding the month that the filing date of the securities report belongs to (February 28, 2021), there are no changes from the details as of the end of fiscal 2020.
5. The resolution on January 20, 2021 is the resolution to grant the subscription rights to shares after fiscal 2020 and the details described are as of the end of the month preceding the month that the filing date of the securities report belongs to (February 28, 2021).

(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 October 2010	Stock options May 2011	Stock options May 2012	Stock options May 2013	Stock options May 2014	Stock options February 2015
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	1,249,500	1,500	2,000	10,500	19,000	20,000
Vested	—	—	—	—	—	—
Exercised	92,000	1,500	2,000	4,500	9,500	7,000
Forfeited	1,157,500	—	—	—	—	—
At the end of the fiscal year	—	—	—	6,000	9,500	13,000

Notes to Consolidated Financial Statements

Kuraray Co., Ltd. and its Consolidated Subsidiaries / Year ended December 31, 2020

	Stock options February 2016	Stock options February 2017	Stock options February 2018	Stock options February 2019	Stock options February 2020
Unvested stock options (shares)					
At the beginning of the fiscal year	—	—	—	—	—
Granted	—	—	—	—	86,500
Forfeited	—	—	—	—	—
Vested	—	—	—	—	86,500
At the end of the fiscal year	—	—	—	—	—
Vested stock options (shares)					
At the beginning of the fiscal year	30,000	54,000	42,000	64,500	—
Vested	—	—	—	—	86,500
Exercised	8,500	15,000	11,500	17,500	23,500
Forfeited	—	—	—	—	—
At the end of the fiscal year	21,500	39,000	30,500	47,000	63,000

2) Price information

	Yen					
	Stock options October 2010	Stock options May 2011	Stock options May 2012	Stock options May 2013	Stock options May 2014	Stock options February 2015
Exercise prices	¥1,078	¥1	¥1	¥1	¥1	¥1
Weighted-average exercise date stock price	1,163	1,058	1,058	1,058	1,058	1,058
Fair value at the grant date	247	1,174	1,046	1,482	1,119	1,352

	Yen				
	Stock options February 2016	Stock options February 2017	Stock options February 2018	Stock options February 2019	Stock options February 2020
Exercise prices	¥1	¥1	¥1	¥1	¥1
Weighted-average exercise date stock price	1,058	1,058	1,058	1,058	1,058
Fair value at the grant date	1,200	1,538	1,761	1,466	1,314

	U.S. dollars					
	Stock options October 2010	Stock options May 2011	Stock options May 2012	Stock options May 2013	Stock options May 2014	Stock options February 2015
Exercise prices	\$10.42	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01
Weighted-average exercise date stock price	11.24	10.22	10.22	10.22	10.22	10.22
Fair value at the grant date	2.39	11.34	10.11	14.32	10.81	13.06

	U.S. dollars				
	Stock options February 2016	Stock options February 2017	Stock options February 2018	Stock options February 2019	Stock options February 2020
Exercise prices	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01
Weighted-average exercise date stock price	10.22	10.22	10.22	10.22	10.22
Fair value at the grant date	11.59	14.86	17.01	14.16	12.70

4. Method to estimate fair value of stock options

The fair value of the February 2020 stock options, which were granted in fiscal 2020 are estimated as follows:

(1) Valuing method: Black-Scholes model

(2) Major basic figures and estimating method

	February 2020 stock options
Stock price volatility ^(Note 1)	20.5%
Expected remaining life ^(Note 2)	0.7 years
Expected dividend ^(Note 3)	¥42/share (US\$0.406)
Risk-free interest rate ^(Note 4)	-0.15%

Notes: 1. Calculated weekly based on the weekly stock price information over a period from the week that contains May 27, 2019 to the week that contains February 10, 2020.

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 December 2019.

4. Government bond yield over a period corresponding to the expected remaining life.

5. Method to estimate number of vested stock options

Stock options February 2020

The number of vested stock options is the same as the number of stock options granted, since no vesting conditions are set for the February 2020 stock options.

16 Income Taxes

1. Significant components of deferred tax assets and liabilities at December 31, 2020 and December 31, 2019

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2020	Fiscal 2019	Fiscal 2020
Deferred tax assets:			
Net defined benefit liabilities	¥10,894	¥10,275	\$105,256
Impairment loss	2,572	3,313	24,850
Loss (gain) on valuation of investment securities	1,059	1,302	10,232
Provision for environmental measures	1,009	1,105	9,749
Unrealized gain on inventories	1,411	1,591	13,633
Depreciation and amortization	1,990	2,163	19,227
Provision for bonuses	1,077	1,139	10,406
Accrued expenses	7,968	10,807	76,986
Tax loss carry forward ^(Note)	7,818	4,773	75,536
Other	8,722	6,389	84,271
Subtotal deferred tax assets	44,526	42,862	430,203
Valuation allowance relating to tax loss carry forward ^(Note)	(4,974)	(4,609)	(48,058)
Valuation allowance for total deductible temporary differences	(6,486)	(5,942)	(62,667)
Subtotal valuation allowance	(11,460)	(10,552)	(110,725)
Total deferred tax assets	33,066	32,310	319,478
Deferred tax liabilities:			
Depreciation and amortization	(11,461)	(11,045)	(110,734)
Adjustment to book value of assets stated at fair value	(11,831)	(14,786)	(114,309)
Unrealized gain on revaluation of securities	(2,458)	(2,642)	(23,749)
Reserve for reduction entry	(1,029)	(1,090)	(9,942)
Other	(2,850)	(2,982)	(27,536)
Total deferred tax liabilities	(29,632)	(32,546)	(286,300)
Net deferred tax assets (liabilities)	¥3,433	¥(236)	\$33,169

Note: Amounts of tax loss carry forward and deferred tax assets according to the carryforward periods

Fiscal 2020 (December 31, 2020)

(Millions of yen)

	Within one year	One to two years	Two to three years	Three to four years	Four to five years	Over five years	Total
Tax loss carry forward ^(*)	¥36	¥92	¥40	¥81	¥125	¥7,442	¥7,818
Valuation allowance	(36)	(83)	(35)	(81)	(92)	(4,645)	(4,974)
Deferred tax assets	—	8	5	—	32	2,797	2,844

(Thousands of U.S. dollars)

	Within one year	One to two years	Two to three years	Three to four years	Four to five years	Over five years	Total
Tax loss carry forward ^(*)	\$348	\$889	\$386	\$783	\$1,208	\$71,903	\$75,536
Valuation allowance	(348)	(802)	(338)	(783)	(889)	(44,879)	(48,058)
Deferred tax assets	—	77	48	—	309	27,024	27,478

(*) Tax loss carry forward is the amount multiplied by the normal effective tax rate.

Notes to Consolidated Financial Statements

Kuraray Co., Ltd. and its Consolidated Subsidiaries / Year ended December 31, 2020

Fiscal 2019 (December 31, 2019)

(Millions of yen)

	Within one year	One to two years	Two to three years	Three to four years	Four to five years	Over five years	Total
Tax loss carry forward (*)	¥5	¥44	¥83	¥35	¥83	¥4,521	¥4,773
Valuation allowance	(0)	(36)	(83)	(35)	(83)	(4,370)	(4,609)
Deferred tax assets	5	7	—	—	0	150	164

(*) Tax loss carry forward is the amount multiplied by the normal effective tax rate.

2. Reconciliation of the differences between the normal effective tax rate and the income tax rate in the accompanying consolidated statement of income at December 31, 2020 and December 31, 2019

	Fiscal 2020	Fiscal 2019
Normal effective tax rate	30.4%	30.4%
(Adjustment)		
Non-deductible expenses for income tax purposes	10.8	24.8
Tax credit primarily for research and development expenses	(25.2)	(89.2)
Changes in valuation allowance	16.0	15.3
Amortization of goodwill	17.7	38.0
Effect of income tax rates difference	26.6	117.4
Impact of US tax reform	(16.2)	—
Other	3.6	(5.0)
Income tax rate per the consolidated statement of income	63.7%	131.7%

17 Asset Retirement Obligations

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

Overview of asset retirement obligations

Some tangible fixed assets of the Company and certain consolidated subsidiaries include assets containing asbestos and PCB 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, and based on recovery expenses on rental agreements. The grounds laws, ordinances and agreements 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)
Recovery expenses on rental properties	Rental agreements

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 for 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 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 0.7% to 5.0% for the net cash flows, estimating the period of use to be 20 to 40 years after acquisition.

Increase or decrease of the total amount of asset retirement obligations during the fiscal years ended December 31, 2020 and December 31, 2019:

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2020	Fiscal 2019	Fiscal 2020
Beginning balance	¥4,671	¥5,189	\$45,130
Increase due to decisions to remove	279	195	2,696
Adjustments due to the elapse of time	49	60	473
Decrease due to payment for the obligations	(216)	(217)	(2,087)
Other increase (decrease)	(65)	(556)	(628)
Ending balance	¥4,718	¥4,671	\$45,585

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

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

The Vinyl Acetate segment manufactures and markets functional

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

2. Methods for calculating reporting segment net sales, income and loss, assets, liabilities and other items

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

Annexed Consolidated Detailed Schedules

Kuraray Co., Ltd. and its Consolidated Subsidiaries / Year ended December 31, 2020

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

Fiscal 2020 (January 1, 2020 to December 31, 2020)

	Millions of yen									Consolidated Financial Statements (Note 3)
	Reporting Segments						Other Business (Note 1)	Total	Adjustment (Note 2)	
	Vinyl Acetate	Isoprene	Functional Materials	Fibers and Textiles	Trading	Total				
Net sales										
(1) Outside customers.....	¥215,702	¥26,943	¥106,650	¥40,872	¥122,012	¥512,180	¥29,617	¥541,797	¥—	¥541,797
(2) Inter-segment sales and transfers.....	41,412	23,447	18,330	13,536	2,426	99,152	12,089	111,242	(111,242)	—
Total	257,114	50,390	124,980	54,408	124,438	611,332	41,707	653,039	(111,242)	541,797
Segment income (loss)	40,779	3,808	2,994	2,155	3,606	53,344	214	53,559	(9,217)	44,341
Segment assets.....	391,914	108,852	205,673	70,378	43,422	820,241	48,168	868,410	183,173	1,051,584
Other items										
Depreciation and amortization (other than goodwill).....	35,436	3,058	12,395	3,768	97	54,756	1,085	55,842	2,850	58,693
Impairment loss	—	—	4,475	—	—	4,475	—	4,475	—	4,475
Amortization of goodwill	1,244	—	2,521	—	—	3,766	—	3,766	—	3,766
Balance of goodwill at end of current period	14,741	—	36,363	—	—	51,105	—	51,105	—	51,105
Investments in equity method affiliates.....	—	—	—	2,472	—	2,472	—	2,472	—	2,472
Increase in tangible fixed assets and intangible fixed assets.....	21,656	26,615	11,323	8,228	314	68,139	2,563	70,702	5,997	76,700

Annexed Consolidated Detailed Schedules

Kuraray Co., Ltd. and its Consolidated Subsidiaries / Year ended December 31, 2020

Thousands of U.S. dollars										
	Reporting Segments						Other Business (Note 1)	Total	Adjustment (Note 2)	Consolidated Financial Statements (Note 3)
	Vinyl Acetate	Isoprene	Functional Materials	Fibers and Textiles	Trading	Total				
Net sales										
(1) Outside customers	\$2,084,077	\$260,319	\$1,030,435	\$394,899	\$1,178,860	\$4,948,599	\$286,155	\$5,234,754	\$—	\$5,234,754
(2) Inter-segment sales and transfers	400,116	226,541	177,101	130,783	23,440	957,990	116,802	1,074,802	(1,074,802)	—
Total	2,484,193	486,860	1,207,536	525,681	1,202,300	5,906,589	402,966	6,309,556	(1,074,802)	5,234,754
Segment income (loss)	394,000	36,792	28,928	20,821	34,841	515,401	2,068	517,478	(89,053)	428,415
Segment assets	3,786,609	1,051,710	1,987,179	679,981	419,536	7,925,034	465,391	8,390,435	1,769,787	10,160,232
Other items										
Depreciation and amortization (other than goodwill)	342,377	29,546	119,758	36,406	937	529,043	10,483	539,536	27,536	567,082
Impairment loss	—	—	43,237	—	—	43,237	—	43,237	—	43,237
Amortization of goodwill	12,019	—	24,357	—	—	36,386	—	36,386	—	36,386
Balance of goodwill at end of current period	142,425	—	351,333	—	—	493,768	—	493,768	—	493,768
Investments in equity method affiliates	—	—	—	23,884	—	23,884	—	23,884	—	23,884
Increase in tangible fixed assets and intangible fixed assets	209,237	257,150	109,401	79,498	3,034	658,348	24,763	683,111	57,942	741,063

Notes: 1. The “Other Business” category incorporates operations not included in business segment reporting, including the environmental business and engineering business.

2. Adjustments are as follows:

(a) Adjustments of negative ¥9,217 million (negative US\$89,053 thousand) for segment income include the elimination of intersegment transactions of ¥2,017 million (US\$19,488 thousand) and unallocated corporate expenses of negative ¥11,234 million (negative US\$108,541 thousand). These corporate expenses mainly comprise the Company’s basic research expenses.

(b) Adjustments for segment assets amounting to ¥183,173 million (US\$1,769,787 thousand) include the elimination of intersegment transactions of negative ¥32,157 million (negative US\$310,696 thousand) and unallocated corporate assets of ¥215,331 million (US\$2,080,493 thousand). These corporate assets mainly comprise the Company’s surplus funds, long-term investments and assets related to basic research and administrative divisions at headquarters.

3. Segment income is adjusted with operating income under the Consolidated Statement of Income.

4. Impairment loss of Functional Materials in the amount of ¥4,475 million (US\$43,237 thousand) is included in loss on liquidation of businesses under extraordinary loss.

Annexed Consolidated Detailed Schedules

Kuraray Co., Ltd. and its Consolidated Subsidiaries / Year ended December 31, 2020

Fiscal 2019 (January 1, 2019 to December 31, 2019)

	Millions of yen									Consolidated Financial Statements (Note 3)
	Reporting Segments						Other Business (Note 1)	Total	Adjustment (Note 2)	
	Vinyl Acetate	Isoprene	Functional Materials	Fibers and Textiles	Trading	Total				
Net sales										
(1) Outside customers.....	¥225,127	¥29,058	¥107,020	¥50,816	¥128,139	¥540,162	¥35,644	¥575,807	¥—	¥575,807
(2) Inter-segment sales and transfers.....	40,978	24,217	18,961	13,697	2,772	100,626	15,484	116,110	(116,110)	—
Total	266,105	53,276	125,982	64,513	130,911	640,789	51,128	691,917	(116,110)	575,807
Segment income (loss)	47,368	4,232	3,836	5,654	4,224	65,317	649	65,967	(11,793)	54,173
Segment assets.....	423,596	90,648	219,125	74,500	44,276	852,147	48,471	900,619	90,529	991,149
Other items										
Depreciation and amortization (other than goodwill).....	32,361	2,779	11,883	3,125	93	50,242	931	51,174	2,819	53,993
Impairment loss	3,356	170	—	—	—	3,526	60	3,586	81	3,668
Amortization of goodwill	1,591	—	2,572	—	—	4,163	0	4,164	—	4,164
Balance of goodwill at end of current period	16,536	—	44,821	—	—	61,357	—	61,357	—	61,357
Investments in equity method affiliates.....	—	—	—	2,302	—	2,302	—	2,302	—	2,302
Increase in tangible fixed assets and intangible fixed assets.....	41,467	25,692	11,460	10,729	526	89,875	2,512	92,387	4,978	97,366

Notes: 1. The “Other Business” category incorporates operations not included in business segment reporting, including the environmental business and engineering business.

2. Adjustments are as follows:

- (a) Adjustments of negative ¥11,793 million for segment income include the elimination of intersegment transactions of ¥1,888 million and unallocated corporate expenses of negative ¥13,682 million. These corporate expenses mainly comprise the Company’s basic research expenses.
- (b) Adjustments for segment assets amounting to ¥90,529 million include the elimination of intersegment transactions of negative ¥36,506 million and unallocated corporate assets of ¥127,036 million. These corporate assets mainly comprise the Company’s surplus funds, long-term investments and assets related to basic research and administrative divisions at headquarters.

3. Segment income is adjusted with operating income under the Consolidated Statement of Income.

Annexed Consolidated Detailed Schedules

Kuraray Co., Ltd. and its Consolidated Subsidiaries / Year ended December 31, 2020

(Related Information)

Fiscal 2020 (January 1, 2020 to December 31, 2020)

1. Information about products and services

	Millions of yen					Total
	Vinyl Acetate	Isoprene	Functional Materials	Fibers and Textiles	Other Business	
Net sales to outside customers	¥254,180	¥50,341	¥124,899	¥76,078	¥36,297	¥541,797

	Thousands of U.S. dollars					Total
	Vinyl Acetate	Isoprene	Functional Materials	Fibers and Textiles	Other Business	
Net sales to outside customers	\$2,455,845	\$486,386	\$1,206,754	\$735,053	\$350,696	\$5,234,754

Notes: Principal products of each segment are as follows:

Vinyl Acetate: PVA resin and film, PVB resin and film, EVAL resin and others

Isoprene: SEPTON thermoplastic elastomers, isoprene chemicals, GENESTAR heat-resistant polyamide resin and others

Functional Materials: Methacrylic resin, medical products, carbon materials and others

Fibers and Textiles: PVA fiber, CLARINO man-made leather, KURAFLEX non-woven fabrics, MAGIC TAPE hook and loop fasteners, polyester and others

Other Business: Environmental business, engineering business and others

2. Performance by geographical segment

(1) Net sales

Millions of yen						
Japan	United States	China	Europe	Asia	Other Area	Total
¥157,973	¥100,300	¥72,568	¥118,641	¥68,058	¥24,254	¥541,797

Thousands of U.S. dollars						
Japan	United States	China	Europe	Asia	Other Area	Total
\$1,526,309	\$969,082	\$701,140	\$1,146,290	\$657,565	\$234,338	\$5,234,754

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	United States	Thailand	Other Overseas	Total	Japan	United States	Thailand	Other Overseas	Total
¥186,522	¥114,684	¥50,484	¥77,700	¥429,391	\$1,802,145	\$1,108,058	\$487,768	\$750,725	\$4,148,705

(Changes in presentation)

The amount of tangible fixed assets of "Thailand," which was included in "Other Overseas" in the previous fiscal year, has been separately presented from fiscal 2020 due to an increase in materiality. To reflect this change in presentation, the notes for the previous fiscal year have been reclassified.

Annexed Consolidated Detailed Schedules

Kuraray Co., Ltd. and its Consolidated Subsidiaries / Year ended December 31, 2020

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 2019 (January 1, 2019 to December 31, 2019)

1. Information about products and services

	Millions of yen					Total
	Vinyl Acetate	Isoprene	Functional Materials	Fibers and Textiles	Other Business	
Net sales to outside customers	¥261,241	¥53,244	¥125,301	¥92,986	¥43,032	¥575,807

Notes: Principal products of each segment are as follows:

Vinyl Acetate: PVA resin and film, PVB resin and film, EVAL resin and others

Isoprene: SEPTON thermoplastic elastomers, isoprene chemicals, GENESTAR heat-resistant polyamide resin and others

Functional Materials: Methacrylic resin, medical products, carbon materials and others

Fibers and Textiles: PVA fiber, CLARINO man-made leather, KURAFLEX non-woven fabrics, MAGIC TAPE hook and loop fasteners, polyester and others

Other Business: Environmental business, engineering business and others

2. Performance by geographical segment

(1) Net sales

Millions of yen						
Japan	United States	China	Europe	Asia	Other Area	Total
¥184,491	¥98,776	¥68,161	¥127,299	¥70,913	¥26,164	¥575,807

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

(2) Tangible fixed assets

Millions of yen				
Japan	United States	Thailand	Other Overseas	Total
¥176,998	¥127,875	¥29,256	¥80,662	¥414,793

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 2020: This information is omitted since similar information is disclosed in the segment information.

Fiscal 2019: This information is omitted since similar information is disclosed in the segment information.

Annexed Consolidated Detailed Schedules

Kuraray Co., Ltd. and its Consolidated Subsidiaries / Year ended December 31, 2020

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

Fiscal 2020: This information is omitted since similar information is disclosed in the segment information.

Fiscal 2019: This information is omitted since similar information is disclosed in the segment information.

Information about gain on negative goodwill

Fiscal 2020: Not applicable.

Fiscal 2019: Not applicable.

19 Related Party Disclosures

Fiscal 2020: Not applicable

Fiscal 2019: Not applicable

Annexed Consolidated Detailed Schedules

Kuraray Co., Ltd. and its Consolidated Subsidiaries / Year ended December 31, 2020

20 Per Share Information

	Yen		U.S. dollars
	Fiscal 2020	Fiscal 2019	Fiscal 2020
Net assets per share	¥1,450.32	¥1,527.79	\$14.01
Basic net income (loss) per share	7.48	(5.66)	0.07
Diluted net income per share.....	7.47	—	0.07

Notes: 1. Although there were residual securities in fiscal 2019, the diluted net income per share is not stated for the fiscal year because basic net loss per share was recorded.

2. The basis for computation of basic and diluted net income (loss) per share is as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2020	Fiscal 2019	Fiscal 2020
Basic net income (loss) per share			
Net income (loss) attributable to owners of the parent	¥2,570	¥(1,956)	\$24,831
Amount unallocated to common stock	—	—	—
Net income (loss) attributable to owners of the parent allocated to common stock.....	2,570	(1,956)	24,831
Average number of common stock outstanding during the fiscal year (thousand shares)	343,879	345,819	343,879
Diluted net income per share			
Adjustment made on net income attributable to owners of the parent.....	—	—	—
Increase of common stocks (thousand shares).....	284	513	284
(New subscription rights to shares (thousand shares)).....	(284)	(513)	(284)
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.....	—	—	—

Annexed Consolidated Detailed Schedules

Kuraray Co., Ltd. and its Consolidated Subsidiaries / Year ended December 31, 2020

1 Detailed Schedule of Bonds

(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 Co., Ltd.	No. 4 Unsecured bonds	December 9, 2011	¥10,000 (US\$96,618 thousand)	¥10,000 (US\$96,618 thousand) [¥10,000] [US\$96,618 thousand]	1.24%	None	December 9, 2021
	No. 5 Unsecured bonds	April 25, 2018	¥10,000 (US\$96,618 thousand)	¥10,000 (US\$96,618 thousand) [¥10,000] [US\$96,618 thousand]	0.01%	None	April 23, 2021
	No. 6 Unsecured bonds	April 25, 2018	¥10,000 (US\$96,618 thousand)	¥10,000 (US\$96,618 thousand)	0.09%	None	April 25, 2023
	No. 7 Unsecured bonds	April 25, 2018	¥10,000 (US\$96,618 thousand)	¥10,000 (US\$96,618 thousand)	0.19%	None	April 25, 2025
	No. 8 Unsecured bonds	April 25, 2018	¥10,000 (US\$96,618 thousand)	¥10,000 (US\$96,618 thousand)	0.31%	None	April 25, 2028
	No. 9 Unsecured bonds	April 30, 2020	—	¥10,000 (US\$96,618 thousand)	0.34%	None	April 30, 2027
	No. 10 Unsecured bonds	April 30, 2020	—	¥20,000 (US\$193,237 thousand)	0.43%	None	April 30, 2030
	Total	—	¥50,000 (US\$483,092 thousand)	¥80,000 (US\$772,947 thousand) [¥20,000] [US\$193,237 thousand]	—	—	—

Notes: 1. Figures in brackets represent current portion of bonds payable.

2. Total amount of corporate bonds to be redeemed each year within five years of the consolidated fiscal year-end:

(Millions of yen)				
Due within 1 year	Due in 1-2 years	Due in 2-3 years	Due in 3-4 years	Due in 4-5 years
¥20,000 (US\$193,237 thousand)	—	¥10,000 (US\$96,618 thousand)	—	¥10,000 (US\$96,618 thousand)

Annexed Consolidated Detailed Schedules

Kuraray Co., Ltd. and its Consolidated Subsidiaries / Year ended December 31, 2020

2 Detailed Schedule of Loans Payable and Others

(Millions of yen)				
Category	Balance as of January 1, 2020	Balance as of December 31, 2020	Average Interest rate (%)	Due date
Short-term loans	¥34,831	¥34,480 (US\$333,140 thousand)	0.3	—
Current portion of long-term loans payable due within one year	33	¥29 (US\$280 thousand)	0.7	—
Current portion of lease obligations due within one year ^(Note 2)	473	¥468 (US\$4,522 thousand)	—	—
Current portion of lease liabilities due within one year ^(Note 2)	1,161	¥1,554 (US\$15,014 thousand)	—	—
Long-term loans payable (Excluding current portion) ^(Note 3)	128,001	¥206,881 (US\$1,998,850 thousand)	0.6	From June 2022 to March 2030
Lease obligations (Excluding current portion) ^(Notes 2, 3)	1,400	¥1,241 (US\$11,990 thousand)	—	From January 2022 to September 2046
Lease liabilities (Excluding current portion) ^(Notes 2, 3)	17,025	¥16,068 (US\$155,246 thousand)	—	From January 2022 to June 2057
Other interest-bearing debts		¥20,000		
Commercial papers (Current portion)	24,000	(US\$193,237 thousand)	—	—
Total	¥206,927	¥280,724 (US\$2,712,309 thousand)	—	—

Notes: 1. The average interest rate is calculated based on the interest rate and the ending balance.

2. The average interest rates on lease obligations and lease liabilities are not reported, since interest payment equivalents included in total lease payments are allocated to each consolidated fiscal year using the straight-line method for some transactions.

3. Repayments of long-term loans payable, lease obligations and lease liabilities (excluding those due within one year) within five 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 payable	¥55,013	¥27,423	¥21,171	¥13,851
Lease obligations	393	310	211	145
Lease liabilities	914	1,088	1,049	1,083

(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 payable	\$531,527	\$264,957	\$204,551	\$133,826
Lease obligations	3,797	2,995	2,039	1,401
Lease liabilities	8,831	10,512	10,135	10,464

Annexed Consolidated Detailed Schedules

Kuraray Co., Ltd. and its Consolidated Subsidiaries / Year ended December 31, 2020

3 Detailed 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 January 1, 2020 and December 31, 2020.

4 Quarterly Information in Fiscal 2020

(Millions of yen)

Accumulated	First quarter from January 1 to March 31, 2020	Second quarter from January 1 to June 30, 2020	Third quarter from January 1 to September 30, 2020	Fiscal 2020
Net sales.....	¥136,927	¥262,006	¥393,778	¥541,797
Income before income taxes.....	10,567	13,264	22,283	9,127
Net income attributable to owners of the parent.....	6,705	9,160	15,147	2,570
Net income per share (Yen).....	19.50	26.64	44.05	7.48

Quarterly	First quarter from January 1 to March 31, 2020	Second quarter from April 1 to June 30, 2020	Third quarter from July 1 to September 30, 2020	Fourth quarter from October 1 to December 31, 2020
Net income (loss) per share (Yen).....	¥19.50	¥7.14	¥17.41	¥(36.57)

(Thousands of U.S. dollars)

Accumulated	First quarter from January 1 to March 31, 2020	Second quarter from January 1 to June 30, 2020	Third quarter from January 1 to September 30, 2020	Fiscal 2020
Net sales.....	\$1,322,966	\$2,531,459	\$3,804,618	\$5,234,754
Income before income taxes.....	102,097	128,155	215,295	88,184
Net income attributable to owners of the parent.....	64,783	88,502	146,348	24,831
Net income per share (Dollars).....	0.19	0.26	0.43	0.07

Quarterly	First quarter from January 1 to March 31, 2020	Second quarter from April 1 to June 30, 2020	Third quarter from July 1 to September 30, 2020	Fourth quarter from October 1 to December 31, 2020
Net income (loss) per share (Dollars).....	\$0.19	\$0.07	\$0.17	\$(0.35)



Independent Auditor's Report

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

Opinion

We have audited the consolidated financial statements of Kuraray Co., Ltd. and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as applicable, matters related to going concern.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.



As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the purpose of the consolidated financial statement audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Convenience translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2020 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 to the consolidated financial statements.



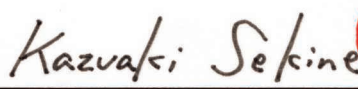
Interest required to be disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.


Masahiko Hagimori



Designated Engagement Partner
Certified Public Accountant


Kazuaki Sekine



Designated Engagement Partner
Certified Public Accountant

PricewaterhouseCoopers Osaka LLC

May 28, 2021